

Leadership Trends in India and China

As Asia expands economically, multinational corporations located in areas such as India and China are adapting their hiring practices to support the growth. The surest way to stay on top is to prioritize top-notch leadership. The biggest trend is an increasing interest in local executives, a major shift from several decades ago when expatriates with longtime experience at multinational corporations or businesses were favored.

In fact, changing standards for executive recruitment is resulting in a global talent crunch. A recent study by global consultancy firm, Hewitt Associates, found that "the relatively small talent pool in Asia has resulted in a leadership crisis in many organizations and an impediment to future growth." Instead of focusing on the negative, however, we are viewing this trend as an opportunity for companies to zero in on their exact needs when looking for the perfect fit for executive positions.

This piece has been developed in response to increased interest in hiring practices in Asia, specifically India and China. By sharing the observations of CTPartners' specialists in those areas, we hope to lend insight into how to most effectively navigate this changing global landscape.

Think Locally

It used to be that multinational corporations hired senior executives from the countries in which they were based, but that's no longer the case. In terms of China, multinational companies are interested in executives who are familiar with local culture and business customs — these executives include local Chinese and ethnic Chinese that have spent time abroad. One event that's driving this trend was when China entered the World Trade Organization in 2001. More foreign investment came in, which helped the country develop its own talent and transition locals into senior-level roles. It also increased the need to localize executive positions.

As far as India is concerned, this phenomenon has been evolving over time. When multinational companies initially began moving into the country, they were most comfortable sending their own leadership. If it was an American company, for example, they would send an American executive with long tenure at their firm to set up shop. While these senior managers were well-versed in both what the company did and its corporate culture, what they lacked was the understanding of how business is conducted in India and its culture. As an example, non-verbal communication is important in India. "Yes" may or may not mean "yes," "today" probably means "tomorrow," and "tomorrow" probably means "next week." Not understanding that can lead to both frustration and bad results. Now, global companies are actively recruiting people of ethnic Indian origin or local people who are based in India.

Candidate Categories

What is the talent pool among local executives? In both China and India, it's not just one candidate profile. Due to relocation and globalization, locals have varying degrees of overseas experience and fit into distinct groups.

In China, there are three categories of prospective candidates. The first is what are known as Overseas Chinese — people who were born in China but moved to Europe or the U.S. as children or before college. Some of them may have even been born abroad and have citizenship outside of China, but they are still considered part of this group. The second and most-competitive category is the Returnee — someone who was raised and educated in China, generally until the bachelors' degree level. As young adults they may have moved to the U.S., Australia or Europe to continue their studies, and stayed abroad to get work experience. In the mid-80s Returnees began coming back to start up their company's operations in China.

The third group is known as local PRCs. PRCs were born and raised in China and spent most of their careers here. A lot of them have gained a certain amount of international exposure by studying overseas briefly, or traveling for personal reasons or for business as representatives of the multinational corporations for which they work. On the one hand, their international exposure is significantly less than Overseas Chinese and Returnees, but on the other, they have more first-hand experience of the Chinese economy and business customs. They also have more connections with local commerce and government, which is very important.

In India's case, multinationals began recruiting Indian expatriates to send them back with the idea that since they are from India, they understand the culture. But for many of these executives, their professional development was largely in a different country — for example, an American manager that happened to be of Indian origin may not understand India in the context of business management. As in China, multinationals are seeking local executives that have worked in India for a number of years and have the connections and business knowledge.

To add a bit of background, the fact that this group of people is in demand today is a result of several factors. One is that management has matured in India. That is to say, people whose careers have developed in India are now at an executive level and are appealing as senior management candidates. Two, the number of firms of Indian origin has grown, and they also hire globally for the best talent. That provides competition for multinationals as well. Thus, now the GEs and Microsofts are not just competing with Yahoo and Google, but with Infosys and Wipro and all of the other major Indian companies.

What Multinationals Look For

How does a company identify these candidates? Generally, they express the specific qualities they are looking for, which helps direct a search. For example, a company might come to CTPartners and say they want someone with significant experience living and working in China, perhaps 10 to 15 years, and someone who understands how business is conducted. We might then look at Returnees who have moved back to China and started their own companies. Within our PRC talent pool, we also want people that have a demonstrated ability in starting businesses. And, of course, non-ethnic-Chinese expatriates that have been in China for some time and have Asia-Pacific experience, can also be competitive candidates as well.

In India, companies want executives that have global exposure and are making an impact on the world stage — someone who has the potential to move to other parts of the company, and other areas of the globe, and have a similar if not greater impact. Multinationals also want people who can work in multiple cultures and languages. Particularly in India, this is important. It is essentially a potpourri of countries brought together through history. There are over 200 spoken dialects in India, and the language changes every 100 or 200 kilometers or so. If you're going to work in India, you're going to be exposed to a host of different people. For people who were born in India, that exposure happens right from the day they are born, and they grow up developing skills to communicate and work with people from different backgrounds. That is one reason for which local executives have an advantage.

Compensation Packages

It's the million-dollar question: What is the difference between compensation for executives from outside China and India and locals?

In China, the difference used to be huge, particularly for PRCs. About ten years ago, a general manager of a small to medium-sized company in China made about \$170,000, and a mid-level PRC made about \$500 a month — about \$6,000 a year. Nowadays, they might make \$40,000 to \$60,000 a year. But that is all changing. As demand for hiring local executives has heated up, the bar for compensation has been raised. In the meantime, PRCs that used to only make it to mid-level management roles have climbed up the ladder and are now in-demand candidates at the senior level; so now we see that their salaries are catching up to those of expatriates. We are seeing that trend particularly in the cash part — salary and incentive bonus. In many cases the PRCs are almost getting equal pay and, in fact, although people sometimes think China is a lower-cost company, senior executives can actually be more expensive than those in the United States and Europe.

In India there is a gap, but the difference between domestic pay and expatriate pay is getting smaller. We estimate that will even out over the next five years. What happens is many local people find themselves doing similar, if not more difficult, jobs than an executive that comes from abroad. When they find out they're being paid less than half of what that person is being paid, it makes them look around, creating a revolving door in front of most companies in India today simply because of the disparity in pay.

That said, there will be parity eventually. You have to have it in order to sustain longevity. The way that is happening is multinationals are trying to bring their pay down from the stratosphere to where it's more reasonable in the country in which they operate. And Indian companies are realizing that they need to pay for world-class talent, so they are beginning to increase salaries even for domestic staff so they don't lose their star talent.

Global View

So what does this trend say about the bigger picture of multinationals doing business in Asia and how executives can better position themselves as leaders? In China, the economy is quickly integrating into the rest of the global economy and, thus, the requirements for executives in China are changing as well. Executives need not only to be familiar with how business is conducted in China and know how to lead a growing company, but they also need to know how to manage a downturn. While China's economy is hot now, the next wave might be a downturn. An executive's success depends on what international exposure he or she has, as well as a global perspective.

Executives that take on leadership roles at multinational companies in both China or India have the opportunity to make a major impact. To give an example, one of the rare characteristics we find in developing nations, as opposed to a developed nation, is that people are used to working with meager resources. In the Western world we are so used to a plethora of resources that we tend to organize completely around functions. In India, executives are used to having divergent functions under them in an organization. It's not about being disorganized, but instead, this controlled chaos comes from understanding the lack of resources that they have at their disposal and how they need to leverage that to the maximum extent. This is why you find most Indian services firms having three to four times the amount of operating profit that their counterparts in the Western world. They stretch a dollar further than just about anybody you'll find. That is a rare attribute in management and you'll find that in people that understand the local culture and business customs. It makes them more attractive as candidates and, on the flip side, he or she will be able to make a faster, and perhaps, a more significant impact.