

BRINGING LEADERSHIP TO THE FORE: HOW ORGANIZATIONS IN CHINA ARE MANAGING TALENT IN THE DOWNTURN

By David Everhart

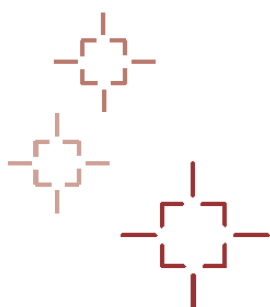
Key Takeaways

- Companies are optimistic about the China market.
- Most firms are responding to the current global financial crisis by reviewing performance and releasing low performers.
- Only 40 percent of companies are re-defining the leadership characteristics they measure people against to match current and future demands.
- Executives feel assessment is the top priority, but only a third believe their China organizations measure leadership effectively.
- Firms should increase the use of coaching to help develop and support current and in-coming executives to manage through the current turbulence.
- 'High Potential Identification' and 'Succession Planning' will remain critical in China in the medium to long-term.

Buoyed by years of tremendous growth, the brakes have finally come on for the Chinese economy in the wake of a deep and sweeping global financial crisis. In March 2009, Korn/Ferry International surveyed 64 executives in Greater China to better understand how their companies are responding to the current economic downturn from an organizational and talent management perspective.

We invited two categories of China-based executives to participate in the survey: CEOs of China and in some cases, Asia Pacific, and Chief Human Resource Officers.

The executives represent a broad cross-section of business sectors including industrial, automotive, healthcare, consumer goods, hospitality and financial services. Ten percent of these companies are headquartered in China, while the rest are multinationals from the U.S. and Europe.



China, A Bright Spot

We were pleasantly surprised to discover that over 80 percent of executives who responded were cautiously optimistic or optimistic about the overall state of their China business. Although this was not true of all industries, less than two percent were deeply worried. When asked about expectations of business performance the next year, 34 percent of respondents answered aggressive growth. Only five percent expected to incur losses. China, it seems, is a relatively bright spot in an otherwise gloomy landscape.

Priorities for Talent Management

The priorities of China-based executives reflect the current uncertain economic environment. Not surprisingly, **staffing and recruitment** was a low priority for most of the executives polled (Figure 1). Initiatives related to selecting who will stay and who will go, such as **assessing competence** and **evaluating performance**, were highly ranked. These priorities are consistent with firms' efforts to reduce costs to maintain positive cash flow (or at least narrow operating losses).

Close to 80 percent of respondents reported they are **eliminating low performers** (Appendix A). At the same time, roughly half stated that they are using **development** as both a retention tool and to accelerate the advancement and effectiveness of high potentials. An executive related how the lack of talent had resulted in her firm selecting relatively junior high potentials for key strategic roles while continuing to search for more seasoned external managers to fill the gaps. From our perspective, this indicates that most firms are at least responding quickly to the downturn, but the bigger question remains: are they behaving in a *reactive* or *proactive* manner?

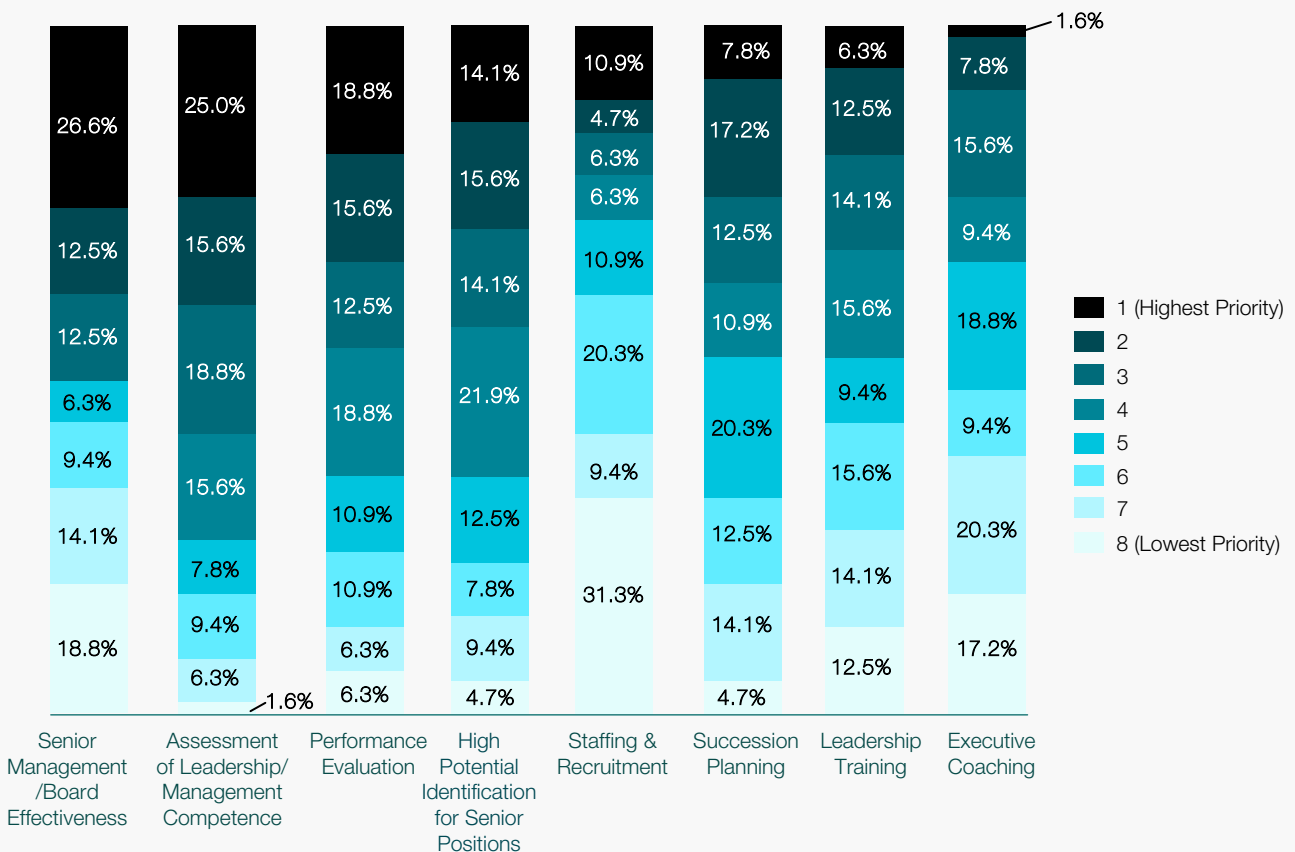
Companies that reduce headcount without investing in development run the risk of experiencing significant drops in morale and productivity. They also risk losing the strong talent they need to manage through difficult periods and to aggressively push forward as economic conditions improve. This means that short-term gains from reducing staffing levels could quickly be offset by medium-term productivity losses.

Bringing Leadership to the Fore

As stated earlier, survey respondents are experiencing the current financial crisis differently: some are still enjoying aggressive revenue growth while others have seen business fall off.

Figure 1

Current Talent Management Priorities



Coaching, particularly in a turbulent environment, can greatly improve the productivity of both in-coming and existing leaders. A good coach can help executives stay focused on strategic priorities while at the same time quickly respond to urgent organizational issues.

Not surprisingly, companies show different levels of stability at the top level of their China organizations. A quarter of the firms in our survey are still actively seeking external talent for senior positions. Over half of survey respondents reported no changes in the leadership team over the past year, another 17 percent saw just one leadership change while 36 percent reported two or more changes at the senior levels.

The leadership competencies needed in a down-market are different from periods of high-growth. For example, making tough people decisions and having managerial courage are much more important now than last year.

In addition, leaders who are able to learn quickly from experience and adapt their approach will be more effective in an uncertain and fast-evolving economy. Our survey participants seem to recognize this – 42 percent were re-examining the leadership characteristics they will need over the next two years and assessing current leadership against these new metrics (Appendix B).

Over half stated that they are providing senior managers with accelerated and specialized development training. Paying attention to senior talent in a turbulent market is critical for another reason: high potential executives often have other options for employment and will move if they sense a lack of commitment from their present employer.

Executive Coaching is a key development tool that China-based firms need to embrace and utilize more effectively. More than a third of our respondents report that their firms are either ineffective at or do not use developmental coaching at all. Coaching, particularly in a turbulent environment, can greatly improve the productivity of both in-coming and existing leaders. A good coach can help executives stay focused on strategic priorities while at the same time quickly respond to urgent organizational issues.

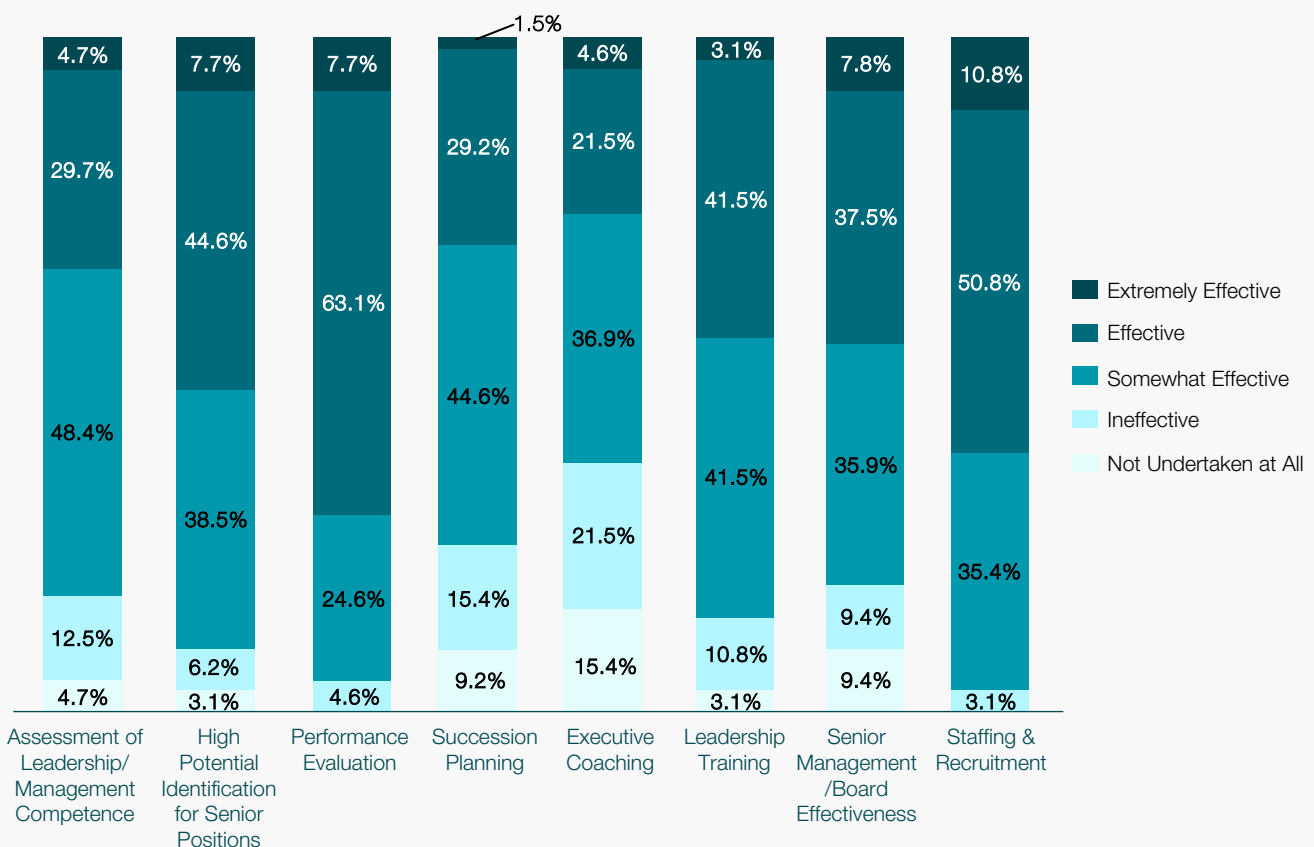
This is particularly true in China, where Korn/Ferry’s data has shown that many local executives behave in a highly reactive manner without keeping overall business strategy in mind. Many Chinese-based leaders are often managing above their developmental level and need accelerated development plans. These factors make carefully targeted coaching a very wise investment.

Advice For China Organizations

Over 60 percent of the executives in our poll reported that their organizations are extremely effective or effective at **staffing and recruitment** (Figure 2). In our experience few companies are as good at this as they believe.

Figure 2

How Companies Rate their Current Talent Development Programs



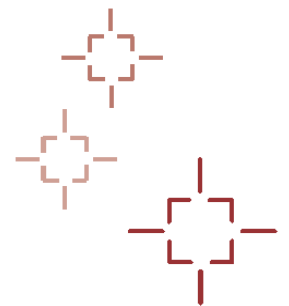
Very few staffing directors, for example, know how much money their company actually spends on recruiting. More importantly, most have no idea how much value these new hires create. Recruiting requires direct and high-level involvement from business line managers: it is not just a HR responsibility. Our advice is to look at recruiting activities from an ROI and not a cost perspective.

Over a quarter of participating executives said that **senior management/Board effectiveness** was the top priority in the current economy (Figure 1). China-based executives recognize that having senior leadership functioning effectively while setting business priorities is critical. About 45 percent of respondents also felt their companies were effective or extremely effective in developing this critical area. We noted, however, there were a few instances where a HR director rated their Senior Management development programs as being very effective while the CEO from the same company felt it to be ineffective.

We advise CEOs therefore to ensure their senior management teams are clear on the vision and strategy, roles and responsibilities, and are providing the organization with clear and consistent messaging. We advocate a process for gaining consensus on organizational priorities by asking three basic questions: What are we good at today? What do we need to be good at tomorrow? Where are the gaps?

Even though assessment of leadership competence was ranked as a top priority, only a third of respondents believe that their organizations do this effectively. Most firms evaluate employees against *internal* benchmarks only (using rated systems such as 360 degree feedback and financial performance evaluations). This works well for lower and middle levels, but at the senior rank, companies should strive to use external benchmarks to determine how strong leaders are when compared to their peers in other organizations. Korn/Ferry recommends using research-validated tools and methodologies in combination with external talent comparisons. A seasoned executive recruiter, for example, is able to quickly determine how an executive measures up to his or her peers working in similar roles for other companies.

We were encouraged to see only eight percent of respondents reporting that their organizations have undertaken across-the-board headcount reductions (Appendix C). This type of approach to managing costs is rarely a good idea because it fails to prioritize the functions that increase cash generation. To improve short-term business performance, most companies realize that maintaining (or increasing) staff engaged in revenue generation and improving supply chain efficiency is critical. Thoughtful staffing reductions should be based on careful evaluation of the functions that will help shore up cash flow, as well as each person's past and current performance and potential.



Companies may still be confusing performance with potential. In a strong market, people with strong functional skills often do very well and can be mistakenly rated as ‘high potential’ when in fact they are what we call ‘high professionals.’

Best in class talent management should include a clear differentiation of ‘Performance’ and ‘Potential.’ Several executives we spoke to during the recent downturn have remarked that employees who were rated as ‘high potential’ last year were not on the chart this year. In our view, this indicates that companies may still be confusing performance with potential. During boom times, people with strong functional skills often do very well and can be mistakenly rated as ‘high potential’ when in fact they are what we call ‘high professionals’ – people with strong functional expertise in one area who perform very well. In a downturn, the true high potentials tend to emerge – people with ‘learning agility’ who can quickly adapt to the changing environment and remain strong performers.

Nearly all of Korn/Ferry’s clients in China entered the current downturn with a lack of talent ‘bench strength’ – they did not have enough experienced and high-impact managers to grow their businesses. While assessment and performance evaluation are important, we believe that succession planning and leadership training and development are also critical issues. Companies should be careful not to relegate efforts at readying high potential talent for broader responsibilities to the back burner. Best in class companies know who their high potential talent are, and therefore know whom to protect and develop.

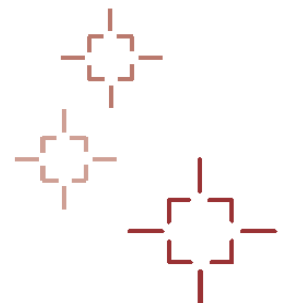
Finally, several executives emphasized the importance of communicating the state of the business and the company with employees honestly – while they needed to downsize in some areas, they would continue to focus on reviewing talent for succession planning purposes and investing in the development of key managers and staff. This serves to reassure the workforce that the downturn is a cycle which will not last forever.

Learning From the Crisis

When we asked executives what they would have done differently, many noted that they could have responded faster had they been better prepared for crises and had more nimble management teams. Several commented that their leadership teams should have been much better prepared with contingency plans in place to quickly and intelligently implement staff reductions and utilize 'down time' more productively. Several also noted that companies must become better at assessing and selecting foreign talent for assignments in China as repatriating unneeded or ineffective foreign managers and executives is an expensive exercise.

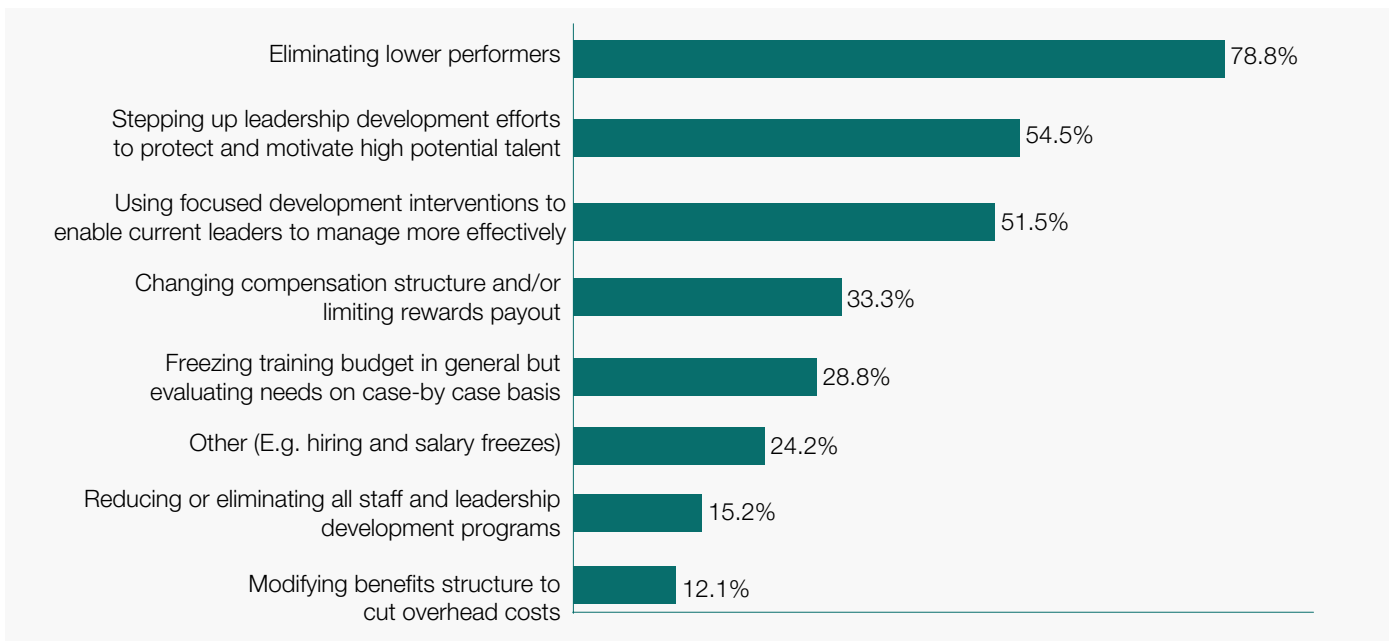
On the flip side, it was heartening to note that many felt they should take advantage of the economic chaos and the large number of executives seeking jobs to recruit key talent, while noting that their companies needed to be more flexible in order to move quickly when an opportunity to hire a top executive presents itself.

The global financial crisis has been a sobering wake-up call. Companies no longer have the luxury of resting on their laurels but must instead examine their operations to ensure that they emerge from the crisis stronger, leaner and better prepared. History has shown that true leaders are those who can look at a crisis as an opportunity to reshape their strategy and operating models. Only by constantly re-examining and bringing leadership issues to the fore will companies be able to manage through the current turbulence and plan for success.

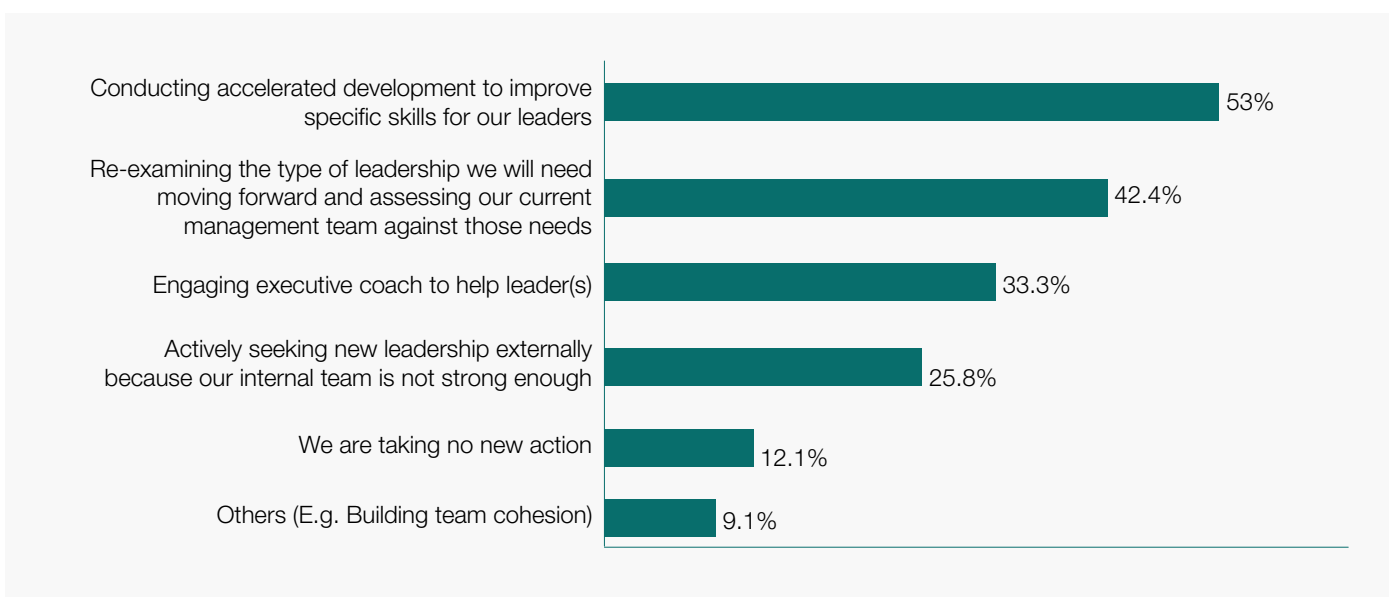


Appendices

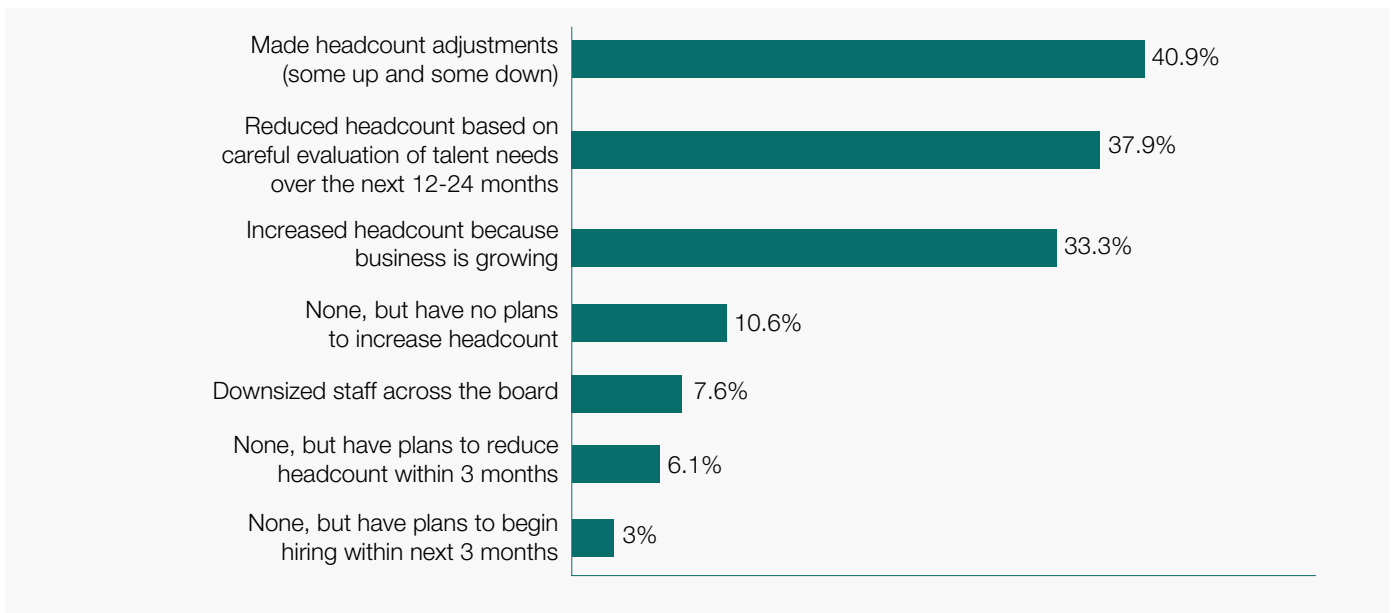
Appendix A: Actions China Businesses have taken in Response to Current Environment*



Appendix B: Current Leadership Initiatives Undertaken in Response to Current Environment*



Appendix C: Headcount Changes Made in Response to Current Environment*



*Note: Due to multiple responses, percentages do not add up to 100%.



David Everhart is the Managing Director, Asia Pacific, for Korn/Ferry International's Leadership and Talent Consulting Business. Based in the Firm's Shanghai office, he can be reached at david.everhart@kornferry.com.

About The Korn/Ferry Institute

The Korn/Ferry Institute was founded to serve as a premier global voice on a range of talent management and leadership issues. The Institute commissions and publishes groundbreaking research utilizing Korn/Ferry's unparalleled expertise and preeminent behavioral research library. It also serves as an exclusive destination for executives to convene and hone their leadership skills. The Institute is dedicated to improving the state of global human capital for organizations of all sizes around the world. For more information on the Institute, visit www.kornferryinstitute.com.

About Korn/Ferry International Asia Pacific

Korn/Ferry International, with a presence throughout the Americas, Asia Pacific, Europe, the Middle East and Africa, is a premier global provider of talent management solutions. Korn/Ferry was the first major global executive search firm to operate in Asia Pacific when it opened its doors in Tokyo in 1973 and today has 18 offices in key business centers throughout the region. Based in Los Angeles, the Firm delivers an array of solutions that help clients to attract, develop, retain and sustain their talent. Visit www.kornferryasia.com for more information on the Korn/Ferry International family of companies and www.kornferryinstitute.com for thought leadership, intellectual property and research.

