Managers at the Top

Leadership Challenges of Asian Companies

By Gerry Davis
The emergence of Asian companies on the global stage, competing with their counterparts in this region and elsewhere in the world in everything from the markets for commodities to consumer electronics, has exposed a new arena of competition: the battle for top management talent.

Executive search and leadership specialist Gerry Davis lays out the challenges Asian companies face.

A CRISIS IN THE business world is emerging in the Asia Pacific region that has nothing to do with the current global economic slowdown.

As the economies of India, China and the rest of the region blossom, multinational companies scramble for executive talent to meet the breakneck pace of change. Yet the floor is dropping beneath them: the post World War II “Baby Boomer” generation is retiring faster than the executive pool can be replaced. Shortages caused by the twin forces of demographics and economic expansion may not slow the pace of change, but they will cause increasing demand for transcultural and trans-generational diversity among executive teams. What is a novelty today will be a way of life tomorrow.

In a post-expatriate era, the biggest demand is for qualified and experienced local executives. Established multinational firms are now competing with rising Asian companies to find in-country executives who are able to straddle different ethnic and corporate cultures. These executives also need to know how to lead a workforce that spans five generations of people with widely diverging priorities and values.

The macro-economic picture is frightening. Within 10 years the oil needs of China and India alone will take the entire output of the Organization of Oil Exporting Countries (OPEC). China is estimated to need at least 75,000 business leaders in the next 10 years, but the present supply is fewer than 5,000. Multi-national executives say that barely 10 percent of local managers are qualified to work in their organizations.

Being a CEO these days is a risky business. Recent surveys show that the number of CEOs terminated due to poor performance is up 70 percent from 10 years ago. This, combined with retirements, has pushed the age of CEOs down to between 54 to 60 in Asia and 45-50 in Australia and New Zealand.

Very few 55-plus chief executives have global experience, though the 45-plus age group represents an increasing number of executives with the experience and education to take a more globally integrated view of business.

Former BHP Billiton boss Chip Goodyear says there is a “huge shortage” of executive talent available for global deployment — “and it’s not going to get any easier any time soon.”

Heidrick & Struggles, the executive leadership consulting company for which I work, conducted a series of interviews with chief executives and business experts across the region to find out what kind of challenges are facing companies in a globalized world.

The multinational companies we spoke with vary widely by size and industry: BHP Billiton, the world’s largest miner, which is headquartered in Melbourne and dual-listed on the London Stock Exchange, is a well-known global company. But smaller companies such as the hearing implant maker Cochlear and explosives supplier Orica are achieving global dominance in niche markets. New Zealand’s Fonterra and Sealord are expanding rapidly in the dairy and seafood sectors.

Out of Hong Kong, food and beverage producer Vitasoy has expanded into the United States,
In the short-term, the solution to the current and future shortage of top executive talent will come from increased waves of executive migration across countries of the Asia Pacific.

China, Europe, Australia, New Zealand and South America, and Lark International is active in clothing, dairy, property, multi-media, food and beverage and investments in North America and China.

At board level, globalizing companies are still reluctant to appoint foreign nationals who understand the markets they are seeking to win. For example, while only 30 percent of a Japanese motor company’s revenues may come from the domestic market, 13 of the 14 board members will be Japanese. Similar disparities are found in most globalizing companies. Experts say that such pre-globalization thinking does not allow new ideas and values to percolate at the board level and down through top management.

Most of the CEOs we spoke with were optimistic about the future, but emphasized that huge cultural challenges would face incoming executive teams.

As one chief executive said: “The thinking of executives will have to change at a greater pace than currently being exhibited. The new dogs will have to learn many more tricks than the old dogs.”

TALENT FISHED OUT AND EXPORTED
Why is the world’s most populated and prosperous region suffering from a shortage of skilled people? The major factor: Changing global demographics at a time of Asia Pacific economic expansion.

Experienced and qualified executives from Western countries are declining as Baby Boomers retire. The European Union fears — as do most developed economies — that the replacement workforce will not meet the needs of its aging population. By 2030, Japan will have only two working age people for each retired one. Europe is predicting a workforce deficit of up to 100 million people by 2010, while the United States is forecasting a deficit of between 25 million and 48 million.

Meanwhile, youthful populations are expanding in the Middle East. More than 50 percent of Saudi Arabia’s population of 13 million is under the age of 18. More than 65 percent of Iran’s well-educated youth are unemployed.

Across the Asia Pacific, the pool of top talent has simply been fished out. Much of the top tier local talent around the region has gone overseas and stayed there.

CEOs interviewed by Heidrick & Struggles say the era of expatriate or “parachutist” executives dropped into offshore markets is fast coming to a close, intensifying the demand for local executives.

In India, the competition for executives has pushed compensation packages towards parity with international peers. Mumbai-based India Infoline invested more than $US10 million in sign-on bonuses to get four executives from France’s Credit Lyonnais to help them set up their investment banking division.

Turnover of top executives can also be high, particularly in the information technology and consulting market. Companies are buying up competitors to acquire skill sets and expand market share.

SUSTAINABLE COMPETITIVE ADVANTAGE
The leadership challenges go beyond function-
al needs. According to Professor Christopher Bartlett of Harvard University’s Global Leadership Faculty, “those companies which are best at accessing the scarce resources of intellectual and human capital” will gain sustainable competitive advantage in a “flat earth” business era.

Bartlett has seen it all. A former marketing executive with Alcoa in Australia, a management consultant in McKinsey and Co. in London, and a general manager at Baxter Laboratories’ subsidiary company in France, Bartlett believes that the most critical attribute in a global executive is open-mindedness, or what he calls “the ability to see that differences in other cultures are strengths, not obstacles.”

Executives who are driving global strategies from head office must also be capable of developing strong leadership teams overseas, CEOs interviewed said. These teams must be infused with the corporate culture of the foreign arrival — and conversely, the globalizing company needs to understand the culture of its new market.

The executives of today’s Asia Pacific region must also celebrate cultural differences and have a keen eye to find and nurture emerging talent. Succession planning must be a top priority.

CULTURAL FLEXIBILITY AND CORPORATE TIGHTS
Infosys co-founder and co-chairman Nandan Nilekani tells us that he frequently brings large groups of western-trained executives to India in order to imbue them in the corporate culture before sending them into offshore markets. Infosys also fast-tracks potential executives, giving them experience in different overseas divisions.

Corporate cultural values are what former BlueScope CEO Kirby Adams calls “the cultural tights” — values that are non-negotiable.

“It doesn’t matter where we are, one of our tights is a certain safety culture and a certain environmental culture. Once you understand your tights you can customize your strategy for local markets and make sure your executives understand them.”

The Asia Pacific region’s expansion has boosted global prosperity. According to the International Monetary Fund, the region will account for 45 percent of world gross domestic product (GDP) by 2015, compared with 20 percent for the United States and 17 percent for Western Europe.

With this growth, some bold moves have been taken in the quest for new markets. Lenovo, which had not sold a single computer outside its home market of China until 2006, now has customers in 66 countries; it got one of the world’s best distribution systems in one fell swoop when it acquired IBM’s personal computer division and moved its headquarters to Raleigh, North Carolina.

Former Chief Financial Officer Mary Ma, who was involved in the negotiations with IBM, says of American William Amelio’s appointment as CEO of Lenovo: “We didn’t send a successful guy from China to head it up. We wanted to have the best people in the industry who understood the local market.”

Amelio previously served as president of Dell in Japan and the Asia Pacific region. Ma has since
moved on to the Texas Pacific group, where she is a Partner and Managing Director.

Ma says that one of the biggest difficulties for western executives working with their Chinese team is the cultural difference rather than language. “For example, differences in communication styles are to be expected. An oversimplification is that the western style is characterized by talking, understanding and listening. The Asian style starts with listening, understanding and then talking. Therefore, we strongly encouraged our staff in China to be more outspoken at meetings, so as to share their views and opinions. On the other hand, we encouraged our foreign staff to listen to their Chinese counterparts’ views at meetings.”

**THE MODERN GLOBAL EXECUTIVE**

Globalization expert Professor George Foster of Stanford University says that executives in companies that operate in two or three different continents need to possess a range of abilities and aptitudes that are often difficult to find in the talent pool.

Foster, who is director of the Executive Program for Growing Companies at Stanford’s Graduate School of Business, says that global executives need to:

- Enjoy dealing with different cultures — not just tolerate them.
- Have a global outlook.
- Enjoy ambiguity and management paradoxes, such as “change requires stability.”
- Have the ability to cope with the tensions that accompany a 24/7, globe-hopping job.

“If you’re operating in the United States, Australia or a time zone in Europe, then the clock never stops,” Foster says. “You need to develop a way of handling the job 24 hours a day. That’s not an easy thing for some executives who are used to being in total control all the time.”

Foster says that global executives need to delegate more — “and to have some pretty good rules in terms of what problems have to be surfaced right to the top and what problems should really be handled at the continental level or the country level.”

Many companies expanding offshore are aware of the talent shortage and are grooming leaders within their organizations. Leadership assessment and coaching is seen as increasingly important. There is no substitute for experience, and the pool of experienced executives is diminishing rapidly. Executives we interviewed were concerned about the looming shortage of skilled leaders and the availability of future executives and senior managers.

**TIME TO REPATRIATE EXPATRIATES**

The “expat era” is drawing to a close. Globalizing companies “need to dismiss the idea that the best inventions are at home and we’re going to parachute our own people with our own cultures and beliefs,” BHP Billiton’s Goodyear says.

Expatriates receive salary supplements and additional benefits, such as home leave, school tuition and a housing subsidy, which can cost a company at least double what a local executive would cost. Expat assignments are declining not only due to cost, but also because expatriates are not good mentors of local talent; they tend to leave little in the way of a legacy.

Fonterra CEO Andrew Ferrier says the company’s original business model was “to drop expats in all over the world.” There are still a reasonable number of New Zealanders in the dairy company’s global offices — “but certainly we have recognized that in the majority of the countries we’re in, that’s not a sustainable model,” he says.

Lark International’s David Tso says that many expatriates lack commitment. “They are highly paid, but not committed to the business or to the region. During my time with various companies I have had to fire several executives, including five managers, three directors and one chairman.”

Chief executives interviewed by Heidrick & Struggles emphasize that cross-border cultural understanding on the part of leaders in their offshore markets is a major factor dictating the pace of expansion. With the right leaders in place, they can gain competitive advantage. With the wrong team, companies can lose valu-
able time while rivals defend their turf and capture market share.

During our CEO talks, five themes emerged:
• **Establishing The Beachhead.** As companies establish their initial offshore presence in the host nation, they bring in executives from the home country to learn the vagaries of the new market.
• **The Challenge Of Cultural Differences.** Differences in national culture are evaluated and efforts are made to address them.
• **Local Talent For Local Operations.** Executives are brought on board from the host country as the company expands beyond the exploratory phase. Then the trick is to retain the smartest executives who learn quickly from the newcomer and thus increase their market value.
• **Exporting The Corporate Culture.** As the corporate culture is regarded as crucial to the company’s long-term success, efforts are made to instill the values into the new host nation executives.
• **Developing Global Leaders.** There is a pressing need for executives from both home and target countries to be given “global” experience in order to enhance the organization’s flexibility and competitiveness.

**ESTABLISHING THE BEACHHEAD**

Both Nandan Nilekani of Infosys and former BlueScope boss Kirby Adams say the key role for executives in global companies is to build a scaleable business model that will work in multiple countries and then convey that model to the teams in the host nations.

“Of course the executives must focus on building a brand, because as they go international they need to ensure the company has brand recall and brand awareness in the minds of customers as well as potential employees in the local market,” Nilekani says.

The first phase in offshore expansion is “very sales and marketing-oriented,” Adams says, and typically starts with a mix of expatriates and local executives from the building materials industry who are aware of the BlueScope Steel products. This then establishes a platform for further growth.

When working through a global strategy to be implemented in a different culture, the main quality needed by the executive is patience, Adams says. “It’s a real virtue — not one of mine normally! And it is a virtue you need in the Asian markets, which are more challenging than the Australian market. You need to protect your technology and know when to pull out, if necessary.”

Former Lenovo executive Mary Ma says the company sends Chinese people into markets in the United States, France and Singapore to help build the transactional model used successfully in China and to marry it with the relationship model that helped build IBM’s market share.

“But the Chinese do not act as leaders in those countries — we have locals at the top, who work with the team from China. And of course the Chinese learn a lot about how to do the business in foreign countries. There are benefits for both groups.”

Vitasoy CEO Ambrose Chan says that personal trust is crucial in the initial phase. When his soy milk company moved from its Hong Kong base into mainland China and Europe, it took many years and many millions of dollars to establish a beachhead.

“I have to say the number one importance for international expansion is people,” he says. “You
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have to get the right people at the top. The next thing is to find suitable partners locally to set up strategic alliances. They need to understand your brand values and have a commitment for the future.”

THE CHALLENGE OF CULTURAL DIFFERENCES
The major cultural difference between western and Chinese companies relates to authority.
“If there’s a debate in a Western company, the leader will often leave it to the managers to work it through,” Ma says. But in China the issue will be presented to the CEO who will make a final decision. If you come along and present the Chinese managers with an ambiguity they will feel very frustrated that the leader will not make a decision.”

BHP Billiton’s Goodyear says that resources companies are scouring the world for talent. “But if you think you can just hire someone and assume that they know your culture, your organization, their job responsibilities and how to work in a different culture or different environment, you’re kidding yourself.” He says the managerial and technical talent needed to run global businesses “will take many, many years to develop.”

Orica — a company that began as a 19th century explosives supplier to Australian goldfields — is now diversified in the mining, consumer products and chemical industries operating in 50 nations. The company built its far-ranging empire by learning to build a mix of nationalities and skills in offshore leadership teams.

CEO Graeme Liebelt says executives need to be sensitive to cultural differences. “It’s about mindset. A CEO or any international manager needs to understand that different cultures operate in different ways — that one culture is not ‘better or worse’ than any other culture,” he says. “The secret of success actually is to build on the strengths of those cultures and use them to reinforce the business strategy that you’re seeking to undertake.”

Liebelt gives the example of Australian executives working in South America.
“The Latin Americans quite like authority, but they are much stronger about relationships and so their culture is more energetic and excitable. In some ways you can spark off that to use it to reinforce creativity. But if you seek to impose on them in an unthinking way — which can often be the Australian way of operating — Latin Americans do not react well to that.”

He says that while Australians have a reputation as straightforward, “cut-to-the-chase” people, this approach does not work well in all cultures.
“We’re egalitarian, consultative and open to the point where people challenge authority. We will have the discussion but then we’re decisive. In Latin America, people love to be consulted and once you make a decision they will follow that decision to the best of their ability. In Scandinavia, there is a lot more work that needs to be done to get everybody on the same page. There is a much more democratic process of decision-making. Australians consult but they are not民主 in the process of making a decision. In Germany, they are very uncomfortable with how open and challenging of
authority we are. The decision-making is not very open and democratic. So the Scandinavians clash with the Germans for that reason."

**LOCAL TALENT FOR LOCAL OPERATIONS**

Infosys initially used Indian nationals in its international markets, Nandan Nilekani recalls.

“But over time we have tried to make our company more multi-cultural and today in many of the markets it’s a combination of Indian nationals and local employees. In many of the countries in which we operate, the head of the operation is a local person. In Australia we have a subsidiary, Infosys Australia, which came about through the merger with a local company — so it’s very much an Australian company with a mix of local Australian employees and Indian nationals.”

He says the aim is to have a local presence, local people and local culture and to combine the best of Infosys culture with the local culture and mores of the host country.

Ambrose Chan of Vitasoy says that local executives in local markets are important for an understanding of local laws and the consumer behavior of the target market.

Different parts of the business call for different approaches, according to Fonterra’s Andrew Ferrier. “In our pure trading business — ingredients trading — sometimes a Kiwi at the top works well. If you’re in our consumer product business and it’s about understanding consumer drives, consumer interests and so on in various different geographies, you need a huge number of locals.”

Ferrier says that while the China business is headed up by a New Zealander, immediately under him is a Hong Kong Chinese senior manager who speaks Cantonese and Mandarin, with several Mandarin-speaking Chinese in senior management roles.

Orica’s Liebelt says that “all things being equal, we try to get locals” and that in working out the competencies needed for executives, international experience is at the top of the list.

Orica has a Scandinavian at the head of its European business, an American running North America, and an Australian running Australia and Asia.

Chris Roberts, CEO of the hearing device company Cochlear, says locals work best — if you can get them. “You want a Frenchman to run France and you want a German to run Germany, you want a Swede to run Sweden and ideally an American to run America. But that’s not to say you can’t move people around a bit.”

He says the single biggest problem for executives in an international business “always was and always will be” communication.

“My approach is to have strong regional presidents in Asia-Pacific, Europe and the United States, but to make sure that they are really good at communication. If you have good communication at the top, you can force it down through the organization. But if you don’t have good communication at the top, you won’t get good communication through the organization very easily. Having said that, I’ve also seen that communication can be a problem between the 39th and 40th floor in a building.”

BlueScope’s Kirby Adams says its target country executives need to become part of the local business community, sometimes buying steel for its products from local companies rather than sourcing it from Australia. The executives need to build ties with universities, local architects and planning bodies.

“Good relationships with government officials can also be important,” Adams says. “In some countries, BlueScope has had to ask regulators to change building codes just to allow steel to be used in applications such as roofing.

BlueScope also has a policy of more than 90 percent local staff in its target country. BlueScope’s Kirby Adams says the challenge for his company as well as many others is to retain local executives once they are up to speed.

“In China, the competition for talent is fairly intense and people who have say five years experience with an Australian blue-chip like BlueScope can pretty easily lever that into a role with a multi-national. There’s a big demand now for Chinese who have experience in western corporate governance.”

**EXPORTING THE CORPORATE CULTURE**

Lenovo’s Ma says that turning around the under-
performing personal computer business bought from IBM has been possible only through executives in its overseas markets being able to implement Lenovo’s successful sales strategy.

“Lenovo adopts a dual business model approach which was developed and refined in China. Based on different customer needs and preferences in products, service, and buying channels, Lenovo first segmented customers into two types — relationship and transaction — and built complementary business models accordingly,” Ma says.

“The transaction business model is the hallmark of Lenovo’s success in China. It is a product-driven model that best serves customers who want to get the latest PC technology and be able to touch the product. This ‘push’ model satisfies a group of customers’ key and common requirements, usually small and medium-sized businesses and consumers. Product marketing is the key to driving sales in the transaction model.

“On the other hand, the relationship model is a customer-driven one based on customer uniqueness, satisfying the individual customer’s specific requirements. It is a ‘pull’ model that leverages Lenovo’s direct relationship with large enterprise customers by delivering stable technology and tailored configuration products.”

While employing host-country executives, Lenovo sends Chinese executives to help establish the business model, as well as to learn how to do business in different cultures.

Infosys’s Nilekani agrees that exporting the successful corporate culture is critical.

“We want somebody who can be a strong leader in the host countries, who can be the face of the company, who can be the ambassador and custodian of our values, who can really put the point of view of our business proposition across to customers. At the same time, we want somebody who understands the global Indian Infosys ethos, how it works, so that they bridge the two.

“If you’re managing a company which has a global footprint, diverse nationalities, diverse clients, diverse all over the place, the values of the company are really the bedrock — the glue which holds the firm together.”

Cochlear’s Roberts says the company bought a Swedish manufacturing business and serves it through a visiting Australian executive, whose primary role is to imbue the corporate culture into the local operation. “We wanted to keep it Swedish, but we wanted to make sure that they understood our culture.”

DEVELOPING GLOBAL LEADERS

David Tso of Lark International says the key to developing leaders in China is to spend time with them in order to mentor them out of their natural instinct not to challenge authority.

“Because I was born and raised in Taiwan and moved to Rochester in New York, I bring those kind of western concepts to our young tigers,” he says. “You walk with them, eat with them and chat with them in daily business so they can grow very fast. They learn your style and your thinking very quickly. You need to let them make mistakes and correct them afterwards.”
Referring to a previous stint with Kodak in China, Tso says that leadership talent is not lacking in Beijing or Shanghai, but due to the historic and cultural gap the potential executives tend to be followers.

“We have to encourage them to think and make decisions and take the initiative.”

Mary Ma says there are many “smart, excellent” Chinese executives — “and the thing that everyone needs to improve is communication, if they want to operate in a global market.”

Orica’s Liebelt says that for someone to reach the top in his company, they need to gain international experience — “not just so that they can learn the many different ways of operating in different cultures, but because it opens their minds to the differences they will encounter as they work with different cultures.”

The development of leaders starts with the selection process, Liebelt says.

Business is fundamentally a creative process — you can’t succeed without creating things that your customers want. So the trick for an international business like ours is to find and develop leaders who can draw on the strengths of the different cultures. We want executives who can communicate effectively in different places, to transfer what we know and love of America, for example, to Europe, and vice versa.

BHP Billiton’s Goodyear says there is no single solution to the problem.

“You need a sprinkling of all types of cultures and skills and talents so usually even in a new place, one size doesn’t fit all,” he says.

“Our goal is to identify good people early on, bring them out of the country where they grew up and went to school, and then get them to know the world and our company by working internationally.

“When we bring them back to their home country later on, they are indoctrinated with our culture and have new horizons — a global mindset.

“You need to identify executives or potential leaders who can work well with other people because of the diversity of our businesses. It’s difficult to find one person who can do everything, so we need people who can work in teams.

“You’re looking for functional excellence, as well as a capability to thrive on change. And then the ability to work across cultures,” Goodyear says.

For smaller multinationals such as Cochlear, the starting point is to engage executives who are self-starters. “While they need to be good strategic thinkers, they also need to be able to execute,” says CEO Roberts. “They need to have integrity, because if you have someone out the back of nowhere, you have to be able to trust them.”

WHAT’S THE ANSWER?

In the short-term, the solution to the current and future shortage of top executive talent will come from increased waves of executive migration across the countries of the Asia Pacific. As human capital needs expand, governments will respond to the demands of business for more liberal policies to encourage the movement of talent.

Companies will seek the best people from both developing nations and mature Asian
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economies. This will spark a compensation war as Asia-Pacific countries try to keep their locals from being poached by Western countries, and vice-versa.

At Heidrick & Struggles, we believe that companies will need to listen closely to the needs of their leadership talent — not just their compensation needs, but helping them develop a fulfilling career and lifestyle.

The best people are those who demonstrate flexibility, emotional intelligence and innovation. These leaders and potential leaders will be looking to their employers to display similar flexibility towards them in their career and life plans.

In our experience, chief executives in the Asia Pacific are already experiencing leadership pressures and are taking steps to lead robust talent management strategies. Those strategies include:

• Exposing executives to deeper levels of strategy-making and business planning in order to create exposure and development opportunities for them.
• Recognizing that their long-term career and life aspirations are inextricably linked and move to assist where possible.
• Rewarding top talent in more creative ways. For example, some banks are offering executives the choice of 75 percent of full pay for a year-long break after four years on the job to pursue other interests (write a book, start a business).
• Developing the management team to appreciate and respond to the emerging demands of leadership across the five generations that will be simultaneously employed by organizations to meet their needs over the next 10 years.
• Global leaders in a “flat” world need to be humble. They need to see cultural differences as building blocks of innovation and ideas from which their business can benefit.
• Asian leaders need to ask themselves what they can learn from Australian or European sustainability and environmental trends, and Western leaders need to approach Asian consumers as eager trend setters who can teach them more about their products than they can learn in their more mature home markets.
• The scarcest resource is inside the minds of the leaders of tomorrow — not just their knowledge and networks of business relationships, but the objectivity and flexibility of character that will enable them to seize opportunities in the uncertain future.

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Mary Ma: Former CFO, Lenovo, China
Ambrose Chan: CEO, Vitosoy, Hong Kong
David Tso: CEO, Lark International, Hong Kong
Chip Goodyear: Former CEO, BHP Billiton, Australia
Kirby Adams: Former CEO, BlueScope Steel, Australia
Dr Chris Roberts: CEO, Cochlear, Australia
Graeme Liebelt: CEO, Orica, Australia
Andrew Ferrier: CEO, Fonterra, New Zealand
Graham Stuart: CEO, Sealord, New Zealand

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