Think global, **hire local**

Tsun-yan Hsieh, Johanne Lavoie, and Robert A. P. Samek

Building a bedrock of local managers in emerging markets is essential to ensure long-term market leadership—but getting it right is hard.

Expatriate executives play a central role in helping companies grow abroad, but only on a bedrock of indigenous managers, for without their local connections and knowledge, all of the sophistication that expats acquire in foreign and home office postings means very little, especially in emerging markets. Passing the helm to strong local replacements is essential for sustained profitable growth, since expats fail at impressive rates—15 to 25 percent on average, rising as high as 70 percent in developing countries—and may cost five times as much as home-based managers.[1]

Yet many companies still rely too heavily on expatriates to power and guide the ship. In China, for example, 39 percent of the managers at 28 multinational corporations studied in one recent report were expats, though only 18 percent of them worked for the best performers.[2] To cut costs and make room for Chinese executives in closer touch with the local market, Unilever, a seasoned multinational, announced not long ago that it would cut its expatriate staff in China to 20, from 100. Niall FitzGerald, cochairman of Unilever, says that his company aimed to create a "Chinese business."[3]

[1] *See* Tsun-yan Hsieh, Johanne Lavoie, and Robert A. P. Samek, "Are you taking your expatriate talent seriously?" *The McKinsey Quarterly*, 1999 Number 3, pp. 70–83.

[2] Study of 28 multinational companies operating 145 ventures in China, National Foreign Trade Council and Towers Perrin, 1997.

[3] *Financial Times*, June 24, 1999, Continental edition.

Tsun-yan Hsieh is a director, **Johanne Lavoie** is a consultant, and **Robert Samek** is a principal in McKinsey's Toronto office.

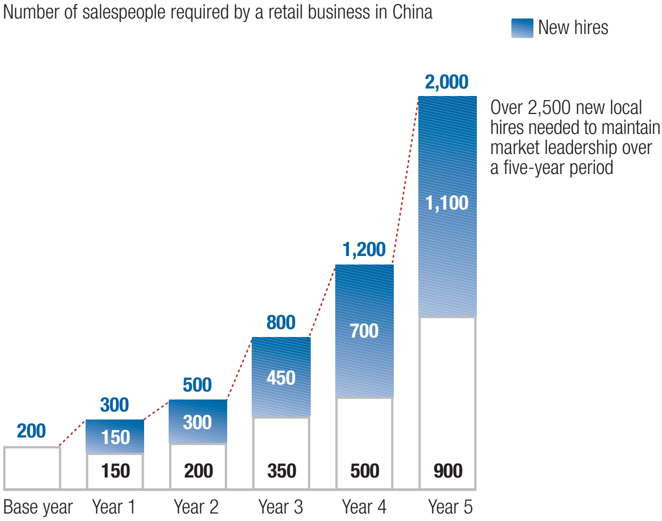

GREG HARGREAVES

But developing a cadre of local managers is difficult. A recent study of fast-moving consumer goods companies in China found that to maintain their market leadership, they would have to increase their sales forces tenfold.[4] If such a company started with a base of 200 local people, whose annual turnover rates can easily reach 30 to 40 percent, it would have to hire as many as 2,500 new locals over a five-year period (Exhibit 1).[5]

EXHIBIT 1

Building a local-talent pool to maintain market leadership

Number of salespeople required by a retail business in China



Source: McKinsey fast-moving consumer goods multinational benchmarking survey, 1996

How can companies find so many suitable locals? Only by broadening the definition of "suitable" and investing heavily to train people who meet that broadened definition. Most multinationals seeking experienced local talent use headhunters and raid governments, other multinationals, and state-owned enterprises. These are valuable sources, but since they are also the obvious ones, competitors too can be expected to look there. Multinationals must discover and mine hidden sources of talented managers and shape value propositions that will attract and retain them, for their scarcity makes them susceptible to poaching at any time.

Mining for talent

Educational institutions in emerging markets are a bountiful source of strong talent, for recent graduates are eager, learn fast, and internalize a foreign company's culture easily. By establishing relationships with their alma maters, a multinational can attract more than its fair share of graduates. Motorola, for instance, has undertaken joint research projects with several Chinese universities and given them research and scholarship funds. Nortel has proposed opening an advanced telecommunications research center, on the campus of Beijing University of Posts and Telecommunications, that

[4] McKinsey fast-moving consumer goods multinational benchmarking survey, 1996.

[5] "The search for the Asian manager," *Economist*, March 9, 1996.

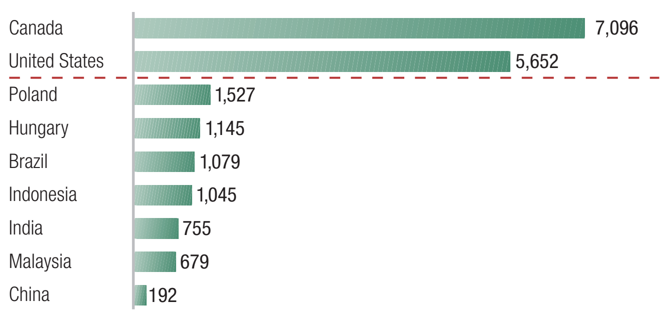
would be populated by students already familiar with the country's technology and markets. Procter & Gamble has built a very strong supply of talent in China, in part by sponsoring a road show to generate awareness of P&G at the country's universities.[6]

Nonetheless, in emerging markets the demand for educated people far outweighs the supply; in China, for instance, less than 3 percent of the population has a college degree, and as recently as 1996 the educational system produced a mere 300 MBAs a year.[7] (MBA programs first appeared in China in 1991.) Most emerging markets have similar problems (Exhibit 2). Other tactics are needed.

EXHIBIT 2

The limited supply of educated talent in emerging markets

Number of postsecondary educated people for each 100,000 of population



Source: United Nations Educational, Scientific, and Cultural Organization, 1995

One is to recruit managers among people who were born and raised in the country where the multinational wants to do business but who later moved elsewhere—for example, the more than 80,000 Chinese students studying at foreign universities[8]; General Electric and Gillette, for instance, rely heavily on foreign nationals studying for MBAs at US universities. Moreover, a national of a country other than the one where the multinational wants to set up operations may be appropriate if he or she speaks its language fluently and has a similar cultural background—for example, a Spaniard sent to South America. Banco de Santander (Spain) created a highly successful South American presence in just this way.

But the process of recruiting managers from joint ventures must be managed carefully because experience shows that joint-venture partners often underdeliver. Too many multinationals fail to recognize that they must control important personnel decisions; especially if they don't own more than half of a joint venture, the right to select pivotal managers is the key to effective operational control. A multinational that contracts for a joint venture is

[6] Conducting industry symposiums or technical exchanges can also be effective. A forest products multinational seeking to establish a joint venture in China invited some 70 mill managers to a national technical exchange to discuss mill operations and labor practices. The meeting allowed the company to spot talent from many parts of China.

[7] "The search for the Asian manager," *Economist*, March 9, 1996; *China Statistical Yearbook*, 1997.

[8] "The search for the Asian manager," *Economist*, March 9, 1996.

Developing local talent

To improve the managerial skills of local talent in China, multinationals such as Motorola, ABB, and BOC Gas have established company schools and training programs there.

Motorola University in Beijing helps young managers by offering a variety of training options. One of them, the China Accelerated Management Programme, was created as a rapid-entry training effort to develop capable middle managers in the short term and general managers in the long term. Each program cycle involves 10 to 12 high-potential associates who spend six weeks in the classroom during 14 months of on-the-job action learning. The program includes expatriate coaching, rotation through Motorola facilities outside China, and opportunities to shadow middle managers.

ABB set up its ABB China Business School in 1994 to organize courses for the company's ten joint ventures and nine representatives' offices in the country. The school doesn't have its own premises; trainers are sometimes sent to plants or offices; in other cases, employees come to a central location, such as Beijing or Shanghai. Subjects range from managerial development to marketing skills,and the school offers a "mini-MBA" completed in four weeks spread throughout the year. ABB created another mini-MBA program to train managers at its ABB Zamech joint venture in Poland. Running for several weeks (from Thursday evening through Saturday noon), the program covers five key functional modules taught by faculty members of INSEAD, the French business school.

therefore courting trouble by trading away (or neglecting to request) the right to hire and fire such people and to determine staffing levels, which the other party may wish to inflate. After General Dynamics, for example, entered into its joint-venture agreement with a government-owned enterprise in an emerging market, the company found that it had inherited a group of high-ranking military men who didn't work hard, often failed to show up at all, and proved impossible to fire.

Johnson & Johnson (J&J) sought to avoid such problems by arranging for all new employees at its Xian-Janssen Pharmaceutical joint venture in China to go through a standard training program and then to spend three to six months on probation before joining as permanent staff. If an employee's performance during the probationary period is satisfactory, he or she receives further technical and managerial training. Bank of America used a still more innovative approach to enter Russia, Turkey, and other emerging markets: it charged prospective partners for the right to send their managers to its local training program and thus not only cut its costs but, more important, had an opportunity to evaluate their management talent.

To reduce the cost of setting up schools, other multinationals form partnerships with local universities. In 1995, BOC Gas opened its first training institute, in northeast China, to train its senior local managers, and it is now launching three additional BOC management colleges in other regions of China in partnership with local universities. Each year, BOC sends three groups of 30 middle managers to take part in three- to four-month programs.

Multinationals also outsource some of their training programs to top-tier local institutions, reserving for themselves the right to tailor programs to their needs. To address the leadership and strategic-management training needs of many senior local managers, BOC has established a two-week mini-MBA program taught in partnership with Nanyang Technical University of Singapore and Beijing University. The program, which costs $90,000 for a group of 23 managers, is tailored to BOC's needs. Procter & Gamble asked the Chinese University of Hong Kong to develop a training program, using P&G case studies, for young managers at the company's plant in Guangzhou.

Whether set up independently or in partnership with local universities, or outsourced altogether, these schools and training programs have not only helped multinationals improve the managerial skills of their local Chinese employees but also benefited their local operations.

Besides looking where others don't, multinationals should consider sources of locally underutilized talent—most obviously, women and minorities. When Eli Lilly, for instance, started recruiting in Japan, it discovered that top-notch Japanese executives preferred to work for companies like Sony and Mitsubishi. By targeting women, who are often first-round hiring rejects in Japan's male-dominated corporate culture or who can't pass beyond the secretarial ranks, Lilly built up a woman-dominated workforce with some of the country's brightest minds. Metropolitan Life took a similar approach in Taiwan, where its openness to women gave it an important local recruiting advantage.

Practicing professionals can also be desirable nontraditional hires. In China, J&J hired nurses and doctors who, while lacking business experience, gave it deep technical knowledge and extensive networks of valuable contacts.

Build skills

However acquired, local managers often lack the experience or the mindset that multinationals need. Nortel, for instance, discovered that because

Chinese managers in the planned economy merely supervised production, they were not accustomed to taking risks or managing change. Under the old system, management skills in corporate planning, marketing, finance, and human resources hadn't been critical and therefore were not developed. A fundamentally similar state of affairs existed in most Latin American countries, where price controls—not abandoned until the early 1990s—impeded the development of competencies such as marketing and pricing.

Many leading multinationals rely on formal company schools or programs to improve the technical and managerial skills of local talent. Some set up these programs independently; others use alliances or even outsource to cut costs (*see* boxed insert, "Developing local talent," on the previous spread). As in established markets, however, it is on-the-job training and mentoring that really count. To focus expats on their training responsibilities, leading multinationals rate their ability to develop local managers in their performance reviews. BOC Gas, with 30 or so ventures in China, has told its 20 expatriates to work themselves out of their jobs in three to six years—or be deemed incompetent. Nortel goes so far as to send executives abroad to serve as "coaches," with no responsibilities beyond developing local talent. Other companies push the coaching approach still further by assigning expatriates to mentor high-potential local managers by "shadowing" them one-on-one.

BOC Gas told its expatriates to work themselves out of their jobs in three years or **be deemed incompetent**

How should multinationals reward their expats for developing local successors? One way is to replace the traditional hardship allowance with a "successful-completion bonus." Although this approach is fairly new, a recent study of 28 of the largest multinationals operating in China suggests that it is becoming more and more popular.[9]

Besides relying on the pedagogical abilities of resident expats, some of the most innovative multinationals assemble temporary teams of their best talent to build local skills. IBM, for instance, drafted 50 engineers from its plants and laboratories in Italy, Japan, New York, and North Carolina to run three-week to six-month training courses on all operations carried on at a Shenzhen factory belonging to the company's joint venture with GKI. After the trainers left the country, they stayed in touch by e-mail, so whenever

[9] Study of 28 multinational companies operating 145 ventures in China, National Foreign Trade Council and Towers Perrin, 1997.

Chinese managers have a problem, they know they can reach someone for help; the continuation of support has been at least as important as the training itself.[10] ABB speeded up a change initiative at its ABB Zamech joint venture, in Poland, by assembling a team of high-level experts in finance, quality control, technology, and restructuring from around the world. The members of the team didn't live in Poland, but they went there often and received frequent updates on the joint venture's progress and problems.

Multinationals should also bring their high-potential recruits to their head offices to give such men and women experience of real operating situations in established markets. Besides acquiring better technical and business skills, participants will gain a deeper understanding of the company's culture and develop a network of relationships they can put to good use in their jobs. Chubb insurance, for example, brings trainees to its headquarters to attend the Chubb School of Insurance alongside new hires from the United States. After completing the program, the trainees work in a US branch for three to six months before returning home. Coca-Cola brings key employees to the United States for an extensive eight-month training course that includes working in plants, riding delivery trucks, and putting up advertising.

Multinationals should bring their high-potential recruits to their head offices to get **some experience of real operating situations**

A longer-term approach to developing the talent pipeline comes from Gillette and HSBC. Anticipating future hiring needs, in the mid-1980s Gillette started an 18-month international-trainee program now conducted in Boston, London, and Singapore. Although the program includes formal instruction, trainees spend more of their time working with senior managers on projects. HSBC sends top Chinese university students to Britain (for ten weeks) and then to Hong Kong, where they get high-ranking executives as mentors. After three years, the students leave for assignments elsewhere in China.

All of these skill-building approaches have merit, so the most successful multinationals adopt aspects of each. Motorola's China Accelerated Management Programme for local managers is a good illustration: it includes six weeks of classroom work during 14 months of on-the-job "action learning" that includes expatriate coaching and rotation through Motorola facilities outside China. Later, the trainee shadows a middle manager.

[10] *Business China*, September 1, 1997.

Shaping the value proposition

With the supply of local talent so slim, multinationals find it hard to keep the talent they have trained and developed. Retaining employees is a problem even—perhaps especially—for the most sought-after companies. Gillette has had severe poaching problems at its joint venture with Shanghai Razor Blade Factory. Citibank, which invests heavily in developing local talent, is also a prime recruiting ground for its rivals; as one Citibank executive put it, "We are recognized for our training, but we need to become a place where people prefer to stay."[11]

To keep scarce talent, multinationals must develop attractive value propositions that include establishing brand recognition and reputations as great places to work. Well-defined career paths and growth opportunities are of fundamental importance: multinationals must make it clear that top local recruits can progress to senior management. In Brazil, for example, where Coca-Cola is among the most prestigious employers, the company has found that the promise of fast advancement attracts local talent. Brazilian recruits believe in the company's sincerity because Latin Americans run the local operation, and several have assumed senior leadership positions in the broader organization—including Roberto Goizueta, Coca-Cola's late chairman and CEO. Similarly, Gillette makes it clear to local employees that they have an opportunity to become big wheels in the global company; in fact, locals head 50 percent of Gillette's international operations.

Multinational companies must make it clear to the **top local recruits** that they can progress all the way to **senior management**

Naturally, multinationals must offer highfliers bigger and more frequent salary increases than competitors do, as well as participation in generous bonus or commission programs. However, many companies in emerging markets find that offering big cash bonuses up front promotes dissension and staff departures—sometimes within a month. It is better to offer monetary incentives that are loaded toward the back end and nontransferable (such as stock options) or some form of subsidized housing in cities with exorbitant housing costs.

HSBC, for instance, offers new Chinese managers not only a generous salary but also a repatriation bonus once they take up their positions in China, as well as another bonus after a year. By then, most of them have won promotions,

[11] "The art of multicultural management," *Institutional Investor*, March 1997.

and their career prospects are clear. When management trainees return to China, they can also take advantage of a very attractive housing scheme that permits them to borrow up to 100 times their monthly salaries at 2 percent interest (the local rate is 10 percent). Following a similar approach, Motorola has collaborated with a local developer to build some 600 condominiums for its employees. Motorola helps arrange a mortgage-like loan that doesn't have to be fully repaid if the employee stays with the company for ten years.

Local managers have not only an understanding of their markets but also relationships that outsiders lack. Yet in emerging markets, qualified local managers are hard to find, develop, and retain. Multinationals must imaginatively explore overlooked talent pools, invest heavily in training programs, and do whatever is required to distinguish themselves from local competitors while communicating the particular benefits of working for a global company.