HEIDRICK & STRUGGLES

Executive leadership in China

Executive leadership in China is a Heidrick & Struggles report, written in co-operation with the Economist Intelligence Unit.

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preface

Executive leadership in China is a Heidrick & Struggles report, written in co-operation with the Economist Intelligence Unit. The research, which explores the issue of executive management in China, is based on the following research activities:

A global survey of 148 executives was conducted by the Economist Intelligence Unit between March and April 2006. Only companies with operations in China were polled. Thirty-six percent of respondents are C-level executives, from a range of functional roles. Thirty-five percent of firms are based in the Asia-Pacific region, 24% in the US and 25% in Western Europe. A range of company sizes are represented: 23% have annual revenue in excess of US$10bn, while 44% have revenue under US$500m.

To supplement the survey results, the Economist Intelligence Unit conducted in-depth interviews with eleven senior executives based in China operating in a range of industries.

Our sincere thanks go to the survey participants for sharing their insights on this topic.

July 2006

executive summary

No matter what the industry, demand for experienced executives and leaders in China far outstrips supply.

Economic growth rates of around 10% over the last three years, in part fuelled by international firms trying to gain access to China's enormous domestic market, have led to a rush of companies establishing and expanding operations there. This, in turn, has added to the need for a broader base of management experience. A shortage of talent is creating a market where companies eager to attract and retain the best talent all pursue the same small core of high-profile, and increasingly high-priced, people.

This Heidrick & Struggles briefing paper, based on an Economist Intelligence Unit survey of 148 executives, highlights the management challenges faced by firms operating in China. Among the key findings of this report are the following:

Management turnover in China is extremely high and retaining talent is a major problem.

In the survey, 7% of companies say they lost 15-20% of their senior management in the last year, up from less than 2% two years earlier. As attracting and retaining high-potential managers has become increasingly difficult, the shortage of talent has gradually driven up wages. This, in turn, has created an incentive for skilled managers to switch jobs and boost their salaries. Senior executives interviewed for this report estimate that, on average, talented managers switch jobs every fifteen months. This problem is exacerbated by the practice of poaching experienced and high-potential managers, which is common throughout the market. At the same time, companies are struggling to differentiate themselves from the competition in a way that allows them to attract and retain the best people.

Companies of nearly all sizes are hiring.

Nearly all companies operating in China have increased their staff count over the past two years. The percentage of companies with 500 – 1000 employees doubled, from 6% to 12%, while the percentage of firms with more than 5000 workers tripled over the same period, from 2% to 6%. Firms from a variety of industries are scrambling to establish a greater foothold in China, primarily in order to gain access to the enormous market opportunity that the country represents. This will only drive up competition for top talent in the years to come.

Firms intend to recruit more native Chinese executives, but the supply of experienced managers remains limited.

Fully 78% of firms operating in China today have native-born Chinese represented on their senior management team, up from 50% two years ago. The proportion of firms with more than one-half of their management team composed of Chinese executives has increased from 19% in 2004 to nearly one-third today. Most executives interviewed for this report indicate a desire to employ more local Chinese and fewer foreigners, for reasons ranging from lower costs to improved morale and better local market knowledge. Many companies say that a shortage of native Chinese managers with international experience is making this difficult, however.

Dealing with cultural differences remains a major issue.

For senior executives recruited from outside China, cultural barriers remain a major issue. An overwhelming 72% of respondents believe cultural differences, rather than any deficiencies in functional skills, is the main reason executives do not succeed in the country. Thirty-seven percent of respondents to this survey rate leadership ability and decision-making skills as some of the most important prerequisites for senior executives in China, followed by 35% who rate communication and relationship-building skills. Soft skills are generally viewed as the most critical, but respondents admit such skills are in comparatively shortly supply. This critique applied both to expatriate managers working in China and native Chinese managers running multinational companies there.

Coaching and mentoring programmes are needed to help narrow the skills gaps.

A total of 51% of firms operating in China already use internal coaching and mentoring as a tool for development, while 33% plan to do so within the next two years. When hiring new managers, around two-thirds of companies offer their senior managers in China the opportunity for international training and development as an incentive for joining the firm. Executives interviewed for this report say these development programmes are most effective when senior management identifies star performers and human relations (HR) managers then implement a coaching programme. Many companies operating in China expect senior managers to serve as mentors to up-and-coming talent, with some executives allocating as much as 20% of their time to this. In addition, about one in five firms already has an executive rotation plan in place for their native Chinese managers, giving them experience in other markets. Another 40% plan to do so within two years.

As firms seek to expand their presence in China, constraints in the supply of experienced executives will make the struggle for talent even more intense. Companies are already making a greater effort to bolster their management teams with native Chinese, but much depends on the success of strategies to develop leaders internally. With competition for talent set to intensify even further, finding, developing and retaining talented executives will continue to be one of the key battlegrounds in corporate China.

introduction

pursuing the China dream

China looms large on the radar screens of the world's corporations for a variety of reasons.

More than two-thirds (68%) of the companies responding to this survey cite access to the vast domestic market of emerging middle-class and affluent Chinese as their principal reason for establishing operations on the mainland. More than 40% say low-cost production or manufacturing capabilities are a big draw. By contrast, less than 22% believe access to cheap technical, design or professional services is a factor, and just 12% cite access to the local skills base. Interestingly, nearly one-third (31%) say a China presence is required for achieving basic credibility in the respondent's industry *(fig.1)*.

China's economy has been growing at a robust rate for some time *(fig.2)*. Gross domestic product (GDP) growth in real terms has averaged 10% for the past three years, with strong growth expected this year and next. In addition, China's membership of the World Trade Organisation (WTO) has prompted an increase in foreign investment, which rose from US$38.4bn in 2000 to US$54.9bn in 2004 – or approximately US$1bn every week. Since 2000, this investment has flowed into China in anticipation of WTO liberalisation of the market and the creation of a more rule-based business environment. Within the economy, industry continues to play a dominant role. A recent economic census noted that industry accounted for 46.2% of GDP in 2004, followed by services (40.7%) and agriculture (13.1%).

figure 1 – What are the most important reasons for your company to operate in China? Select all that apply. (% of respondents)

Access to the domestic Chinese market	68%
Access to low-cost production or manufacturing	43%
Need a presence in China to be credible in our industry	31%
Access to low-cost technical, design or other professional services	21%
Investor in local company or joint enterprise	15%
Access to skills in the region	12%

figure 2 – China's economic boom

	2002	2003	2004	2005	2006	2007
Real GDP growth (% change)	**9.1**	**10.0**	**10.1**	**9.9**	**8.61** [1]	**8.21** [1]
Exports of goods (US$ bn)	**325.7**	**438.3**	**593.4**	**762.2**		
Imports of goods (US$ bn)	**-281.5**	**-393.6**	**-534.4**	**-660.1**		

Source: Economist Intelligence Unit. [1] Estimates

Since joining the WTO, exports from China have registered substantial growth. In 2002 nearly US$326bn of goods were exported, a figure that had more than doubled to about US$762bn by last year. Imports have also surged, from nearly US$282bn in 2002 to about US$660bn last year.

As a result of the extent of economic activity, the need for a stronger presence in China has prompted many foreign companies to add staff over the past two years *(fig.3)*. The percentage of companies with 500-1,000 employees more than doubled, from 6% to 12%. The biggest companies, that is those employing more than 5,000 workers, roughly tripled on a percentage basis, rising to 6% today from just 2% two years ago. In general, companies of nearly all sizes have increased their headcount.

Some of the questions this survey will seek to address are: the talent shortfalls that companies are encountering; whether local or expatriate managers are proving more effective; what effort firms are making to develop leadership within their own organisations; and how companies are overcoming the clash of culture associated with operating in China.

figure 3 – How many people does your company employ in China?
How has that number changed from two years ago? (% of respondents)

	2004	2006	difference
None	**33**	**4**	**-29**
under 500	**50**	**68**	**+18**
500 to 1000	**6**	**12**	**+6**
1000 to 2000	**2**	**6**	**+4**
2000 to 3000	**4**	**1**	**-3**
3000 to 5000	**3**	**2**	**-1**
over 5000	**2**	**6**	**+4**

figure 4 – What rate of annual staff turnover is your firm currently experiencing at a senior management level in China? How has that rate changed from two years ago? (% of respondents)

	2004	2006	difference
under 5%	**34**	**35**	**+1**
5–10%	**10**	**17**	**+7**
10–15%	**15**	**14**	**-1**
15–20%	**1**	**7**	**+6**
20–30%	**4**	**5**	**+1**
over 40%	**1**	**1**	**0**
don't know or not applicable	**35**	**21**	**-14**

managers wanted

As firms undergo rapid growth and expand their staff count, a shortage of experienced management talent is becoming a serious issue. Fully 48% of executives surveyed for this report say a lack of suitable management candidates is a problem for their business, while one in five describe it as a major problem.

The issue is particularly severe in certain sectors. Around 55% of manufacturing firms are concerned about the lack of suitable managers, with 27% saying it is a major problem for their firms. Professional services firms are encountering a similar challenge: 52% say the talent shortage is a problem for their firms. And about one in four IT and technology firms rate the shortage as a major problem.

The high turnover of management is also a major issue *(fig.4)*. As scarcity drives up wages, qualified staff are tempted to change jobs frequently in order to obtain better job titles and increased remuneration. The proportion of companies that lose 15-20% of their senior managers each year leapt from little more than 1% two years ago to 7% this year.

By contrast, more than one-third of respondents say senior staff turnover remains below 5% – roughly the same as two years ago – while less than 1% say senior staff turnover is in excess of 40%. In general, companies seem satisfied if they can limit their management turnover to no more than 15%, particularly in fast-growing industries such as technology and telecommunications. As a representative figure, staff turnover at Sony China last year was 11%, while Nokia had a rate of 7.8%.

soft skills in demand

Soft skills are generally identified as particularly important for senior executives running operations in China *(fig.5)*. Although an awareness of the external marketplace and customer orientation is highly rated – 40% of survey respondents believe it to be an important management competency – this is closely followed by leadership ability and decision-making skills (37%) and communication and relationship-building skills (35%). Less than one-third (27%) regard Chinese-language skills as pivotal to success.

"You've got to have people skills," says Michael Boediger, general site manager at the integrated manufacturing site of Bayer Material Science in

"you have to be able to function in an international company and be able to deal with different cultures" *figure 5* – What management competencies do you regard as particularly important for senior executives running operations in China? Select up to three choices. (% of respondents)

Shanghai. "You have to be able to function in an international company and be able to deal with different cultures." But some can't. This may be because Chinese executives lack the international experience to be effective in a multinational company, or because expatriate managers sent to China lack the finesse needed for the job.

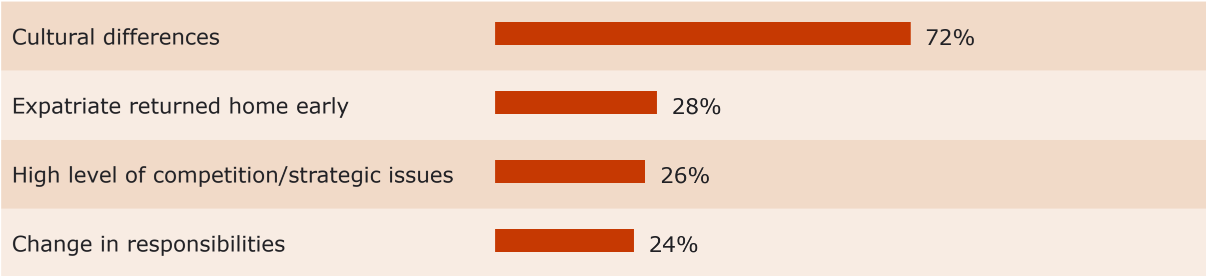
"You can't rely on functional skills alone," explains Rudi von Meister, who spent two decades with General Motors and will soon join Fiat's joint-venture truck operation in China. "You need great diplomatic skills, listening skills, leadership skills and a willingness to show humility and respect in an environment where such things are highly prized."

Lee Kamchoon, vice-president of Sony China and head of the company's HR team, believes leaders must establish close ties with government officials and other local stakeholder groups, and must frequently function as the public face of the organisation. Granting regular media interviews, giving speeches and participating in locally sponsored business forums are all ways of fulfilling this role.

local vs expatriate managers

Expatriate managers have had a mixed success rate in China *(fig.6)*. Asked why executives recruited from outside of China sometimes fail in their new jobs, an overwhelming 72% of respondents cite cultural differences as the main reason for failure. Sometimes the problems are related to foreign executives themselves; other times they result from the inability of their spouses or families to acclimatise to the new environment. Many executive rotations in Asia are cut short when spouses, unable to speak the language or cope effectively with everyday challenges, suffer an emotional meltdown.

A total of 28% of executive assignments in China failed because the executive returned home early. Companies could perhaps begin to improve on this record by vetting executives more carefully, possibly by insisting that they have previous managerial experience in China, Asia, or another developing *figure 6* – What are the top reasons for any unsuccessful senior executives recruited from outside China for positions in the country? Select all that apply. (% of respondents)



> "the classic expat assignment – a three-year rotation with a big house, company car and all the perks – no longer makes sense"

market, as well as ensuring that prospective candidates are well aware of the difficulties involved with relocating to China.

According to Stuart Sinclair, president and CEO of Greater China for GE Consumer Finance in Shanghai, the best strategy is to bring in foreign executives for a short-term international rotation – his business does 100 of these each year. "You can inject a whole body of knowledge overnight," he says. However, he notes that it is important to use expatriates judiciously. The classic expat assignment – a three-year rotation with a big house, company car and all the perks – no longer makes sense. Short-term rotations are different. "The executive isn't coming to serve as a general manager, but as a knowledge transfer mechanism," says Mr Sinclair, adding that the expatriate's compensation is roughly the same as in the home market.

figure 7 – What percentage of your senior management team in China is native-born Chinese? How has that rate changed from two years ago? (% of respondents)

	2004	2006	difference
none	**26**	**11**	**-15**
under 10%	**13**	**21**	**+8**
11–25%	**9**	**9**	**0**
26–50%	**9**	**17**	**+8**
51–75%	**6**	**10**	**+4**
over 75%	**13**	**20**	**+7**
don't know or not applicable	**24**	**12**	**-12**

more locals on the management team

A key trend that emerges from the survey is the steady increase in the number of native Chinese on firms' senior management teams *(fig.7)*. According to more than one-quarter of survey respondents, none of their senior management staff was native-born Chinese two years ago; this year that percentage has fallen to just under 11%. By contrast, firms whose management staff consisted of more than 75% native Chinese rose from 13% to 20%.

This trend is manifestly beneficial in several respects. First, it lowers costs, as the average Chinese manager is less expensive than, for example, the average Western executive. It is also good for morale. If Chinese employees see that all their top executives are foreign, they know that their chances of getting promoted are slim and will be more likely to seek opportunities elsewhere. Also, enterprises in China are likely to be more efficient with a highly localised team.

"Ultimately it's a diversity imperative," responds Mr Sinclair. "Multinational corporations should have many faces; they can't be run by foreigners worldwide." A successful global company, in his view, is one where there are no expatriates – that is, all countries where the company operates can be viewed as the "home" country. GE Consumer Finance has approximately 12,500 employees in China and only seventy expatriates. "We feel pretty good about localisation. In Shanghai, Beijing and Shenzhen, we are two-thirds Chinese. In financial services, that's pretty good because many of the necessary skills are still scarce in China."

However, despite companies' increased desire to recruit more native Chinese managers, filling C-level vacancies remains a significant challenge *(fig.8)*. The lack of suitable candidates is part of the problem, as are high management turnover and the poaching of executives by rival firms.

To increase the representation of Chinese management staff, companies primarily recruit locally from within China (53%), but also seek suitable candidates more broadly. About 46% say they recruit ethnic Chinese executives from Taiwan, Hong Kong and Singapore. This is roughly the same percentage as those who recruit Chinese expatriates with experience in Europe or the US who have returned to the mainland, known locally as hai-gui or "sea turtles".

More than one-third (34%) of respondents say they fill senior management positions by hiring less-experienced Chinese locally and then developing them with in-house training. "We have people with advanced degrees from top schools, and they're eager to learn," says Mr Boediger. "There's no gap in education; the gap is in experience." What's missing, he believes, are Chinese managers with overseas experience and an international mindset. Consequently, many companies are searching for the same talent. To cope with the tight market, Bayer sources candidates worldwide, looking in particular for Chinese working aboard who want to return to China.

figure 8 – When recruiting Chinese talent into senior management positions, which of the following options most closely reflect your situation? Select all that apply. (% of respondents)

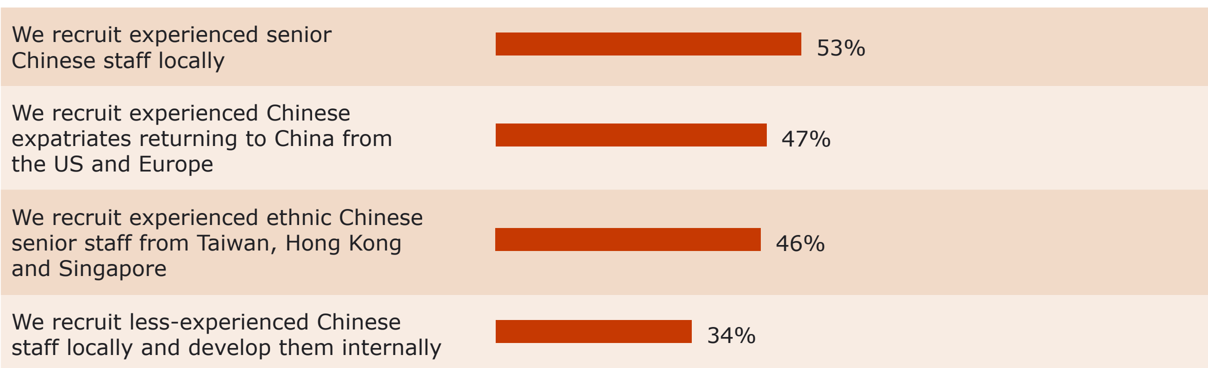


figure 9 – What approaches does your company use to differentiate itself when recruiting senior management candidates in China? Check all that do or don't apply in the appropriate column. (% of respondents)

	Use	Don't use	Don't know or Not applicable
Provide strong career opportunities	**66**	**11**	**23**
Offer international training and development	**65**	**18**	**17**
Provide access to top management	**60**	**23**	**17**
Provide higher salaries	**53**	**27**	**20**
Provide better benefits	**53**	**30**	**18**
Promote the benefits of association with your brand	**52**	**25**	**23**
Offer local training and development	**48**	**29**	**22**
Give clear autonomy/decision-making powers	**47**	**29**	**24**

providing incentives

Companies try to attract high-potential managers by employing a range of tactics and incentives *(fig.9)*. Two-thirds of executives in the survey try to differentiate their firms in the market by offering prospective candidates strong career opportunities. Around 65% offer international postings to their top people and 48% provide local training and development. More than one-half (53%) use higher salaries as bait, while approximately the same proportion offer benefits such as housing allowances and access to a company car.

Forty-seven percent of companies surveyed offer clear autonomy and decision-making power as part of their incentive structure. "When you go into a company, one thing you must negotiate the right to do is hire key executives of your choice," says Bob Rice, CEO for Japan at IT United, an IT services firm based in China. Also important is the right to fire people or send them home. Without that power, says Mr Rice, an executive's capabilities are significantly constrained.

a conflict of management styles

According to Mr von Meister, when foreign companies hire senior managers for China, they tend to promote people who have done well in the home market, where a completely different set of behavioural standards applies. Often companies send high-powered, driven, type-A managers, who tend not to do well in China because local Chinese perceive them as arrogant and pushy.

As Mr Rice explains: "Leadership is hard to exercise in a foreign culture. You need to create team spirit and share successes. Lots of [foreign managers] want to take credit for what gets done, when it's the local executives who are really responsible. The local execs may be dissatisfied, but may not express that dissatisfaction. But it will eventually bubble up to the top and damage your long-term performance."

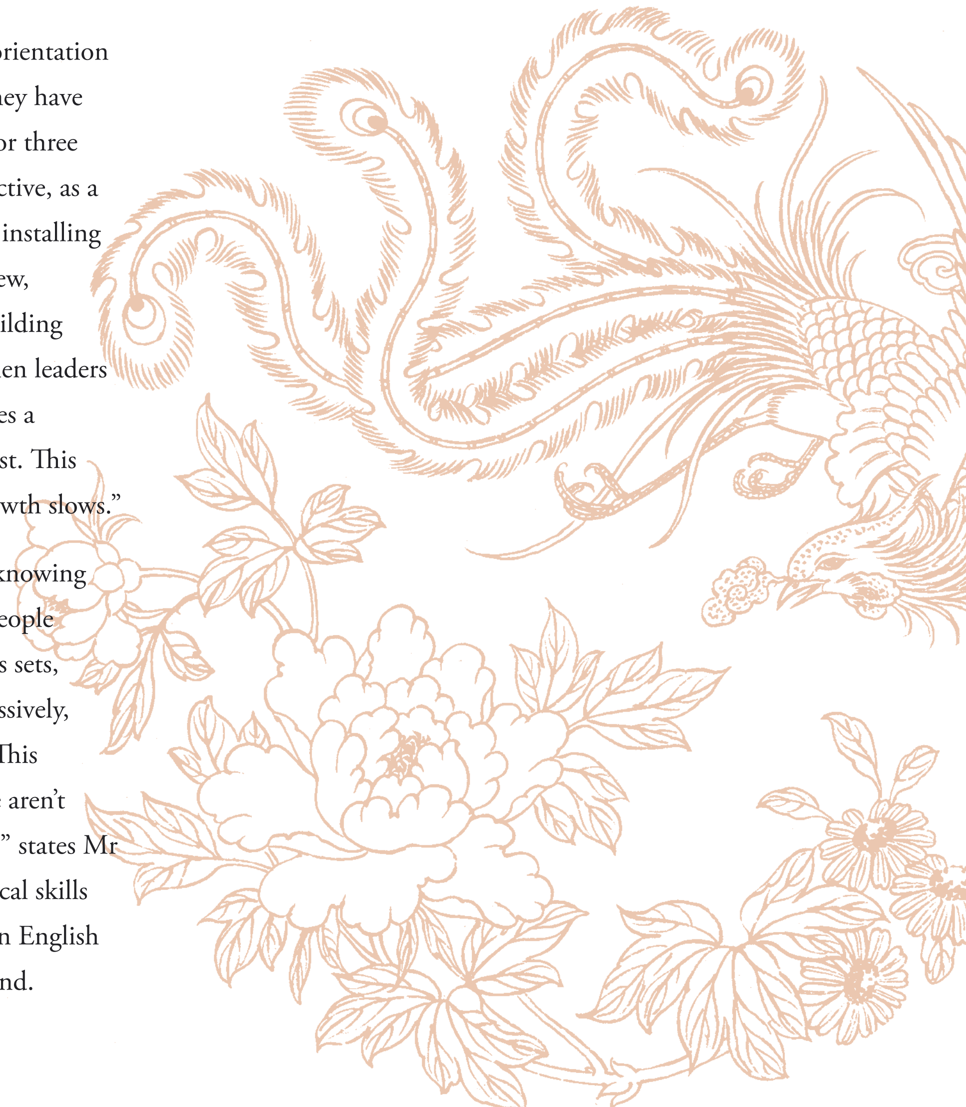
Foreign companies get it wrong just as often when hiring Chinese executives, which they frequently do on the basis of candidates' proficiency in English. Some Westerners admit to hiring English-speaking Chinese who plainly are not the best-qualified candidates, simply because they know communication will not be a problem. Often the Chinese who are most comfortable being interviewed in English are the ones who get the job.

> “many Chinese still think in terms of an aggressive, dog-eat-dog style”

For a Chinese executive managing a multinational company, Nelson Hsia, former head of China operations for Gencor, a US biotech firm, believes that “the biggest gap is the understanding of what a leader should be. Many Chinese still think in terms of an aggressive, dog-eat-dog style. They don’t think about being a developer, a coach, someone who can lead people with praise and encouragement.” Mr Hsia adds that star managers often believe they must be better than everyone else: “They feel they need to step on people to make it to the top.”

Another issue is the relatively short-term orientation of many local executives, who often feel they have failed if they are not promoted every two or three years. Yet this attitude is ultimately destructive, as a short-term focus prevents executives from installing systems to sustain growth. In Mr Hsia’s view, systems, more than individuals, are the building blocks of long-term business success. “When leaders change, the company inevitably experiences a dramatic change in style and has to readjust. This disrupts continuity and the company’s growth slows.”

Another gap is sales force management – knowing how to deploy the right number of sales people by region, being able to identify their skills sets, compensate them adequately but not excessively, and optimising the overall sales process. “This requires a lot of careful thought, and there aren’t many people with the proper background,” states Mr Sinclair. Plenty of sales people have technical skills – including, increasingly, very good spoken English – but management skills remain hard to find.



developing leadership

Firms in China are actively developing their staff as a response to the gap in leadership skills *(fig.10)*. A total of 51% of firms already coach and mentor top executives internally, while another 33% plan to do so within the next two years. One in four companies use external executive development and coaching services, with one in two expected to do so over the next two years. Fully 54% of respondents say they actively scour the ranks of their own middle management for high-potential employees who could be promoted to more senior positions.

Some companies concentrate less on functional skills than on developing leadership capabilities. "We focus on leadership, both innate and learned," says Mr Kamchoon. "You have to expose people to 'stretch assignments', such as working in a foreign country, including Japan, for several years." Sony also enrols star performers in part-time executive development programmes at top business schools, and sends them to leadership forums overseas. "It's not just one thing, but a package of initiatives," says Mr Kamchoon. Sony has sent about sixty promising executives on such programmes over the past few years.

coaching and mentoring

Coaching and mentoring are words that crop up frequently at multinational corporations. Nowhere are these concepts more crucial than in China, where plugging the skills gap among local senior managers makes well-structured coaching and mentoring programmes extremely important. Steven Shaw, Nokia's vice-president for network customer marketing operations, supervises about 800 people in Greater China, yet spends an estimated 20% of his time developing up-and-coming managers. Mr Shaw, who is originally from Taiwan, says foreign managers function not only as knowledge transfer mechanisms but also as role models: "You demonstrate how you handle conflict, pressure and other difficulties."

Nokia also has a more formally structured mentoring programme, in which forty to fifty high-potential Chinese employees are enrolled. The process for selecting high-potential employees is designed to be fair: the sales, finance and HR functions all get to weigh in on the suitability of candidates before a selection is made, and the company's entire candidate pool is reviewed globally every three to

figure 10 – Do you use, or plan to use, the following talent management practices within your operations in China? (% of respondents)

	Already in use	Planning to use in next two years	No plans to use
Active identification of high-potential middle management executives	**54**	**36**	**11**
Internal coaching and mentoring of top executives	**51**	**33**	**16**
Talent review meetings for top positions	**47**	**31**	**22**
Use of executive search firms to identify senior-level talent for China	**43**	**36**	**21**
New hire programmes to get senior executives joining the business up to speed as quickly as possible	**35**	**35**	**30**
External executive development or coaching services	**27**	**28**	**45**
Executive rotation plan for Chinese nationals to gain top management experience in other markets	**19**	**40**	**41**

“the top executives have to be mentors, and also have to run the mentoring programme”

six months. Candidates are assigned a personal coach or consultant and frequently spend time on international rotations lasting between six months and two years in order to understand how the company operates in other countries.

“As a corporate culture, one of our values has always been ‘renewal’, meaning we must constantly renew ourselves and our competencies,” explains Niklas Lindholm, Director of Human Resources at Nokia China. He adds that Nokia’s culture is its biggest competitive advantage in attracting high-potential managers in China.

Another industry that must aggressively sell itself to employees is public relations (PR). Relatively new in China, the PR industry has only a small core of experienced managers, and everyone in the industry is competing for them. “We have more than 1,000 people in China and have doubled our staff in the last five years,” says Scott Kronick, who runs Ogilvy Public Relations in China. “Yet talent is the biggest impediment to growth. Attracting, growing and keeping the right talent is the big challenge.”

One of the ways Ogilvy tries to meet that challenge is through its coaching and mentoring programme. The programme begins with training on how to be a mentor, and all senior managers are expected to play this role. Participants in the programme are photographed with their mentors and “Best Mentor” awards are given out regularly. There is even a “reverse mentor” programme that allows junior staff to evaluate their superiors.

“We do a lot of culture-building to make people feel they’re part of a creative, thriving communications firm,” states Mr Kronick. “The Ogilvy Group has fifteen full-time HR staff dedicated to meeting this challenge.” Ogilvy’s HR Department, known internally as the talent department, maintains ties with its counterparts all over the world to ensure that HR managers and mentors in China stay abreast of current trends elsewhere.

Even so, many leaders find it hard to mentor their employees. Executives are stretched thin, running the China operations and frequently reporting back to headquarters. “It’s hard to find good HR staff to run coaching and mentoring programmes in China, much harder than running a finance department,” admits Mr Hsia. “The top executives have to be mentors, and also have to run the mentoring programme.” Mr Hsia believes such programmes are most effective when senior management identifies star performers and HR managers implement the coaching programme, ensuring certain milestones are reached and evaluated, with adequate follow-up. “In its most sophisticated sense,” says Mr Hsia, “HR assists top management in creating systems that ensure broad organisational development.”

combining cultures

In China’s tight market for internationally experienced managers, demand far exceeds supply. Talent can be poached, but this is expensive and poached employees often do not stay long before seeking even greener pastures. The alternative, cultivating senior management internally, takes time. “Developing leaders in China is a marathon, not a sprint,” says Teresa Woodland, a consultant who helps companies do just that.

Ms Woodland spent eight years at McKinsey, building consultants' communications skills. Eventually she concluded that at the upper reaches of the organisational chart, simple "training" was no longer enough. "After a point, professionals are quite competent at functional skills. But then you get to where you have to change people's behaviours. For example, you may know how to run an effective meeting, but do you know how to make people comfortable, how to draw them out?"

Some Westerners believe Chinese culture and the behaviours it engenders are unalterable, but Ms Woodland says this is often not true. "There is a lot of cultural baggage, but when it gets in the way of people doing what they want to do, they're open to change. Just telling them to change is ineffective, but if they see that it's holding them back, they're much more willing to try."

According to Ms Woodland, to change a culture people must be encouraged to articulate their unspoken assumptions, for example by giving feedback. Many Chinese assume they cannot give feedback without simultaneously giving offence, especially if the recipient is someone senior. However, teams often find that if they approach feedback sessions as an experiment – a way of testing assumptions and removing obstacles that might block their progress – they can, in fact, make changes within individual teams. Such small steps lay the groundwork for more systemic progress over the longer term.

Many foreigners point to the Chinese educational system as a source of much that is frustrating to Western executives working in the country. One charge is that China's schools are geared to the individual, recognising and rewarding academic brilliance, but failing to teach the value of teamwork. "In the West, we learn about teamwork from an early age, particularly through team sports at school, where working together is important to success," says Alistair Nicholas, who heads up AC Capital Consulting, a corporate affairs and public relations firm in Beijing. "The current generation of Chinese managers and young professionals don't have this experience."

> "in the West, we learn about teamwork from an early age, particularly through team sports at school, where working together is important to success"

adapting to China

But many Chinese feel it is Westerners who must change. Haila Wang, chief technology officer at France Telecom's R&D centre in Beijing, says Western managers coming to China often have a feeling of superiority. "They think after six months that they have the situation figured out, but they have only a superficial grasp." Mr Wang feels multinationals that attempt to impose their culture on China have got it wrong – instead, they should adapt to the Chinese environment. Many multinationals talk a great deal about their desire and willingness to meet local standards and local tastes. But there may be limits to how far the multinational should go in adapting itself to the local situation. If pushed, foreign managers will often say that localisation should not necessarily mean wholesale adoption of the local culture. In fact, they say, successful localisation is really about assimilating local managers and employees into the broader culture of the organisation.

"I find that many young Chinese, and young women in the workforce in particular, are eager to get away from some of the more limiting aspects of Chinese culture, such as its hierarchical nature and the concept of face," notes Mr Nicholas. In his view, although few Chinese may admit it openly, many Chinese want to work at a multinational precisely because they see its corporate culture and values as superior. They want foreign managers who set high ethical and professional standards for everyone, rather than playing favourites or using back-channel methods for getting things done, and they look to foreign managers to show leadership in breaking down some of these cultural barriers.

"Foreign managers who dodge this responsibility are letting down a whole generation of modern Chinese who want change," concludes Mr Nicholas. "While we should not try to bring about change like bulls in a china shop, there is an expectation that we are going to challenge the status quo. We need to start pushing the boundaries if we want to effect lasting change in China."

finding the middle ground

Nevertheless, even executives who believe that Chinese managers must adopt a more international viewpoint acknowledge that both sides must be willing to compromise. Expatriate executives must be able to adapt and be sensitive to aspects of Chinese culture such as the strong emphasis on relationships, the tendency to fall back on hierarchy and the importance of giving and saving face.

Although multinationals demand managers with a global mindset, they are still operating in a different market, where things are, and probably always will be, done slightly differently. Not only must China country managers understand this, but headquarters must as well. Many foreign executives with experience in Asia say a good part of their time is spent interpreting China to the head office, and convincing them that systems and processes must be adapted to the local market. As Mr Rice of IT United puts it,

"If the people at home think they're running China, they are doomed to failure."

"I find that many young Chinese, and young women in the workforce in particular, are eager to get away from some of the more limiting aspects of Chinese culture, such as its hierarchical nature and the concept of face"

conclusion

Firms surveyed for this report widely acknowledge that China faces a shortage of local managerial talent. However, the lack of internationally qualified local C-level executives has not yet hit home – probably because most multinational firms in China are still run by foreigners.

As the Chinese market develops, foreign companies will need to reassess their localisation strategies and objectives, perhaps even redefining what is meant by localisation. While multinationals in emerging markets initially tend to view localisation as a cost-saving measure, they often find that, as the market matures, it becomes a strategic imperative for sustaining the company's competitive advantage.

However, localisation is fraught with difficulties. Companies have to find a middle ground between high rates of management turnover and the need to invest in the training and development of promising staff.

An ongoing issue is the ever-present tension between the Chinese culture and that of the foreign corporation. Many executives interviewed for this report believe that while many facets of Chinese culture appear intractable at first, they can, in fact, be modified if it is clear to the local Chinese that changing serves their best interests. This change is being boosted by China's membership of the WTO, with local companies increasingly being obliged to operate according to international rules and standards.

At the same time, multinational companies doing business in China must keep in mind the necessity for adaptation and compromise with their host country. This is particularly true in the light of the national pride felt by most Chinese surrounding their country's meteoric economic development over the past decade.

For both the foreign firms operating in China and the local Chinese managers they employ, each must be aware of the other's needs, with a willingness on both sides to adapt their practices to those needs as much as possible.

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