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Asia

The human touch behind Asia Inc.'s global push

By Arika M. Allen, Paul Gosling, Grant D. Powell and Claire Yang

A new generation of Asian companies is going global and actively managing talent, leadership, empowerment and communications to overcome obstacles and drive growth. These culturally savvy leaders are rendering stereotypes obsolete, setting the standard for other Asian globalizers and posing a new threat for established multinationals.

Meet today's Asian multinational: Its top leadership includes an American, a German and a South African. Business is conducted in English. It is active in 70 or so countries, where its offices are run largely by non-home-country executives. The company is pushing aggressively into Russia and Brazil, and its goal is to increase sales from overseas operations to more than 65 percent of revenues.

This particular multinational is Takeda Pharmaceutical Co., one of Japan's oldest and largest drug companies. It is also a forerunner of a new generation of Asian companies that are rapidly expanding outside the region.

In 2008, Takeda purchased US-based Millennium Pharmaceuticals for $8.8 billion, followed three years later by a $13.7 billion acquisition of Swiss giant Nycomed. More recently, Takeda built a new plant in Russia and acquired Multilab, a pharmaceuticals company in Brazil.

But this is not about a buying spree. Accompanying Takeda's expansion has been a drive to hire non-Japanese staff and management with international experience, and a decision to use English across its global operations. The company's leaders are changing the organization's culture with an emphasis on diversity and "borderless" teams. In the process, they are making Takeda a leader among the many Asian companies working to master the human factors in their push to go global—considerations that many of their predecessors ignored or did not fully understand.

An emphasis on the people side of the equation—also very much in evidence at companies such as Samsung and Tata Motors, among others—is seen as essential to the long-term global success of those organizations. It enables them to better compete for the talent that can fuel innovation, quality and high performance—key elements of a differentiated competitive thrust identified in new research commissioned by Accenture and produced by the Economist Intelligence Unit. By fostering devolved leadership, these Asian companies can stay much closer and be far more responsive to, their overseas markets.

This trend also poses big questions for Western multinationals. As their Asian rivals focus on the human side of their internationalization efforts, they'll become more attractive places to work and may well lure top talent from today's leading global companies. So business leaders worldwide need to ask themselves whether they are properly matching their Asian rivals' efforts.

Up-and-comers

They also need to be alert to the momentum of the numerous Asian companies that are eager to learn from and emulate the Samsungs and Takedas, the up-and-comers that, before long, could become forceful competitors or promising partners—or both.

Japanese companies began their global march decades ago, and South Korean giants such as Hyundai and LG Electronics have followed. But in the last decade, many more of Asia's companies are making their presence felt worldwide. Companies such as China Mobile Communications Corp., Huawei Technologies Co., Kia Motors Corp., State Bank of India and Wilmar International. have all joined the ranks of the Fortune Global 500.

The fast-paced and assertive overseas expansion of these Asian globalizers is gaining attention—not only because of the scale of their investments but also the rate at which those investments are rising. In 2011, Asian enterprises invested $383 billion outside their home markets—more than twice the $158 billion they invested a decade ago.

More and more of those funds are being invested far beyond the region. Ten years ago, Asian businesses made nearly 60 percent of their investment within Asia itself. In 2011, that ratio reversed, with more than 60 percent of their capital earmarked for outside the region. Japanese companies make up the largest block of investors overall, though their rivals from China are not far behind.

Cultural stumbles

However, there has been no automatic correlation between money invested and results achieved. As Asian companies expand into new territory, they run up against very different behaviors and belief systems. For every successful overseas move by a Samsung, there have been many, many retrenchments and losses by Asian companies as they have stumbled over local cultural norms and language difficulties while clinging to rigid and often hierarchical practices that worked well for them at home.

Perhaps the most notorious example of cultural mismatch was the attempt by a Japanese company to teach some of the female employees of a newly acquired US company how to serve tea, wear their hair and choose their wardrobes. Although fewer Asian companies today are likely to make such a faux pas, their approaches are nonetheless often out of sync with what works in the regions where they choose to invest.

Their business leaders know it. Asked to assess their internal execution in light of their global plans, Asian executives as a whole say their greatest internal challenges are dealing with cross-cultural issues, mastering the human aspects related to talent and having the right local leadership. Nearly half confess that they struggle with cross-cultural barriers, and more than half are hard-pressed to attract and retain talent in overseas markets, according to the Accenture/EIU study (see charts, pages 4 and 5).

These deficiencies are proving to have consequences for many companies. One sure indicator: Only about a third of companies from China and India say they have seen their revenue and profits from international operations develop in line with their expectations. The figure is even lower among Japanese companies, at just 12 percent.

Another telltale sign: Many Asian companies have found it tough to create internationally recognized brands. Although Asian corporations now comprise 35 percent of the world's biggest enterprises, they make up just 1 in 10 of the most valuable brands, according to Interbrand's 2012 list of the world's 100 Best Global Brands—a gain of only three companies over the preceding decade.

With these markers to go by, is it any wonder that there is such keen interest in what the successful Asian globalizers are doing?

For most would-be Asian globalizers, the biggest challenges lie ahead. They confront a far more complex and volatile global landscape than did the first wave of Asian companies that built global businesses. They must go nose-to-nose with strong local companies and an increasing number of multinationals.

Foreign affairs

The game gets bigger and tougher every year. Between 1990 and 2010, the number of companies operating across borders almost tripled, from 35,000 to almost 104,000, with the proportion of those from emerging markets soaring from 12 percent to 30 percent.

The prevalence of family-owned businesses and state-owned enterprises in Asia also presents unique challenges. In companies where a family still holds a sig-nificant stake—half of publicly listed companies across 10 key markets in Asia—ownership and management are often tightly intertwined, which makes it harder

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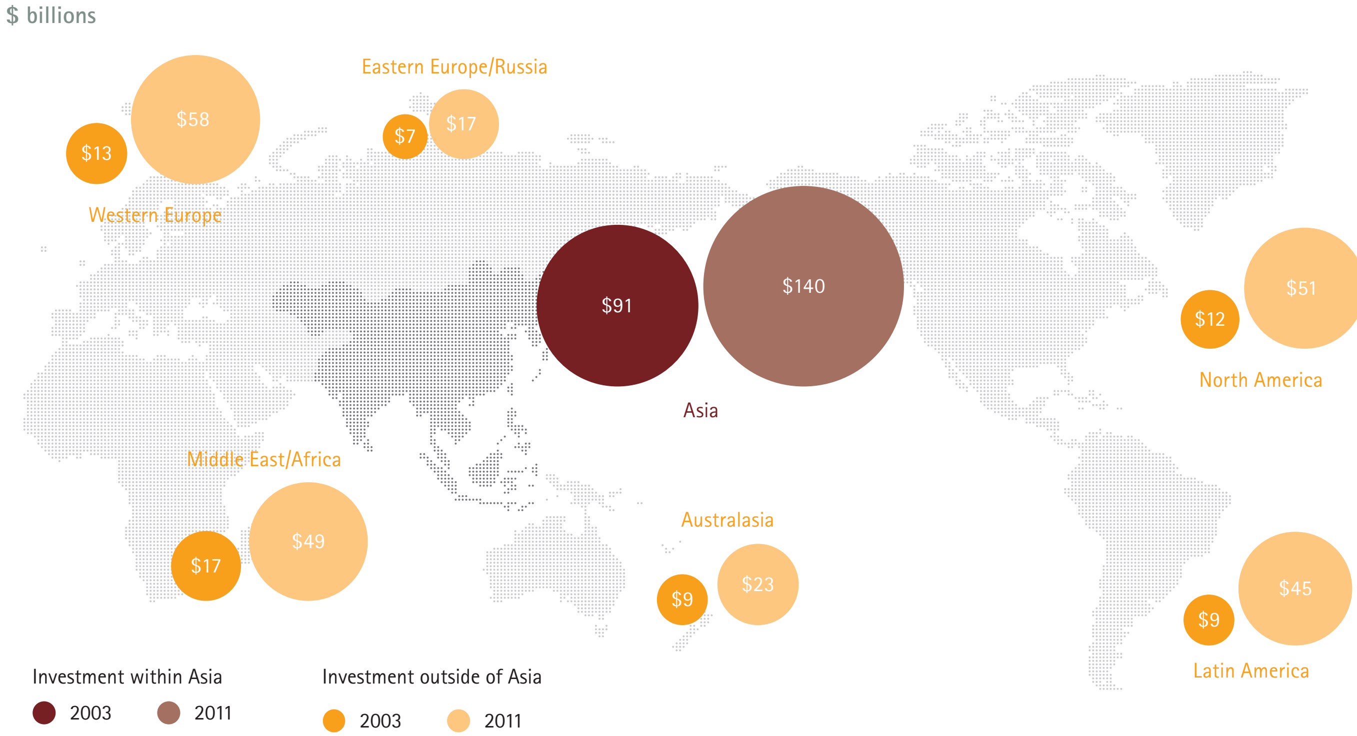
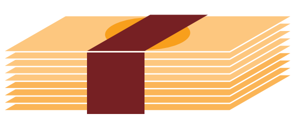
A decade of massive international growth by Asian companies

For the past 10 years, Asian companies have invested more than $2.9 trillion in regional and global expansion.

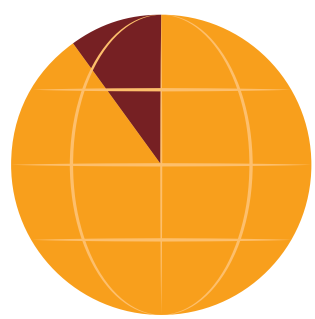




In 2011, 63% of all Asian outbound investment was outside the Asian region.

In 2011, 43% of all Asian investments were via merger and acquisition deals.

Just 28% of Asian companies met international revenue and profit expectations over the past three years.



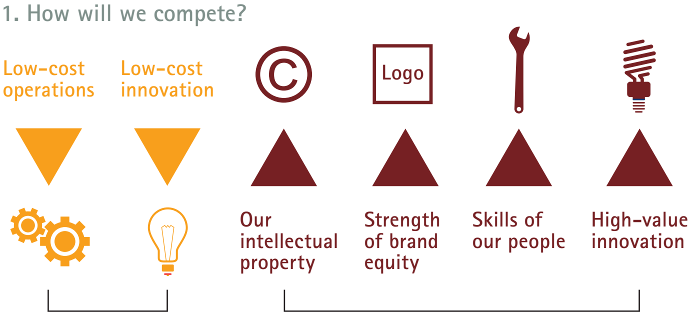
However, 90% of Asian companies are committed to continuing their overseas expansion.

Source: Accenture analysis

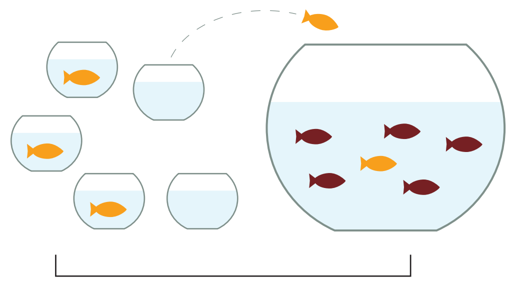
Growing pains

To be successful internationally, Asian companies must ask themselves the following questions.

1. How will we compete?



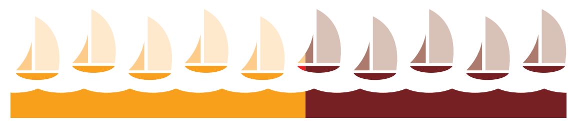
Most Asian companies are shifting their strategy over the next three years from low-cost competition.



Success in highly competitive global markets will depend on providing differentiated products and services.

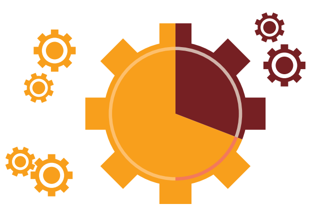
2. How will we serve customers and navigate overseas markets?

61% of Asian executives say their top external challenge is to understand their overseas markets, customers and their preferences.

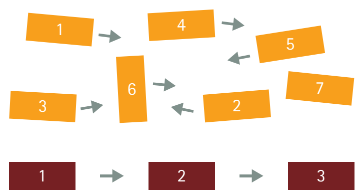


53% of Asian businesses struggle with government regulations as well as local policies and procedures in overseas markets.

3. How will we execute our strategy?



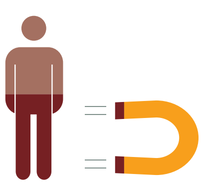
31% say they have the right operational capabilities to support international operations.



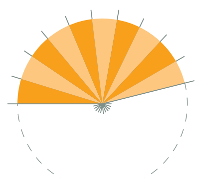
29% have the right processes in place to ensure effective operations across multiple geographic locations.

27% have appropriate IT infrastructure to support operations across multiple geographic locations.

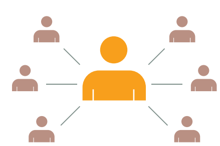
4. How will we build talent, bridge culture gaps and develop global leaders?



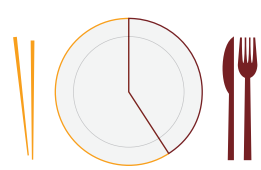
51% struggle to attract and retain talent in overseas markets.



46% struggle with cross-cultural barriers.



47% provide mentoring and coaching programs focused on global leadership.



41% provide cultural sensitivity training.

Source: Accenture analysis

(Continued from page 3)

for them to attract and groom outside talent. And it's tough to create compelling career paths and build diverse leadership teams in state-owned enterprises, where top leadership roles can be politically determined.

At the same time, many companies from China, India, Indonesia and other Asian nations are discovering that as they step beyond their national boundaries, their traditional cost advantages shrink. That's why more and more of them are reducing their reliance on low-cost operations and striving for competitive advantage based on innovation, employee skills and intellectual property (see chart, page 5).

But that shift demands much more cross-cultural savvy, borderless thinking and openness to new ways of working and managing. Simply put, the global push requires these companies to navigate in business realms that are foreign—figuratively as well as literally.

Obstacles notwithstanding, fully 90 percent of Asian companies remain committed to global growth, according to our research. More than 35 percent are bullish: They say they are planning aggressive growth overseas.

What are their chances of success? That depends on how effectively they can bridge the capability gaps identified by the research: having a clear purpose and strategy for growth; finding points of differentiation in crowded international markets; building robust and scalable operations; and putting in place the people factors necessary for sustained growth.

Here we focus on the human side of going global because it is proving critical for successful Asian globalizers—those companies that have thrived in their past international expansion and are confident in their abilities to execute as they continue down that path. Their competitive edge is apparent in the Accenture study's findings. It shows that compared with typical Asian companies, these Asian leaders have a sharper focus on economic outcomes and invest more in developing executives with global mindsets. They're better at recognizing the need to address cultural issues, and they typically grant more autonomy to their overseas operations than do other Asian globalizers.

The characteristics that best differentiate the successful Asian globalizers from their regional counterparts can be distilled into three human factors: They are good at securing and retaining talent in overseas markets; they work hard to build global mindsets among their business leaders and teams; and they generally do a good job of managing cross-cultural interactions.

Each merits a closer look.

Hybrid approaches to talent management

Knowing that they cannot rely on home-country workers to drive overseas performance, successful Asian globalizers are investing more in initiatives to attract and develop talent. Some are also adopting hybrid talent management approaches that combine home-country methods and global practices.

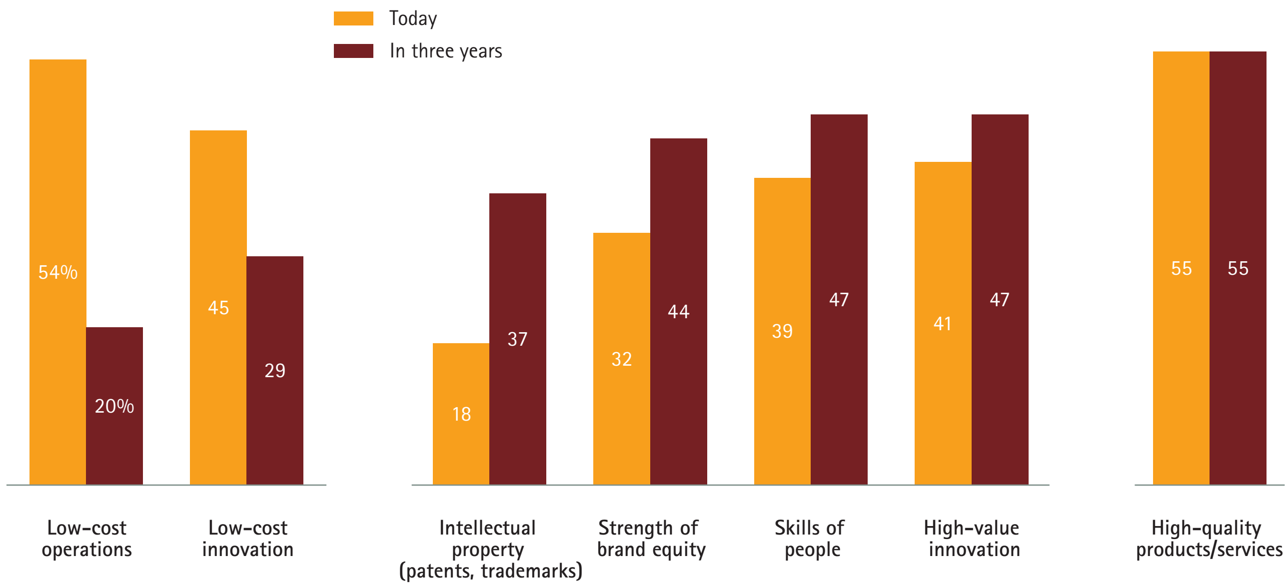
Take Samsung. To promote agility and accelerate its global growth, the South Korean electronics and consumer-goods giant has developed a business system that blends global best practices with an essentially Japanese business system.

In particular, when Samsung recruits, it no longer appoints managers primarily from an internal HR line; instead, it looks for talent outside Korea, for all management levels. These international hires spend two years in Korea before managing overseas operations, often in their own home countries. As Takeda has

Changing competitive advantage

Asian companies expect that within three years, the drivers of their competitive advantage in international markets will have changed significantly.

Percentage of all respondents; each respondent chose top three



Source: Accenture analysis

done in Japan, Samsung has hired outsiders to fill key senior management roles in South Korea—an unusual move in a culture that has been relatively insular.

To promote ownership of and accountability for the new talent strategy, Samsung's chairman, Lee Kun-Hee, has established metrics around attracting and retaining talent across the organization. While this transition has taken time to develop, Samsung has benefited from fresh perspectives and is now better equipped to manage its global operations.

In China, consumer-electronics manufacturer TCL Corp. relies heavily on its Eagle Talent Training Scheme to help ensure that it has one of the lowest employee turnover rates in its industry. Each TCL employee takes one or two training courses a year. The curriculum designed for top management—one of four categories of training—helps trainees develop international operation capabilities, strategic thinking, leadership, and industry and business group management skills.

And in India, ICICI Bank has assigned 600 employees to scout for potential leadership talent within the company. Each year, these internal recruiters send 5,000 candidates' names to a review panel, which assigns a grade to each name. Those graded "A" or "B" go through a four-day training program that includes structured exercises, guest speakers (including ICICI's chief executive) and screening inspirational films such as *12 Angry Men*. These future leaders are also granted company stock options.

However, the research suggests that initiatives like Samsung's and TCL's are exceptions, and it underscores

How to catch up to Asia's globalizers

If they hope to catch up to Asia's top globalizers, other organizations will have to ensure that they align their global talent strategy with their global growth strategy. The leading globalizers already excel at this. Questions like these will help other companies follow in their footsteps.

Talent

- How can we enhance our employee value proposition so we can source the best skills and talent locally and globally?
- What kinds of compelling career paths can we offer to differentiate ourselves in the battle for local and global talent?
- What training and development programs can we create to increase the quality of our talent worldwide?
- How can we best deploy our talent in local markets to strengthen our competitive positioning?

Culture

- What shared cultural attributes must we develop in our people?
- How can we create common ways of communicating across the organization, regardless of where we're operating?
- What can we do to identify and bridge culture gaps, and to build common values across our diverse markets?

Leadership

- What are the leadership characteristics we need if we're to deliver on our international growth strategy? How can we develop those characteristics?
- How can we have our top leaders adopt diverse ways of thinking? How do we help them develop and sustain a global mindset?
- How do we support and empower local leaders so they can properly sense and respond to local business dynamics?
- How can we foster "borderless leadership"— enabling leadership authority everywhere it's needed across the globe?

that many Asian companies need to do more to attract and retain talent in international markets. Only about half of the companies we surveyed are undertaking initiatives to attract foreign talent. Challenges like these are of real significance for other businesses that might be considering joint ventures or other forms of partnership with these Asian contenders.

Steering away from culture clash

Successful Asian globalizers make special efforts to improve communication and build shared values across their far-flung operations.

Like Takeda, Fast Retailing Co. in Japan is gradually adopting English as its global language. That said, the company, which owns the popular UNIQLO brand of fashion apparel, is not forsaking its home-country values; it sees itself as "born and bred in Japan" and aims to preserve its Japanese core values by using a variety of approaches for continually educating its employees around the world.

Some years ago, the company tried to expand overseas, but the utilitarian Japanese brand received a lukewarm reception. So Fast Retailing went back to the drawing board. It crafted a global image that preserves what its founder calls its "Japan-ness" while conveying a sense of global connection—with, for example, store layouts and decor aimed at style-conscious shoppers in Manhattan and London, a free fashion magazine for the New York stores written to appeal to the urban shoppers' cultural interests, tie-ins with local celebrities and artists, and more. One element of this successful approach: The company's integrated advertising and marketing campaigns encourage consumers to interact with the brand in digital environments.

For further reading

"The last 10 miles," *Outlook* 2012, No. 3: http://www.accenture.com/us-en/outlook/Pages/outlook-journal-2012-last-10-miles-china.aspx

"Catching the ASEAN wave," *Outlook* 2012, No. 1: http://www.accenture.com/us-en/outlook/Pages/outlook-journal-2012-catching-asean-wave.aspx

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The successful globalizers are just as deliberate when it comes to mergers and acquisitions. When India's Tata Motors bought Daewoo Commercial Vehicle Co.'s truck manufacturing operations, it took great care to integrate the South Korean company's business culture with its own.

To address Daewoo's misgivings—the company's owners were looking to sell the truck division to a European or American company—Tata launched an information campaign, ensuring that all the relevant literature describing Tata and its practices and philosophies was translated into Korean. Then the Tata teams explained their company's culture and ethos, along with its employment policies, to Daewoo's senior management to try to persuade them to accept their bid.

Tata's overtures were successful, and Daewoo became the Indian company's first cross-border acquisition.

But Tata knew that the deal would not be successful if they failed to properly integrate Daewoo's operations, and that meant they had to win over Daewoo's employees as well. So the Indians began reaching out to the workforce.

They kept the former Daewoo management team intact. The first few months of Tata's ownership were spent observing and learning—in both directions. Some members of the Indian team studied Korean; some Koreans began to learn English. The Indian team gained an understanding of Korean sensibilities and ways, and the Koreans, in turn, got to know and appreciate the Tata group's philosophy.

Fortis Healthcare is making similar efforts to create a common "language" that reflects its corporate culture. The Indian healthcare company, which operates across nine countries in the Asia-Pacific region, is striving to develop unique, unified ways of working across locations. "Language plays a part," says executive director Balinder Singh Dhillon. "Not the spoken language, but the commonality of terms and understanding and values. This includes the softer side of things, such as how you address a patient."

Many Asian companies have not yet mastered these kinds of issues. More than 40 percent admit to difficulties in establishing shared corporate and community values. Nearly as many say they struggle to instill respect for different cultures and backgrounds.

Taking "global mindset" from premise to practice

Successful internationalization strategies require strong leadership, from headquarters down to local operations. At the heart of strong leadership is a global mindset—evident in how some successful Asian globalizers actively encourage firsthand exposure to foreign markets.

For instance, Sunny Verghese, chief executive of Olam International, the Singapore-based supplier of agricultural products and food ingredients, sees it as a rite of passage for executives to spend time in difficult locations across the global agribusiness group's operations. He describes this as "managing the risks firsthand, not learning about them in a classroom."

Others make it a priority to give local leadership real decision-making authority. Korean conglomerate LG Electronics, for example, has built strong market share in India by focusing on developing local leadership. The company has empowered native employees by transferring authority and responsibility to them. Expatriate Korean managers have also served as mentors to help local management teams build their skills.

Some successful Asian globalizers contend that it is not enough to grant more authority to trusted local leaders;

it is also important to maintain as flat a corporate structure as possible to speed decision making and improve agility.

For example, at HTC, the Taiwanese mobile communications manufacturer, information flows quickly between the company's top executives and its empowered regional chiefs. Phil Roberson, former regional director in the United Kingdom and Ireland, had direct contact with HTC's chief financial officer, and outside of Taiwan, the most junior person is typically only five layers away from the chief executive.

Our study's findings reveal just how rare such approaches are. Only 47 percent of the Asian companies surveyed use mentoring and coaching to develop their leaders. Less than 20 percent use international assignments to build a global mindset in their leaders. The study also discovered that many offshore offices lack respect for the authority of managers at headquarters—and that the latter are often unaware of how they're regarded in the field.

If these remain the norms for many Asian companies, it will make it that much easier for potential global partners to screen them out in favor of those that are emulating the Takedas and Tata Motors.

Individually, few of the practices described here are breaking new ground; most are entirely familiar to executives at global multinationals. Collectively, however, they represent something much more meaningful: a surge in global competitiveness among Asian companies, barely visible today, that will gather momentum as more and more companies—from South Korea to Vietnam, from India to Indonesia—actively eye best practices, with special scrutiny of what today's most successful Asian globalizers have done.

So what will all of this mean for the makeup of the global economy in 20 years? Not even the most prescient economists can say. But Asian companies are clearly on the move. And business leaders everywhere, as a matter of urgency, need to track the speed with which these "people practices" proliferate among companies they may not yet have heard of. Many of those companies are busily taking notes on how the Olams and Samsungs are doing things. For they are the competitors—and quite possibly the partners— of tomorrow. ■

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