The recent US debt ceiling debate and subsequent downgrading of the US government’s credit rating by Standard & Poor’s roiled world financial markets and underscored the need for companies to nurture the kind of management talent that can respond to external shocks.

But the latest manufacturing survey by the leadership advisory and executive search firm Heidrick & Struggles shows that Asian manufacturers, which have underpinned the region’s export-led growth, are not as prepared as they should be for these kinds of shocks.

RECENT GLOBAL FINANCIAL volatility and disintegrating consumer loyalty are just two factors troubling Asia’s manufacturers. Add global supply chain disruptions caused by natural disasters and political uprisings and you become painfully aware that growth and prosperity depends on many factors beyond our control.

According to the latest Heidrick & Struggles Global Manufacturing Survey 2011, released in September, most manufacturing leaders spend less than 5 percent of their time creating risk mitigation strategies or recovery plans for external shocks, such as those that roiled world financial markets in the wake of the US debt ceiling debate and subsequent downgrading of the US government’s credit rating by Standard & Poor’s.

In this latest survey we covered 295 manufacturing leaders, including 23 percent from Asia-Pacific, 26 percent from North America and 24 percent from Western Europe. More than half of them have spent five years or more at their current companies. The leaders, ranging from chief executive officers, general managers and business unit heads to vice-presidents, senior vice-presidents, directors and other senior executives, cite complexity, competition and costs as their biggest challenges. They say they are worried about their organizations’ future and are working hard to maintain business advantages at great personal cost.
In our conversations with boards and chief executives, we are hearing that 55-hour workweeks are the norm at senior levels. Executives complain that they have little or no time for reflection and forward thinking. Yet one in every four executives who took part in our survey predicts that complexity will dramatically increase in their industry over the next year. Chief executives and other top leaders tell us that they are facing market conditions without precedent and with no obvious solutions, but few mentors or board members have the necessary experience to advise them.

Most executives do not view themselves as risk managers of the enterprise, but primarily as custodians of a profit and loss statement or as the chief spokesperson of an enterprise. They tend to leave the details of risk management to theiroperating leadership, their chief financial officer or even board committees. That will need to change.

Industrial leaders are also dealing with disruptive new technology such as revolutionary advances in 3D printing for manufacturing and new competitors from emerging markets, as well as unexpected competition from global players. Take smart grids as a case study. What used to be a unilateral play between energy and utility companies has become a wide-open field for companies such as Google, SAP, Vodafone and Accenture as they tap the wired and wireless possibilities from electric cables. To defend their futures, long-established incumbents suddenly have to learn the inner workings of potential partners and competing industries.

Manufacturing has become intensely global and competitive. Industry upstarts are challenging some of the world’s best companies on their own turf. Indian companies — Mahindra & Mahindra’s Farm Equipment Sector, HMT Tractors and Indo Farm — are successfully exporting small- to mid-sized tractors to the United States, long home to the world leaders in the sector. And this is just one of hundreds of examples.

DESERPERATELY SEEKING SKILLS

Companies from emerging markets such as India are less encumbered by legacy issues and heavy investment in aging equipment. Few have to worry about unions or state welfare schemes. As such, they are relatively nimble — and many are no longer just low-cost, unsophisticated producers. Traditional manufacturers have to urgently re-engineer how they think about their processes, operations, products and leadership, combining more right-brain creative thought processes with their engineering-gearied, left-brain mindsets.

Many feel under-resourced. Only half of our respondents say that they have the time to upgrade their skills along with the people and the necessary resources to execute their current jobs well. Many say their leadership actively works on succession planning, but only 39 percent say their organization could immediately name a permanent successor if they left. Attrition and retention, talent acquisition and sourcing and a widening skill gap are top of mind when it comes to their human capital challenges.

A sense of “being overwhelmed” among managers running teams at regional centers as far-flung as Karawang, Huanggu, Durango or Paso Fundo is blamed on the skills shortage, shorter product life cycles and fierce competition.

Not only must today’s business leaders be technically competent, they also need to be adept at managing cross-cultural teams, financial supervision, branding and marketing, supply chain management, creative thinking and even understanding how the convergence of industries may affect theirs. It is increasingly impossible for leaders single-handedly to hold the strings to complex manufacturing networks, where the lack of senior-level oversight in one area may unravel years of hard work. Some companies are even filling senior positions with two people with complementary skills, rather than just one person.

As the shoes of those who sit at the head table of manufacturing giants grow bigger, finding the right people to fill them is a growing challenge. How can manufacturers cope?

We are finding that companies are increasingly mandating international rather than regional searches for CEOs, COOs or CFOs. It is the age of the global executive, with candidates from mature markets up against new competition. Final line-ups in our shortlists today feature candidates not just from the US but also Belgium, Germany and Australia, and a global outlook is one of the top selection criteria. It must be said that demand is highest for candidates with “worked and lived in China” or “ran overseas operations” in their resumes. Without these, even the most experienced candidates fall off the list.

Today’s global executive candidates themselves are very different. They ask about the company’s balance sheet, strategy, vision, financial situation and board — not just about the number of plants, manufacturing processes and reporting structures. Companies must be prepared to engage these global candidates in more strategic conversations and offer a greater hand in their futures or risk losing their interest. What appeals most is the opportunity to drive renewal and transformation, and to leave their stamp on a company. Size doesn’t matter as much; they can be attractive to leadership positions in companies 20 times smaller than their current organizations if they believe they can drive strategic changes for the long term. Equity and attractive long-term incentive plans also appeal.

Manufacturers are also increasingly open to more diverse leadership pools. The global financial crisis has made people think smarter and more strategically about how to run their businesses and to focus on what makes them truly different from their competitors. It has also made them realize that they need leaders who can guide them through any economic cycle.

But bringing in new leaders has its challenges. In our experience, four in 10 newly appointed executives are no longer in their positions after 18 months. This occurs at a high cost and collateral damage to their employers, and is often more a question of cultural issues rather than leadership capability.

Manufacturing companies need fresh blood, but they must be open to integrating new leaders and their ideas with professional “on-boarding” programs to increase their “sticky-ness” — or ability to integrate into but also influence the company — and lessen disruption for existing staff. Getting on board is a case of sink or swim for new leaders, with the result too often being “sink.”
NEW CHIEF ROLES EMERGE
Part of the solution to the problem of managers feeling overwhelmed is a mix of different executive roles. For example, in our conversations with senior executives during the survey, they said the toughest challenge in building a sustainable growth platform was ensuring that all the working parts in complex systems work together harmoniously and synergistically.

Few organizations inherently have the incentives, processes, or, most importantly, the leadership to enable them to harness the full power of their internal assets and drive sustained success. Too many great ideas fail to translate into success. Instead, they succumb to organizational inertia, functional silos or lack of executive attention.

As a result, we’ve seen a dramatic increase in roles such as the chief commercial officer (CCO), who sits at the right hand of the CEO and whose sole job is to drive growth and ensure integrated commercial success. CCOs are basically tasked with driving the growth agendas of their organizations in a unified manner, whether through sales, product development, R&D, marketing or supply chain management. They are asked to answer questions such as, “How can we achieve 40 percent growth over the next three years?” “How should we be leveraging our commercial operations across the world?” “What should our reach into different customer-industry verticals look like?” “How do we unify independent P&Ls?”

Requests for us to place CCOs started as a stream back in 2008, and have since become a flood, particularly in the manufacturing sector. Private equity firms are currently sourcing for CCOs more frequently than publicly-traded companies, but this will change as the role gains more prominence.

Since the magnitude-9 earthquake in Japan on March 11 and the subsequent damage to the Fukushima Dai-ichi nuclear plant, another role has gained prominence — the chief sustainability officer (CSO). More and more businesses and facility owners are recognizing the strategic role of these environmental, health and safety (EHS) leaders.

Many manufacturers operating in developing markets experience situations where infrastructure, regulations and industry standards to foster EHS practices have yet to catch up with the speed of new plant-building. Reporting on environmental initiatives is particularly poor in resource-rich areas of Asia, including China, India, Indonesia and Malaysia, according to the 2010 Asian Sustainability Rating, a publication produced jointly by Responsible Research and CSR Asia.

None of the respondents in our survey chose “Natural disasters, safety or environmental issues” as a major theme for 2012-2015. Yet businesses in Asia are 25 times more likely to be hit by natural disasters than those in Europe or North America, according to the United Nations’ 2010 Asia-Pacific Disaster Report.

On a more positive note, achieving best-in-class EHS risk management means that companies can gain competitive advantages such as lower costs and the ability to enter new markets quickly without compliance problems. “For us, it’s about operational excellence,” says Andrew Antony, head of Environment, Health, Safety and Sustainability at Santos, a major Australian oil and gas company with interests in Asia-Pacific, the United States and the Middle East. “No incidents, no downtime, good productivity, good morale and meeting regulator and community expectations.”

SEEKING OUT PROJECT DIRECTORS
Another area of concern revealed in our survey is the need for project directors with strong leadership skills as well as technical know-how.

Such is the shortage that companies will need to focus strongly on “breeding” a new generation of these personnel. For example, the oil and gas industry will lose 5,000 experienced geoscientists and petroleum engineers by 2014, according to the 2010 Oil & Gas HR Benchmark survey by Schlumberger Business Consulting.

If Asian companies are investing in multi-year construction projects across multiple countries, or implementing a new supply chain management system, they will have started to realize that the projects have become so complex that no one person can master all the technical challenges.

The good news is that organizational models have evolved to help support projects and develop talent. Large projects are being divided into packages and smaller semi-autonomous tasks, for example, which not only increase individuals’ responsibilities but also help manage the risk associated with a project. Being given the opportunity to lead these tasks develops talent, and represents an opportunity for future project directors to experience the company’s standard processes and protocols. Project control or executive assistant positions are also a way to increase exposure to political, project and control complexity. Moving between functions and projects allows junior staff to cross-fertilize experience and expertise while mitigating company risk.

Training can be used at different stages of the project director’s career. In the early stages, the emphasis will be on technical skills such as finance, HR and law. Later, the focus is on leadership.

THE TALENT CHALLENGE
No matter which market we look at, we expect to see more waves of change on the talent management front. Companies will increasingly benchmark themselves with the best-in-class outside their industry sectors, even turning to consumer goods companies to identify ways they can become more competitive.

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