



Globalisation, People and the Leadership Imperative

The Indian and global business environments are changing profoundly. Today, global companies operate in a highly complex, interlinked, and fast-shifting marketplace. Asia, though not yet the world's largest economy, has increasingly become the fulcrum of change for global businesses¹ – and the world has fully recognised the potential of India and China. At the same time, Indian firms are venturing out more often, and further – through acquisitions abroad, increased exports, and listings on foreign stock markets. The East is now truly meeting the West – and this new paradigm is evident in Indian businesses, who a few years ago, were servicing global companies, but are now becoming global competitors.

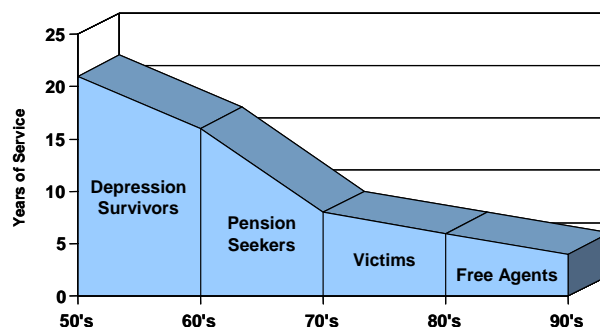
There is also a growing recognition that, while global brands, processes, and technological offerings are important, so too is a deep understanding of local conditions – which tend to be highly diverse, both culturally, and socio-economically. For instance, when many multinationals first came to India, they brought in leaders who understood their global value proposition. However, most of them struggled with the family and friendship ties that are critical in this region. To succeed in such a culturally rich and diverse country, leaders must be sensitive to culture, family, and other nuances. Yet, many still do not fully understand these complexities and differences. On the flip side, Indian firms expanding overseas must now acquire new skill-sets, and mind-sets that are more appropriate to the global business environment.

Adding complexity to this equation is that workforces the world over are evolving fast, and the nature of work itself is changing rapidly. Unlike even a decade ago, human resource issues (including retention, attrition, and succession planning) now occupy the centre-stage, and demand the full attention of top management, including the CEO. All of these factors require a new type of leadership, both for multinationals operating in India, and for the new breed of Indian MNCs.

This new leadership must necessarily hinge on meeting the needs of the workforce – as much as the firm itself.

Setting the Context: Changing Patterns of Employment and Retention

In the 1950s, following the Great Depression, people tended to stay with companies for close to 20 years – mostly because they felt lucky just to have a job. By the 1960s, people stayed with the same company, on average, for around 15 years, largely to secure their pensions and benefits. This average kept falling through the 1970s (when many employees became victims of firm closures) and the 1980s. Today, many view themselves as free agents. They feel responsible for their own future, and leaders must provide these 'free agents' with adequate opportunities for them to want to stay. This is the focus that most companies miss in their development and succession planning programmes.



Source: U.S. Dept of Labor (BLS) Employee Tenure Survey, 1995-1998, company Reports, JMS Estimates

In a recent global CEO survey conducted by Korn/Ferry International (KFI) and The Economist, 70% of respondents rated Asia's influence on the global business environment as very important – compared with 50% for the United States, and 32% for Western Europe.

In any event, retention is likely to become both harder and more critical. Given the expanding knowledge economy, and fewer skilled people (relative to demand), this shortage of skills will become more acute. Today, for instance, in the United States, unemployment among college graduates is less than 2%. This trend is equally evident across the globe. Furthermore, employee turnover will increase due to growing demand, shorter technology lifecycles, and the increasing global mobility of people. Only companies that fully understand how to manage this will succeed.

SOME LEARNINGS FOR INDIA'S BUSINESS LEADERSHIP

These myriad changes suggest that the nature of leadership itself must shift seismically – and orient itself towards developing and retaining human resources. According to the recent survey by Korn/Ferry International (KFI) and The Economist, most executives believe that, among the major emerging countries, China has a marginal edge, economically, over India. However, India's stronger entrepreneurial spirit gives it an advantage in terms of providing and developing the next round of leaders. This, though, will require a great deal of work in several areas:

Succession Planning is Key

Succession planning is a challenge across the globe – but particularly so in India. Indian leaders, while highly adaptable and strongly entrepreneurial, generally perform poorly in terms of teamwork and succession planning. In fact, the KFI/Economist survey ranked Indian leaders among the lowest performers on this count. This is evident in the fact that today, fewer than 20% of Indian businesses work to develop future leadership, or to engage actively in succession planning. Strong Indian leadership has been emerging across multinational companies (both Indian and foreign), but these competitive traits, and the drive to succeed in global markets, have not yet been focused on developing people. India now requires its leaders to work towards nurturing its pool of future managers, instead of merely driving their companies.

Exploiting the 'Leadership Demographic Dividend'

India has a significant demographic opportunity in terms of its 35 to 50 age group, who will form its future leadership pool. Between now and 2025, this group will grow in size by 67%, while in China, it will increase by just 15%. (Turkey is the only other 'large' country that enjoys a similar demographic advantage – and will see its 35-50 group grow by 63%.) Thus, there is a huge talent pool emerging in India, but these individuals must gain the experience and skills to operate and manage in a global environment. China's government-driven approach has been to build universities, and to pay its professors steep salaries. (Harvard University even has a course that teaches Chinese professors how to teach the Harvard case-study method; many of these graduates plan to start their own schools in China.) India, meanwhile, plans to make huge educational investments – including constructing some 1,500 new universities. This, though, will require considerable private-sector participation, for instance, through public-private partnerships in higher education.

Attracting and Retaining Talent

Businesses all over the world are competing for the same leadership skills and people. China and India have a large supply of people, but currently have an acute shortage of leaders. This is because the same people required in Indian businesses, are also being sought by firms in the United States and Europe. To be leaders, businesses have to therefore attract and retain global talent. This demands a great deal of time and effort. Many successful CEOs, in fact, spend about half of their time in recruiting, and the other half in ensuring that people understand the direction in which their business is moving. Bearing this in mind, Indian leaders clearly need to examine (or re-examine) where they are focusing their energies and attention.

Communicate, Communicate, Communicate

In India, many top companies double their pay annually, and companies increase salaries, on an average, by 40%. However, recent studies on retention suggest that pay is only the third or the fourth priority in an employee's decision to leave a company. In fact, most people leave companies first, because of poor personal relationships with their bosses, and second, because they do not see a future with the firm, and therefore seek better opportunities. Whilst some attrition is needed in any organisation, it is crucial to retain top team members – those identified as 'high performers'. Often, even though organisations have identified future leaders, they can lose these people simply because this recognition has not been communicated to the individual(s) in question. Therefore, when a person leaves abruptly, it often boils down to the inability of the firm's top management to communicate with their employees.

Although leading executives tend to think that they do a good job of communicating with their top performers, this is often not true. Leaders who have lost some of their best employees often claim that they had put such employees on development programmes, or given them other forms of encouragement. However, when one speaks to the departed executive, they almost always say that they never knew they

were considered to be top performers. Companies that excel at retention constantly go to their top performers and remind them that they are valuable. They talk about their future with the company, and where they are going. In a high turnover market, this is essential, because businesses cannot afford to lose their top talent. This is an area in which Indian leaders will need to spend much more time, and a bigger effort.

OTHER DEBATED ISSUES

On Leadership:

Is a leader born or made?

A great amount of research suggests that leaders are made. It is difficult to know how much 'leadership' is in a person's genes, but clearly, all great leaders have had 2 or 3 mentors that have helped shape their careers. Leaders tend to learn from their environment: they absorb and inculcate elements that have worked for different people and emerge as leaders. While training and education have their merits, and impart valuable skills, studies show that experience plays the biggest part in developing people's skills. Today, many leaders in global companies have become like politicians: they are required to stand up in front of their employees, to motivate them, and get them excited about what they are doing. This – along with the need to be trusted in an absolute sense – is a big part of the 'top job' profile.

The strengths and weaknesses of India's business leadership

Indians tend to be highly flexible, culturally adaptable, and are able to work well in different environments. However, talent development, with respect to the next generation of leaders, is perhaps their weakest area. In India, there is a greater emphasis on individuality and entrepreneurship. Thus, executives here are not strong on bringing in new management, or on training and development. That said, India will probably become the talent centre for the world. Many executives feel that China has a better chance of succeeding economically, while India had a better chance of developing pools of people. Whether India is able to capitalise on this opportunity will depend on how it manages its talent.

Growing globally requires organisations to open up and accept new cultures, integrate these, and look to broader horizons. Indian businesses have to encourage people to go abroad, and return with a bigger, global perspective. Graduates from India should gain international experiences, and will hopefully return in a few years, when the opportunities here will be even bigger.

Comment: Senior and middle managers in India tend to be individualistic rather than team players, and developing a team is therefore a challenge. As a part of succession planning, firms normally line up a few people who, over a period of time, can aspire to the top job. However, they tend to become extremely competitive – and it is difficult to reconcile this with team-building.

On Leadership Comparisons between India and China:

From the MNC perspective, it is apparent that, in general, Chinese leaders, though well educated, are not very entrepreneurial; are very hierarchical; are not very adaptable to other cultures; and are afraid to take risks. India's advantages include it being a highly entrepreneurial society with strong language skills. This is why, in MNCs around the world, many Indians are rising through the ranks. However, while *individuals* have done well, they have not tended to help 'grow' their peers

Given that trade between China and India is increasing rapidly, are there many Indian people interested in working in China, and vice versa?

There are many more Indian executives working in China than the other way around. This is because, in most cases, the Chinese approach tends to be more top-down and hierarchal. Indian CEOs are generally more adaptable – and hence, it is easier for them to succeed in foreign lands. For instance, some 30% of the business leaders in Singapore are Indians from India. Anecdotal evidence suggests, however, that Chinese executives are showing an increasing desire for global assignments, including in India.

On Asia's Impact on Business Trends

With the growing importance of Asia, are there any trends of increasing representation of Asians living in Asia on European and American boards?

Most multinational boards are poor at global representation. This, though, is likely to change because Asians are not only good leaders, but also perhaps because of the new focus and commitment to growth and opportunities in Asia.

On Employment Trends, Promotions and Succession Planning

A failure to promote is one of the drivers for executives to change organisations. How is this reconciled with changing, and flatter, organisational structures?

Globally, a key challenge is that, in flat organisations, there are few people in the pool for promotions, and the number of hierarchical levels are far fewer. Many companies are still struggling with this. In fact, a recent survey showed that two-thirds of executives receive titles and promotions with no added responsibilities. Within a flat organisation, it is vital to present top people with special assignments, which enrich their larger view of the company. Ultimately, in developing people, training courses are less important than actual experiences. Therefore, companies need to nurture good people, and if they cannot be moved up, there should be enough opportunities for valuable experiences. Looking into new markets, handling acquisitions, or working on a new technology platform, are all projects that employees would value greatly. An important challenge with respect to succession at the CEO level, however, is that often, flatter companies do not have a candidate with enough experience, outside their own vertical, to run the firm.

Small organisations that start succession planning from the top down tend to lose their senior people. What can be done in such situations?

In smaller organisations, the key is to let everyone have a chance. Often, as much as that may complicate matters, there are 2 or 3 excellent candidates for the job and it is preferable to develop this broader set of people for the sake of the corporation, and to identify the 'right' future leader. It is important to bear in mind that everyone may not want to become a leader, and are content being where they are.

Which large multinational corporations are particularly good at succession planning?

A number of companies do this well, including GE, Johnson & Johnson and Nestle. Nestle hires from outside, but has well-established succession planning processes. In some firms, such as GE and P&G, it is hard to come in at the top from outside on account of strong cultural issues.

What percentage of organisations has a formal career plan and related processes in place?

A number of big companies, such as GE, clearly and publicly talk about where people are, and where they are headed next. Today, even smaller companies are doing this, and career planning is a two-way street. More and more companies ensure that their executives have a written career development process. This is usually centred around the people development cycle. However, this is hard to implement in an environment like India's, where firms are so busy trying to simply 'keep' their people.

Given that many employees today see themselves as free agents, what might be the next 'stage' or 'mega-trend' in employee tenure?

Looking into the technology space for example, there is already a large group of one-person businesses today. This trend is growing, and there could be a 'virtual employee force' in the future, where companies start hiring smaller groups of people, or even single 'agents', and thus fully develop and leverage a more diverse virtual skill-set. In the US, within the programming, installation and development segments, half the people on major assignments are temporary contract employees – and are in that position out of choice.

The Japanese culture of long-term or lifetime tenure, and changes that have been taking place in this respect

One of the most important issues that Japanese firms must learn from global firms is that individual competencies and individuality must gain equal importance over set, corporate processes. This, though, will take time. At Canon Asia, for instance, there are only two local managing directors, in Malaysia and the Philippines – and both are veterans of 10-15 years, who understand the Canon 'way'. In India, Canon is independent, but the mandate for its managing director is really to define and implement the established processes and methods. From this point of view, getting a manager from the outside is seen as being very dangerous. However, experiences vary between the manufacturing sector, and such areas as software and communications. While Japan as a whole is gradually changing, the manufacturing sector retains its 'old' philosophy.

Comment: It is interesting that the world is adopting American philosophies – which are not always good. Japan had lifetime employment, but this is slowly changing. At Sony and Nissan, for instance, the MDs have come from the outside. Moreover, people are becoming more and more individualistic. Equally, although Europe has a 'social contract', this is not what it was even five years ago.

On Recruitment, Retention and External Hires

Globally, what are the traits that differentiate firms that excel at recruiting?

Clearly, great development and training helps to retain people. Organisations that develop their people increase their global human capital, and companies that recruit well have a clear mission and processes. This may seem basic, but sometimes, interview schedules drag on, there is no clear communication, and in a multiple-offer market like India, candidates go with other offers due to this lack of clarity and focus. Great recruiters are focused, disciplined, offer feedback, and keep people in the pipeline even if they do not ultimately hire them. Candidates appreciate honesty, but also like to feel wanted.

What is the success rate for external hires?

This usually depends on the organisation. GE has only brought in one outside person at the senior level in 10 years – and that is clearly an issue of culture. ‘Externals’ need sponsors to win over people; they need to be highly adaptable; and they must be truly ‘special’. Equally, the firm needs to accept new people and ideas on a broad, cultural level. In general, it may be better – and easier - for firms going through massive changes to bring in an external hire.

Many family-owned businesses looking to go public are increasingly committed to bringing in professionals from the outside, especially at the CEO or the COO level. They look for people with global experience and those who can help the company in this transition. This, however, creates a whole set of new challenges and issues. Do experiences from other regions, such as Europe, suggest a ‘safer’ way of doing this, or to prepare the company for such change? Is there a particular profile of leaders who would fit this situation?

When outside talent is brought in, family-owned businesses need to change how they operate, and to become more global in their outlook and processes. That is in fact the greatest positive of bringing outsiders into the business. However, this also requires considerable understanding on both ‘sides’. On the one hand, the ‘outsider’ needs to become a part of the firm’s culture before attempting to change it. On the other hand, it is critical for owner managers to recognise that it does not work to simply import an executive and expect everything to function smoothly. Chemistry is vital, as conflicts can exist even in situations where things are working well in most respects.

Comment: Retaining top talent is not only about salaries, but also has a lot to do with inspiring people. There is an increasing recognition that globalisation is not delivering benefits to all inhabitants of this planet. In many companies, employees are starting to feel – or at least to read – that their firm is not necessarily contributing positively to the planet’s well-being. Some companies have created opportunities for their employees to get more involved in ‘outside’ or ‘global’ issues, and by doing so, they have managed to retain or even attract better talent. This has much to do with inspiring people.

Inspiration comes in many forms. The company’s mission, for one, is critical. For instance, Korn/Ferry does not label itself as an executive recruiting firm, but as a talent management firm that will change industry by helping executives with their people problems. This puts people on a mission. While some people may not agree with this, it inspires people. Every company can find a way to make its mission both a business mission and a universal mission. Some companies contribute a lot of money to charities, and come to be viewed as social enterprises. Others, despite giving even larger sums, are not viewed as good social citizens. There is no formula to this. Companies have different sizes and abilities, but employees tend to stay in longer in a company that, while successful in its industry, is also seen to have a strong social mission, and a good environment.

Bringing in people from outside – particularly from abroad - tends to skew salary structures at the top level. In such situations, the existing, Indian executives – who have been happy in their roles, and highly motivated – begin to have doubts about themselves. How should this be handled?

Compensation is an emotional issue, and no one is always happy with their compensation – no one ever thinks that they are overpaid! Many companies recognise that there is a premium for entry, and try to level salaries over time, but not instantly. Sometimes, this is done through bonuses, to make up for the difference temporarily. However, there is no magic formula, and it all depends on how transparent the company is. These situations are usually resolved over time, since most firms cannot afford to hike all salaries at once. Nor would this make sense for the business.

On Managing Scale, M&A, and New Growth Areas

Managing scale is a major challenge, particularly with regard to middle management. What should be the most crucial areas of focus for CEOs as they ramp up their businesses, and face the reality of not having enough people that are able to manage global businesses?

This is an issue for all global businesses, and not restricted to India. Managing scale revolves around developing management, and delegation. Most businesses that grow quickly are based on family leadership, or a close group of people that are used to running every aspect of the business. Thus, they lose the ability to delegate, and to trust others to do the job. To scale up, then, firms need to allow people the freedom to grow and make mistakes as they do so.

With acquisitions becoming more common, a big challenge is handling the extra management that is no longer required. What can be done about this?

A well-designed merger or acquisition will lay out the pre-integration steps, identify the leaders, and inform the people that are not going to stay. This is easier in some countries than in others. However, the biggest challenge is in terms of cultural integration – and most mergers fail not because of the operations strategy, but due to poor cultural integration.

More and more today, talent is being attracted to specific sectors. For instance, retail is attracting talent from other sectors, and across geographies. However, people entering an emerging sector often do so with large skill gaps. While experiences provide for tremendous learning, is there something that companies can do to fill in these gaps quickly?

Smart people learn new skills relatively quickly, and everyone must go through a learning curve. Employers must always bet that their employees can learn the business, have a positive impact, and gain others' trust. In this respect, the first 6 months are critical for both the employer and the employee. Companies, on their part, need to ensure that workers receive adequate exposure, and to focus on results afterwards. It is hard to develop a strategy encumbered by facts, so workers must learn enough about the business in order to develop it.

On Perception Management

In large, global firms, perception management across regions is a major challenge. When executives of firms with European headquarters are posted to Asia, the contrast between a stagnant European market, and the booming Asian market, is enormous – and difficult to communicate to headquarters. How can this challenge be overcome?

Historically, this has been an issue. What was once seen as an outpost is today seen as a critical growth area. While attitudes are changing, two points must be kept in mind. First, communication by telephone is not enough – and executives need to spend considerable time at headquarters. Second, there is no substitute for an on-ground understanding of the local market. An MNC operating in China, for example, made its executive committee members visit houses in Shanghai and the surrounding areas, and see their products being used. This gave headquarters a far deeper understanding of the potential of the Chinese market than any number of reports would have done.

SUMMING UP

Although the world is highly diverse in terms of customs and cultures, people everywhere are essentially the same. Going past the barriers of culture and behaviour, people simply want to succeed, be appreciated, take care of their families, and to develop. Focusing on connecting with people and letting them know they are important – which is admittedly difficult – is the key to retaining and attracting talented people. Given that global businesses today are arguably the world's most significant agents of change, it is incumbent upon such firms to lead the way in this regard.

This paper is based on discussions of The India CEO Forum with Paul Reilly, Chairman and Chief Executive Officer, Korn/Ferry International in February 2007. The views expressed are an amalgamation of Mr. Reilly's lead presentation and of the ensuing debate with The CEO Forum. They may not necessarily be those of IMA India.