


2016 Asian  
Trailblazers Study  
Masters of Multitasking and Transformation



While Western multinationals have had a head start, Asian Trailblazers have been able to make up for lost time by being pragmatic and agile, prioritising what they need to know and do, selectively outsourcing when they don't have the experience or data, and by learning quickly on the job.

# 2016 Asian Trailblazers Study

## Masters of Multitasking and Transformation

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# Executive summary

In 2012, an event occurred that went largely unnoticed. For the first time, the percentage of Asia Pacific-headquartered companies in the *Fortune* Global 500 outnumbered those headquartered in Europe and North America. That year, 36% of companies in the *Fortune* Global 500 were headquartered in Asia Pacific. Of these 181 organisations, 69 were headquartered in Mainland China and 68 in Japan. This trend has continued unabated – in 2015, Asia Pacific-headquartered companies accounted for 40% of the *Fortune* Global 500, while European and North American firms account for only 30% and 28% respectively. Mainland China has grown even more dominant, accounting for 46% of the Asia Pacific market.

Noticing this seismic shift, in 2012 Willis Towers Watson conducted a study that focused on the accelerating globalisation of Asian multinationals. The term “Asian Trailblazers” was coined in recognition of these firms’ pioneering spirit and their determination to go beyond their local markets and successfully grow their businesses abroad. The study traced their global journey and examined the challenges and risks associated with “going global”. Some Asian Trailblazers are well-established firms and others are of very recent formation. Irrespective of size and maturity, they have all faced common challenges in managing cultural differences, putting in place an effective global governance framework, and accessing and retaining top talent both locally and abroad.

In this study, we seek to understand how Asian Trailblazers have achieved these high levels of success in such a short time period – especially given the risks associated with mergers and acquisitions (M&A) and other growth initiatives. With the exception of Japan and Australia, most Asia Pacific countries have had a lot of catching up to do, including in the critical area of human resources (HR). Because many European and North American multinationals (MNCs) have been operating globally for decades, most Western MNCs have the HR basics in place. The HR focus of Western MNCs is largely on generating efficiencies through improved HR systems and technology, leveraging global synergies and improving acquisition and post-acquisition skills and outcomes. How have Asian multinationals – often new to the game – been able to compete so well?

## Asian Trailblazers

are first-and second-tier Asian MNCs. The term “Asian Trailblazers” was coined in recognition of these firms’ pioneering spirit and their determination to go beyond their local markets and successfully grow their businesses abroad.

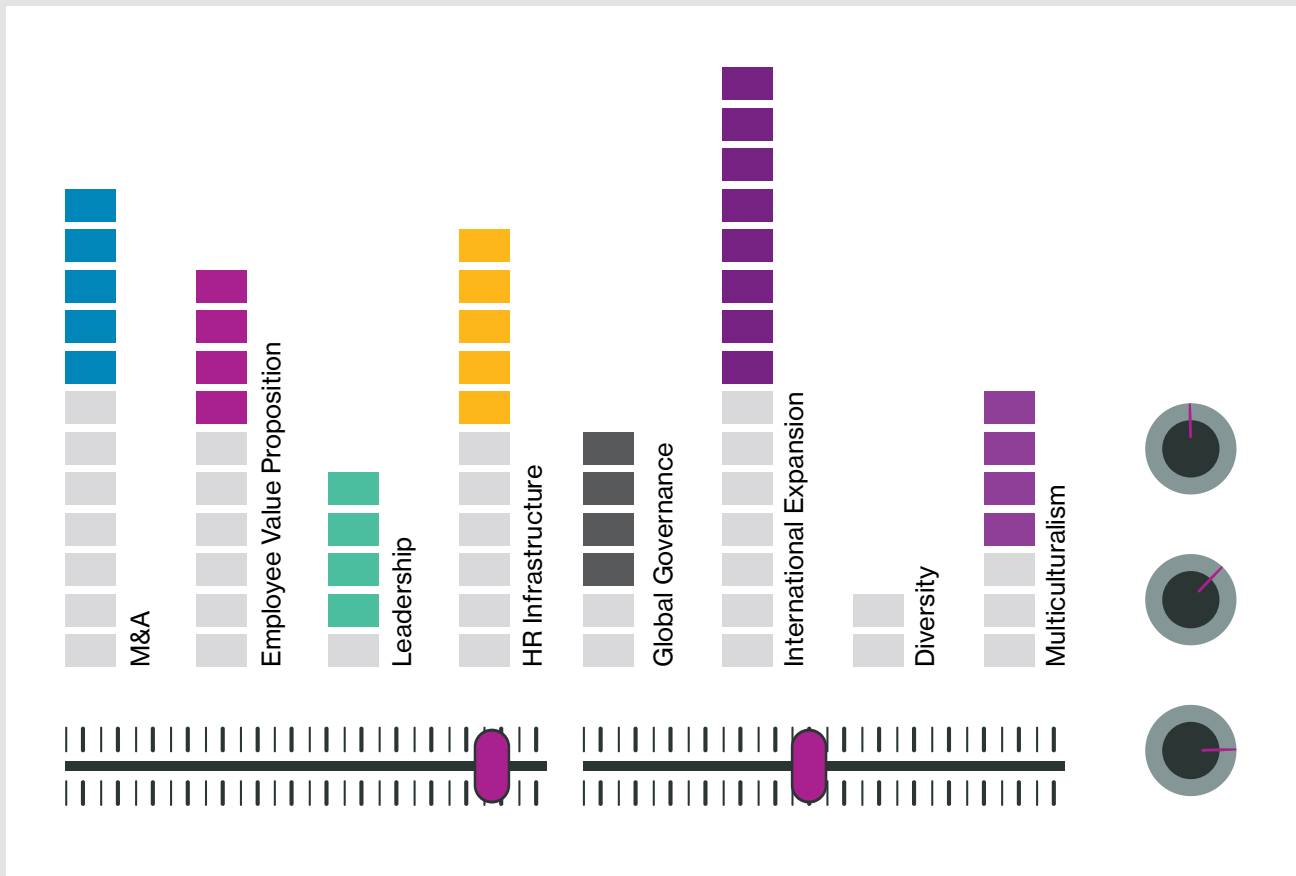


Asian HR departments tend to be lean and under-resourced, with Asian HR departments often playing a secondary role to finance and without a seat at the C-suite table. Basic information on country compliance and market trends, especially for new markets, is in short supply. The M&A bench often lacks global experience. While conducting our research, we were impressed by the way in which Asian MNCs have been able to make up for lost time by being pragmatic and agile, prioritising what they need to know and do, selectively outsourcing when they don’t have the experience or data, and by learning quickly on the job. Given limited resources, HR and other corporate functions have had to become “Masters of Multitasking”.

These Asian Trailblazers are still dealing with many of the HR basics, such as obtaining adequate and relevant compensation data for the countries in which they have overseas operations. But to be competitive with their Western peers, they have simultaneously needed to deal with more sophisticated issues, such as introducing cutting-edge HR technology, developing fully-fledged global governance frameworks, and everything in between.

*The evolving success story of the Asian Trailblazers is based on these firms’ agility, flexibility, pragmatism, and their ability to multitask.*

Figure 1. Asian Trailblazers are fine-tuning their strategy along several areas



Source: Willis Towers Watson Research and Innovation Center 2015

The evolving success story of the Asian Trailblazers is based on these firms' agility, flexibility, pragmatism, and their ability to multitask – *Figure 1* shows their multiple areas of focus. These firms do not necessarily mirror the evolution process of Western MNCs since they have not had the luxury of time or a linear evolution. While well-established U.S.- and Europe-headquartered MNCs have had at least two or more decades to develop internal structures and protocols that grew as they were expanding internationally, most Asian Trailblazers have had to catch up by leapfrogging, cutting corners and prioritising. To support this balancing act, they have become proficient at multitasking and developed key leaders within their main corporate functions, especially in HR, that are typically generalists rather than specialists.

Most Asian Trailblazers that have gone from being successful local companies to multinationals in a very short time have bridged their organisational shortcomings

through a multi-dimensional transformation. Willis Towers Watson's *2016 Asian Trailblazers: Masters of Multitasking and Transformation* study is, hence, less about the speed and acceleration of these firms' globalisation, but more about their ability to juggle multiple HR activities and initiatives at the same time. The key findings of this study relate to the Asian Trailblazers' gift as multitaskers and the strategies they have developed to simultaneously foster internal transformation and deal with external complexity and demands.

Figure 2. **Asian Trailblazers are focused on the following areas of transformation**



What have been their main challenges? This study identified six key areas of concern (see *Figure 2*):

- Globalisation strategy
- Global governance
- M&A
- Reprogramming cultural DNA
- Development of leadership
- Embracing diversity and inclusion.

While outbound M&A has increased significantly among Asian Trailblazers over the last five years, understanding and effectively managing national cultural differences is still the major M&A challenge. Asian MNCs have improved their due diligence processes, becoming more sophisticated and proficient in terms of deal pricing, financial risk identification and M&A deal execution – but they are still struggling with the timing and extent of post-merger integration (PMI). Given the cultural challenges, PMI is often delayed, sometimes indefinitely, making it difficult to generate the needed synergies and to retain key talent.

Asian Trailblazers have also realised that their very strongly rooted cultural DNA not only affects their outbound M&A performance, but also has a direct impact on their approach to developing leaders, managing succession, accessing talent – including internationally mobile talent – and governing a multinational enterprise. This has led to several Asian Trailblazers embarking on organisational transformations to specifically tackle these issues.

Some have started with modest changes, such as holding firm-wide leadership meetings outside of their headquarter country or implementing English as the firm’s language in all internal communications. Other firms have added a strong technology layer to their transformation, bringing various corporate functions up to speed at the same time, and encouraging internal cooperation through unified technology and information systems. Many Asian MNCs have started to explicitly deal with generational glass ceilings, top-bottom transfer of knowledge and multigenerational succession planning.

A large proportion of Asian Trailblazers have also had to deal with strong organisational inertia – resulting from family business legacies to state ownership dynamics – that has


shaped their global governance framework (or lack thereof). Further, while some Asian MNCs have started to include more foreigners and women in their C-suite, this remains the exception. Indeed most Asian Trailblazers still lack broad diversity and inclusion, and this has affected their ability to integrate and manage overseas units and retain key talent both at home and abroad.

Several fast growing Asian Trailblazers are behind in basic areas, such as maintaining and strategically using data on compensation and benefits, setting up shared service models for support functions in general, having regional or even global centres of excellence, or introducing process automation. In some ways, this constitutes an advantage. For instance, they are not setting up traditional brick-and-mortar call centres, instead choosing to bypass this earlier stage of HR development and avoid obsolete systems by switching directly to mobile technology-enabled ones. As a further example, in developing a more strategic role for HR, they have skipped several traditional elements of certain HR roles and kept the most sophisticated elements, such as workforce analytics or focusing on employee engagement and developing holistic wellness programs.

While in the West, most large firms have experts for specific areas, such as compensation and benefits, developing an employee value proposition, managing rewards or talent, or dealing with employee engagement, in many Asian MNCs there is often only one or two key people dealing with all HR aspects of the organisation at the same time.

Despite all these challenges and constraints, there is little doubt that Asian Trailblazers have succeeded beyond all expectation. Asian MNCs such as Lenovo, Samsung and Tata have joined the ranks of Sony and Toyota and are now global household names. The tide of Western dominance has turned.

This Willis Towers Watson study is based on over 50 interviews with our experts who have worked closely alongside some of the largest Asian headquartered MNCs, assisting them in their international expansion and/or helping them manage the business issues and risks that stem directly from their international growth/exposure. In addition, the study combines the insights of these interviews with proprietary Willis Towers Watson data from many of our global surveys. Besides reporting the analysis of information gathered through the methods above, the study also provides examples and case studies about successful Asian Trailblazers and the techniques they have developed to become true Masters of Multitasking and Transformation.



In developing a more strategic role for HR, Asian Trailblazers have skipped several traditional elements of certain HR roles, and kept more sophisticated ones such as workforce analytics or a focus on employee engagement.

# Masters of multitasking and transformation

There have been numerous headlines in the past five years about the speed with which Asian MNCs have become global players. Questions have been asked about their ability to sustain this pace of growth and whether these firms will be able to succeed as global enterprises over the long term. We go a step further and look at the strong trend of organisational transformation within the Asian Trailblazers. It captures the essence of their success story: **agility, flexibility, pragmatism and the ability to multitask.**

Emerging Asian MNCs have had neither the luxury of time nor linear evolution where organisations progress in a stepwise manner from one stage of globalisation to the next. While their Western peers had at least two decades or more to develop internal functions, structures and programs that enabled their international expansion, Asian Trailblazers have had to multitask their way to the top. When it comes to HR, they have had to cover a vast spectrum of activities simultaneously: **introducing basic**

Figure 3. Asian Trailblazers' juggling act ranges from basic to very sophisticated



Source: Willis Towers Watson Research and Innovation Center 2015



**structures and processes that Western MNCs have had in place for decades and yet at the same time implementing sophisticated technology and solutions that presuppose the existence of these basic structures and processes (Figure 3).** A clear example is the introduction of web-based HR portals and the latest HR technology, which usually relies on existing data and builds reporting for pre-existing performance measures and scorecards, while at the same time digitising or collecting data from scratch, designing measures or defining HR objectives.

Indeed, the most successful Asian MNCs have increased their appetite for sophistication, innovating their internal processes through the newest technology platforms and holistic global solutions, but simultaneously struggling with very basic issues such as international compliance, developing global grading systems or accessing consistent compensation and benefits data for the foreign countries in which they operate. This has forced them to become Masters of Multitasking.

The Trailblazers have nurtured a cadre of generalists that can manage multiple issues at the same time. They have started to address challenges resulting from national and deeply embedded internal organisational culture and rethink the way in which they interact with foreign subsidiaries. They are learning about communication management at the same time that they are developing new messages and trying to address cultural misalignments between units. Globalisation has forced these firms to transform internally while addressing the complexities of their external business environment.

Even though juggling multiple issues with different degrees of sophistication/complexity at the same time makes for a very intense transformation journey, it has its advantages: by fast-forwarding to the latest available HR technology and governance solutions, Trailblazers mostly avoid the inertia resulting from deeply entrenched and often obsolete processes and/or systems.

Asia Pacific is a very heterogeneous region, so not all Asian Trailblazers are evolving in the same way. For Japanese and Korean MNCs, the focus is on increasing efficiency, sustainability and fully realising the potential from previous acquisitions. These firms have been on a globalisation journey long enough to have the nuts and bolts in place, but need to overcome entrenched cultural ways of doing business that have limited their global success. Some of these changes include integrating foreign subsidiaries into a global governance framework, allowing foreign units to have HR programs and technology that are as developed as those in place at global headquarters, generating global job levelling structures across multiple countries and promoting more foreigners and women into senior leadership positions.

Other MNCs, such as those that are headquartered in China, are dealing with a mixed bag of often very basic issues and need to develop compatible internal structures both at home and overseas. Most Indian MNCs are adapting strong family-business legacy structures. Although basic systems and processes are already in place, younger generations of leaders – often educated overseas – are transforming inherited structures to ones that are scalable, work beyond Indian borders and are globally competitive. Many Southeast Asian MNCs also started as family-owned businesses, and are now dealing with second and third generation leaders that have different business training and ambitions from their predecessors.

Asia Pacific has the largest number of MNCs operating as conglomerates when compared to any other region in the world. In addition to being global, Asian Trailblazers seem to be much more comfortable than Western MNCs in managing companies that are structured around multiple industries and business models.

### Case study: Southeast Asian conglomerate

- This company has a highly entrepreneurial CEO and is known for its constant growth and strong brand in Asia.
- It is a highly vertically integrated business with many synergies across the very different business lines it has under its umbrella.
- Still, while it was among the first Asian companies to globalise in the 1980s, its initial expansion was not well organised.
- Around five years ago, the firm realised that power within the organisation was fragmented, with different regional leaders competing against each other in the same markets and often operating in constant “firefighting” mode.
- Global governance has since become a key priority for this Asian Trailblazer, which in 2014 started an internal consolidation and transformation journey to increase oversight and efficiency. This initiative has also enabled regional executives to work together as a team, to shift their attention to a more strategic level and to realise synergies.

# Why Now?

Why are Asian MNCs undertaking this type of multidimensional transformation at this time? There has been a deceleration of Asia Pacific's growth in the past five years. Especially in China, Hong Kong, India, Singapore and Taiwan, economic activity has slowed down enough to allow larger Asian MNCs to focus on internal consolidation. Despite the 2008 financial crisis, most Asian Trailblazers remained in a strong financial position, with large amounts of cash, but their M&A activity gained focus in comparison to the frenzied buying activity earlier in the decade. Shrinking markets at home, a global economic slowdown and increasing global competition have made synergies across business units and countries vital.

Hence, for MNCs from countries like India or China, the economic context has prompted them to reassess their internal organisation, seeking efficiency and synergies both between business units and within corporate functions. Japanese and South Korean firms, which have a longer globalisation tradition but used to cultivate a more insular business approach, have been forced to reassess their corporate culture to compete in a global playground with multiple new players.

While Asian Trailblazers do not follow Western MNCs' more linear growth path, some emulate the most innovative Western MNCs in certain respects. They are interested in what firms like General Electric, Apple or Google are doing to retain employees and drive sustainable growth, and have been smart and selective in choosing which strategies to adapt and what technologies to introduce. This has enabled them to become more sophisticated, scalable and sustainable.

Many Asian MNCs are still not fully organised as multinational companies, and continue to have a single country of origin structure. Even those from developed Asian countries such as Japan and South Korea tend to

still have a strong structure at their headquarters with multiple foreign units as rest-of-the-world satellites, and almost no overarching organisational structure in place. In the past decade, Asian Trailblazers across all countries in Asia Pacific have come a long way from a business growth perspective, but their organisational capability and HR infrastructure has not kept pace. It's only recently that these firms have started to focus on bringing key HR areas such as leadership development, succession planning, and post-merger integration up to par.

As a result, Asian MNCs are transforming their organisational design and processes, their talent management and rewards strategies, their technology deployment – and in many cases building them from scratch. They are also developing expertise in dealing with slower and more challenging economic and business times. While in the past having a well-developed HR infrastructure was not critical to success, with the costs of doing business going up in countries like China – to which Asian Trailblazers of all countries have a huge exposure – and Asian talent markets becoming more challenging, this area has gained in importance significantly.

Asian MNCs have had to rethink and change their image and brand among customers, foreign affiliates, talent and shareholders. A significant part of the success of this multidimensional transformation journey relies on a clear understanding of internal power distribution, internal politics and both formal and informal decision-making processes. Southeast Asian and Indian MNCs have strong informal decision channels, as family legacy plays a more important role in these organisations, with key stakeholders catalysing or blocking change. Japanese MNCs on the other hand have rigid but formal hierarchical structures, which make transformation journeys more explicit, but also slower.

# The globalisation lifecycle in Asia

Figure 4. The stages of an organisation's globalisation lifecycle

<b>Exporting</b>	Has no subsidiaries abroad Accesses foreign markets through exports only
<b>Initial Expansion</b>	Few foreign subsidiaries Few employees abroad
<b>Multi-Domestic</b>	Significant international presence Subsidiaries not inter-connected and managed mainly locally
<b>Multinational</b>	Global corporate structures, information systems and programs Consistency of programs at least for senior levels
<b>Global</b>	Holistic global governance framework Functions and communicates as one-firm across the globe

## The key business issues along the globalisation lifecycle

Exporting	Initial Expansion	Multi-Domestic	Multinational	Global
<ul style="list-style-type: none"> <li>Local hire support</li> <li>Small local sales force</li> <li>Limited number of expatriates, if at all</li> <li>Limited HR issues</li> <li>Understanding local market and demand drivers</li> </ul>	<ul style="list-style-type: none"> <li>Basic HR and doing business "how to" issues</li> <li>Understanding and attracting foreign talent</li> <li>Compliance</li> <li>Local policies and programs</li> <li>HRIS applications (i.e., basic administration and communication with HQ)</li> <li>Expatriate programs</li> </ul>	<ul style="list-style-type: none"> <li>More complex, economic "how to" issues</li> <li>M&amp;A "how to" issues</li> <li>Market-driven benchmarking and programs</li> <li>Cost management</li> <li>Performance management</li> <li>Executive programs for key local talent</li> </ul>	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Global HR framework</li> <li>Global programs</li> <li>Shared services and cost efficiency</li> <li>Rationalisation/harmonisation</li> <li>Effective HR management</li> <li>Staffing and retention of foreign talent</li> <li>M&amp;A processes optimisation</li> <li>Reorganisation/change management</li> </ul>	<ul style="list-style-type: none"> <li>Global synergies and portfolio consolidation</li> <li>Global leadership</li> <li>Global team building</li> <li>Global systems</li> <li>Multiculturalism and global corporate culture</li> <li>"One firm" communications</li> <li>Performance and change management</li> <li>Staffing and retention of global talent</li> <li>M&amp;A consolidation</li> </ul>

Source: Willis Towers Watson Research and Innovation Center 2015

There are three key aspects to the definition of a firm's globalisation process. First, it presupposes undergoing a change spatially, that is, physically or geographically expanding. Second, that spatial change has to have a direct impact in the way in which the firm organises itself. Thirdly, the resulting reorganisation is transactional, as it affects relationships: the interaction between people, between business units and between business segments. While the process of globalising implies expanding into other parts of the world, there is a big difference between expanding abroad and being a global firm. In order to be truly "global", companies undertake a more or less linear journey, transitioning through five stages of a globalisation lifecycle, as illustrated in *Figure 4*.

Global firms are characterised by having:

- A significant stake of the business in at least three different geographic regions,
- A high level of interconnectedness among economic, financial, human resources, sales and communication processes across those regions, and
- A global governance framework that fosters integration, monitors those interactions and generates synergies. A global company is hence more than the sum of its parts.

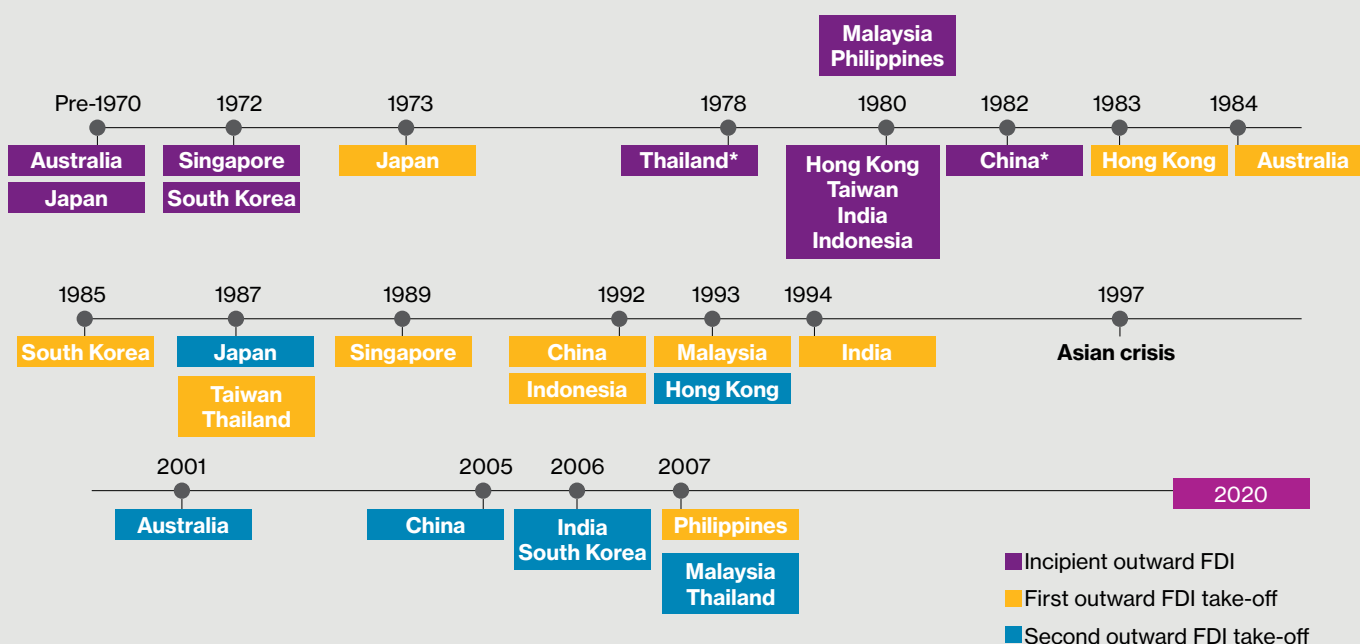
Clearly, not all firms that venture beyond their borders do so with the aim of becoming global firms. Some may decide to stay at a multi-domestic stage and manage different units in different countries as almost independent firms and units. Others have stayed at the multinational level for decades. But most importantly, while the above lifecycle describes the natural evolution of most consolidated multinational and global companies, it does not imply that firms have to transition sequentially through each of these five stages. Indeed, this study describes how many Asian Trailblazers are skipping some of these stages and leapfrogging forward.

### Asian MNCs: the globalisation journey

There is no doubt that Asian companies have become global players. Asia's most mature and globalised economies, like Japan, Korea or Singapore, have had global multinationals for decades, Toyota and Samsung being two of the most prominent examples. But even in markets that only opened in the 90s, firms have been able to rocket to the top of the *Fortune 500* or *Forbes 2000* lists.

Data on outward Foreign Direct Investment (FDI) from Asia Pacific shows us that countries in the region, except for Australia and Japan, which started their globalisation earlier than the 1970s, have a first opening stage and then a second inflection point in which their outward FDI increases at a significantly higher pace (*Figure 5*).

Figure 5. **Timeline of Asia Pacific economies' globalisation**

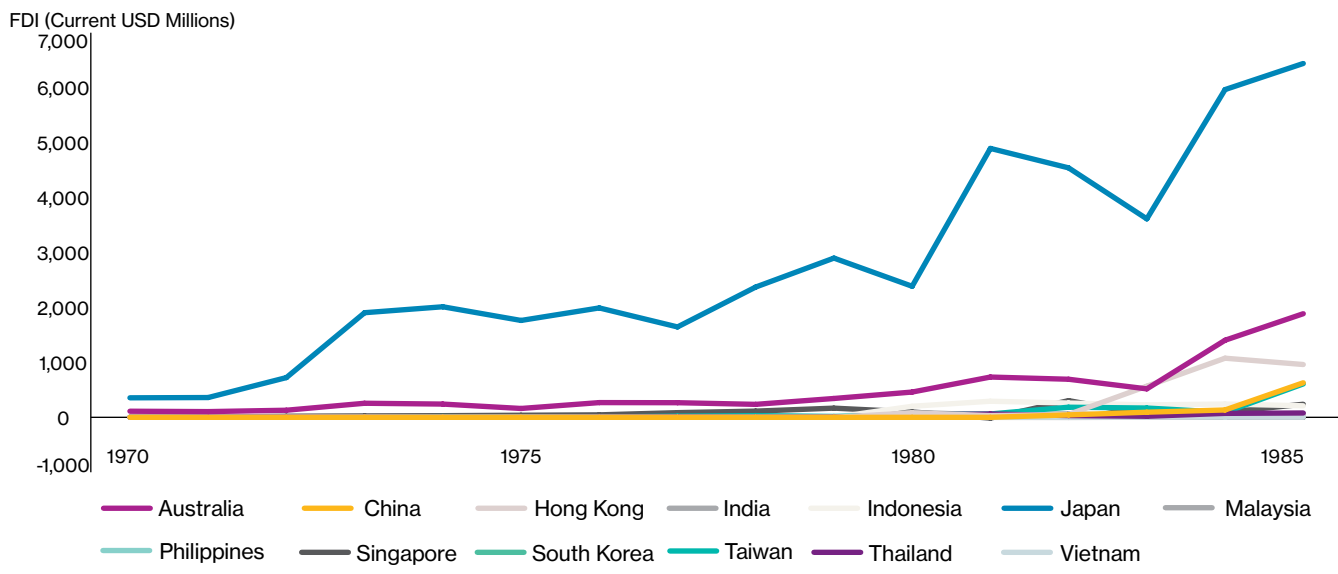


\*Year of market reform or first open trade agreement. Very little to almost no outward FDI.

Source: Willis Towers Watson Research and Innovation Center 2015

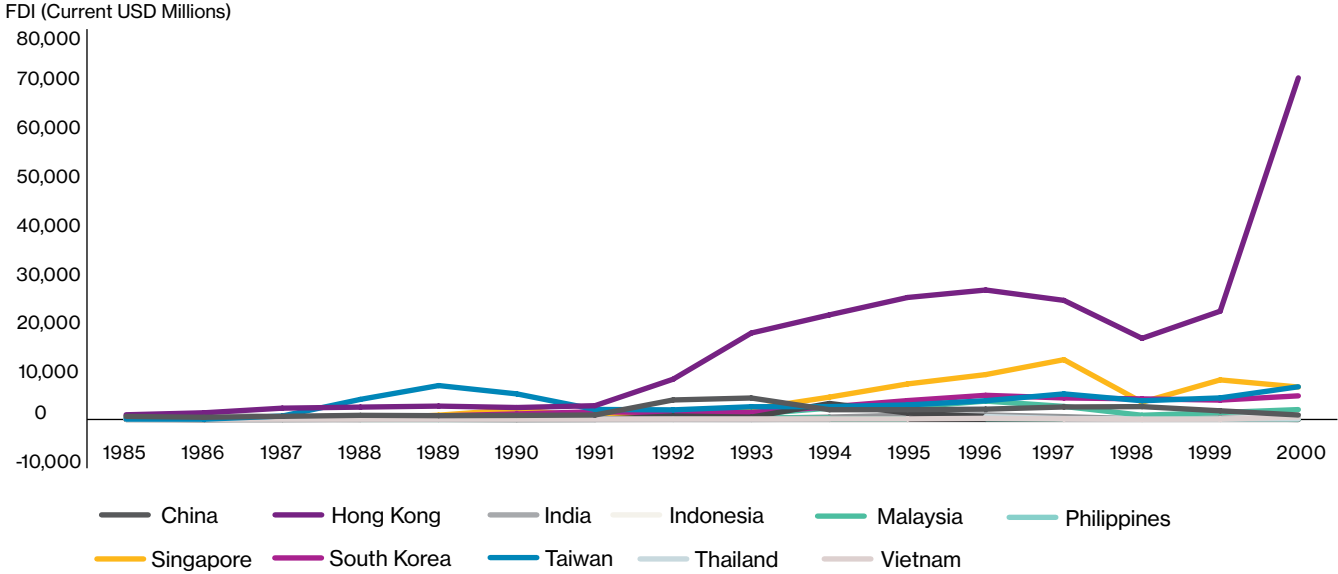
Note: Based on the evolution of outward FDI flows, using data from United Nations Conference on Trade and Development (UNCTAD)

Figure 6. **First wave of Asia Pacific outward FDI (current USD millions) – 1970 to 1985**



Source: United Nations Conference on Trade and Development (UNCTAD)

Figure 7. **Second wave of Asia Pacific outward FD (current USD millions) – 1985 to 2000**

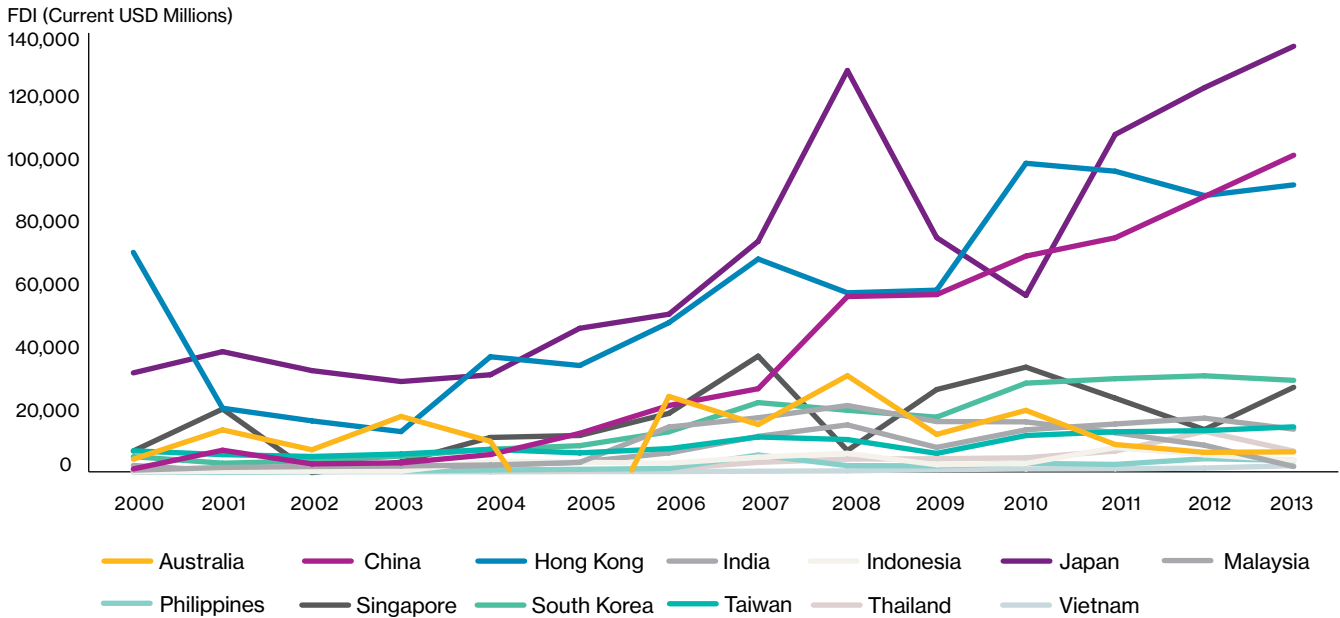


Source: United Nations Conference on Trade and Development (UNCTAD)  
 Note: Australia and Japan have been excluded as their magnitude of outward FDI would prevent observing the development of FDI in other countries within the same scale.

Japanese and Australian firms are the protagonists of the first wave of Asia Pacific expansion, between 1970 and 1985 (Figure 6). During the second wave, Singapore, Hong Kong, Taiwan and South Korea became very acquisitive in foreign markets (Figure 7). Both China and Malaysia also started to increase their investments abroad in the second

half of this period. During the third wave, taking place in the past 15 years, almost every major country in Asia Pacific took off in its acquisitions and investments abroad, but some, like China, were able to catch up on the main players (Japan and Hong Kong) while others, like India, lost steam after the 2008 crisis (Figure 8).

Figure 8. **Third wave of Asia Pacific outward FDI (current USD millions) – 2000 to 2013**



Source: United Nations Conference on Trade and Development (UNCTAD)

Figure 9. **FDI outflows by region (USD millions)**

	2004 – 2010	2010 – 2014	2004 – 2014
Asia Pacific	18.9%	10.3%	15.4%
Europe	6.9%	-13.6%	-1.8%
North America	-1.3%	5.7%	1.4%
Africa	18.3%	9.0%	14.5%
Latin America	17.2%	-16.0%	2.6%

Source: United Nations Conference on Trade and Development (UNCTAD)

In total, the value of outward FDI from Asia Pacific has increased at an average growth rate of 15.4% per year in the past 10 years (Figure 9). While the main increase took place during the 2004-2010 period (18.9% of annual average growth), it still accounted for 10.3% per year in the 2010-2014 period, a higher growth rate than other regions experienced. Given Asian countries experienced astonishing GDP growth levels in the last decade, it is hardly surprising that their investments abroad were large as well.

Of course, a country or region's GDP growth does not automatically cause its largest companies to become global firms. Asian Trailblazers have not only increased their stance abroad, and grown at home, but they also learned how to become leading global players. Indeed, there were 198 Asia Pacific headquartered firms in the 2015 *Fortune* Global 500, while only 148 firms from Europe and Middle East and 141 from North America made the ranking (Figure 10).

The number of largest global companies from Asia Pacific has been increasing steadily since 2005, while companies from Europe or the U.S. have fallen in the same period. The increase in the number of Chinese firms is particularly interesting: Almost half of the Asian companies in the 2015 *Fortune* Global 500 list are Chinese, while in 2005 they accounted for only 13% (Figure 11).

Similar trends can be observed in the ranks of the *Forbes* Global 2000: There, Asian Trailblazers account for 35% of the list, while North American and Europe cover 32% and 24% respectively. Moreover, this year, for the first time, the first four ranked companies in the 2015 *Forbes* Global 2000 are headquartered in China: ICBC, China Construction Bank, Agricultural Bank of China and the Bank of China.

The growth of these firms has not been merely financial. While in 2004, Asian companies among the top 100 non-financial MNCs from emerging economies ranked by the United Nations Conference on Trade and Development (UNCTAD) had more than half of their employees in their home country, by 2014 these same firms had 55% of their workforce abroad.

### Asian Trailblazers in the past five years: here comes the multitasking

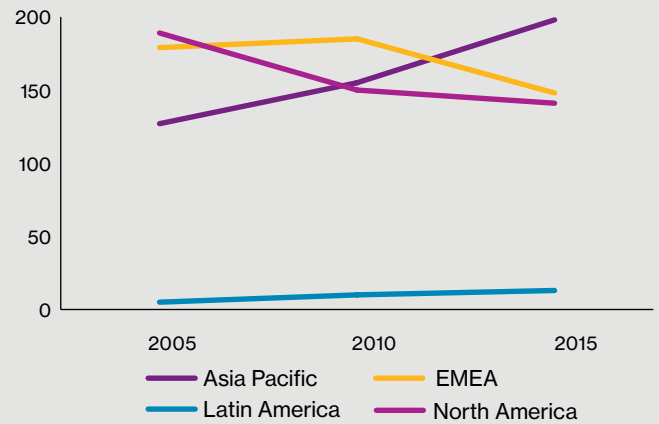
One of the central aspects of the Asian Trailblazers' journey is that, in order to sustain growth, they had to evolve internally at a very high speed. Our 2012 Asian Trailblazers study found that they had well-defined globalisation strategies based on a clear rationale and goals. The current study finds that this is still true for the largest players in Asia Pacific, but that second- and third-tier<sup>1</sup> Asian firms have also increasingly started to go global and are becoming more savvy. They all share the same drivers to go abroad, which is a mixture of stagnating markets at home and the perception that growth and risk diversification can only come through having a global footprint.

In 2012, our study found that Asian MNCs traditionally preferred using Greenfield investments and joint ventures (JVs) to expand internationally. It also expected a significant increase in Asian Trailblazers' M&A activity. The past three years have lived up to those expectations, showing a significant increase in the amount of outbound Asia Pacific M&A.

Our current study finds that the nature of challenges Asian Trailblazers face in M&A transactions has changed. While three years ago due diligence processes, financial and regulatory aspects of deals and overpaying were among the main worries, today Asian MNCs see the softer people

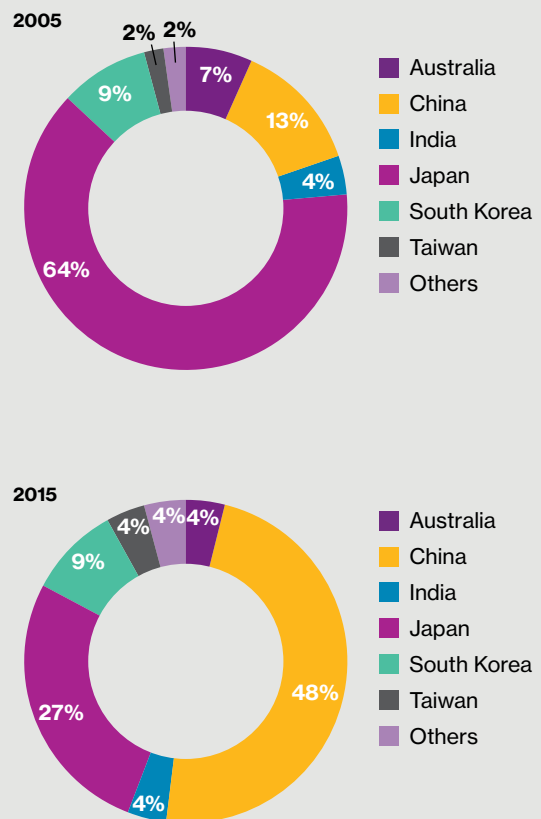
<sup>1</sup>Tiers are defined according to size (revenue) and age (year of establishment).

Figure 10. Companies in *Fortune* Global 500 (Number of companies by region)



Source: 2015 *Fortune* Global 500

Figure 11. Asian companies in *Fortune* Global 500 (Number of companies by country, 2005 – 2015)



Source: 2005 and 2015 *Fortune* Global 500

## Inside the data

2012	2015
Not enough focus on global governance of compensation and benefits	Stronger focus on global governance across all corporate functions
Weak governance of employee benefits and compensation	First-tier Asian MNCs from emerging markets are stronger in this area, while those in Japan and South Korea are still struggling
More than a third of the respondents controlled their compensation and benefits programs centrally	While 47% of Asian Trailblazers administer most HR programs centrally or with shared corporate control, among Asian MNCs from developed AP countries the proportion is still only 19%
<b>Developing cultural understanding of the markets and countries they are entering remains a challenge for experienced and inexperienced Asian MNCs alike</b>	
70% of the respondents are likely to engage in multi-country M&A activity in the future	60% of the respondents are likely to engage in multi-country M&A activity in the future
77% of the respondents hire internationally mobile employees for senior positions	Only 38% consider that employees need to be internationally mobile to reach senior positions

aspects of deals, such as post-merger integration, dealing with organisational and cultural clashes and achieving synergies as the main challenges.

Further, global governance and the lack of experience in globalisation were among the top three globalisation challenges for Asian companies in 2012. While global governance remains an area of focus in 2015 among all Asian Trailblazers, it is mainly second-tier companies that still feel inexperienced in their expansion.

What has changed then in the past five years? Asian Trailblazers have accelerated their pace in a multidimensional transformation. **They are leapfrogging not only geographically, but also in their organisational evolution. To do so, they became proficient multitaskers.**

Concerning HR, the most successful Asian Trailblazers are going from an almost non-existent job architecture framework and no global grading system for their employees to a fully-fledged global governance framework. At the same time, they have less developed internal structures, which requires HR functions to develop generalists who are able to juggle multiple areas and demands at the same time, including Employee Value Proposition (EVP) and total rewards, communication and post-merger integration, developing leaders and putting in place succession plans, assessing foreign talent pools and understanding foreign workforce engagement drivers, designing global compensation and benefit programs and understanding local compensation and benefit

requirements. Several of these HR departments have gone from being excluded from strategic decisions, to being needed every step of the way in dealing with international expansion.

Given the non-linear character of Asian Trailblazers' evolution as organisations, these companies are relying on a mix of process and organisational innovation, as well as on external expertise and lessons derived from what their Western counterparts have learned over the past 50 years.

## Western MNCs and their more linear globalisation journey

Multinational companies from North America and Europe had a globalisation journey that started in a far less interconnected, complex and accelerated world. Their globalisation can be explained through two core internationalisation models, Dunning's OLI Theory and the Uppsala model. According to OLI, three factors motivate MNCs to globalise: Ownership advantages, location advantages and internationalisation advantages. These firms started to go international to leverage intangibles abroad, such as their brand or their technology. They needed cheaper locations to reduce costs. They needed faster growing markets. Following the Uppsala model, Western MNCs globalised in incremental steps, starting with small ventures in neighbouring countries and then gradually increasing the size and risk of their foreign investments, as well as the distance – both geographic and cultural – between home and host country.



At the same time, these firms gradually evolved in their organisational models, built efficiency measures and comprehensive HR databases, developed new frameworks to manage talent and experimented with global governance approaches. Their corporate functions became more structured and specialised over time, and they gradually developed models, data and technology. Most Western MNCs had a smooth and linear progression towards globalisation in a less complex world and with a less accelerated process.

Some of the largest Japanese and South Korean MNCs had a similarly gradual evolution, but most Asian Trailblazers (mainly those from emerging Asia Pacific countries) had ownership disadvantages – no brand, less technology, for instance. They had no need for lower-cost locations, nor for more dynamic markets (see *Figure 12*, page 16 for motives for international expansion). In addition, they leapfrogged geographically and went for large, risky and complex foreign investments in countries that were very distant both geographically and culturally. They had less time to experiment and were bolder in their globalisation approach. In addition, in the past five years, mainly due to the 2008 financial crisis, multiple interesting M&A opportunities materialised, and Asian MNCs had the cash to seize them. In essence, Asian MNCs defied both the OLI and Uppsala models.

Traditional, large Western MNCs did not have to become multitaskers because they had the luxury of time. Asian MNCs decided to pursue a global position jumping right in, irrespective of how developed their organisational structure and corporate functions were and how expert they were in managing a global enterprise.

## Lessons learned

Lessons learned from Western MNCs include:

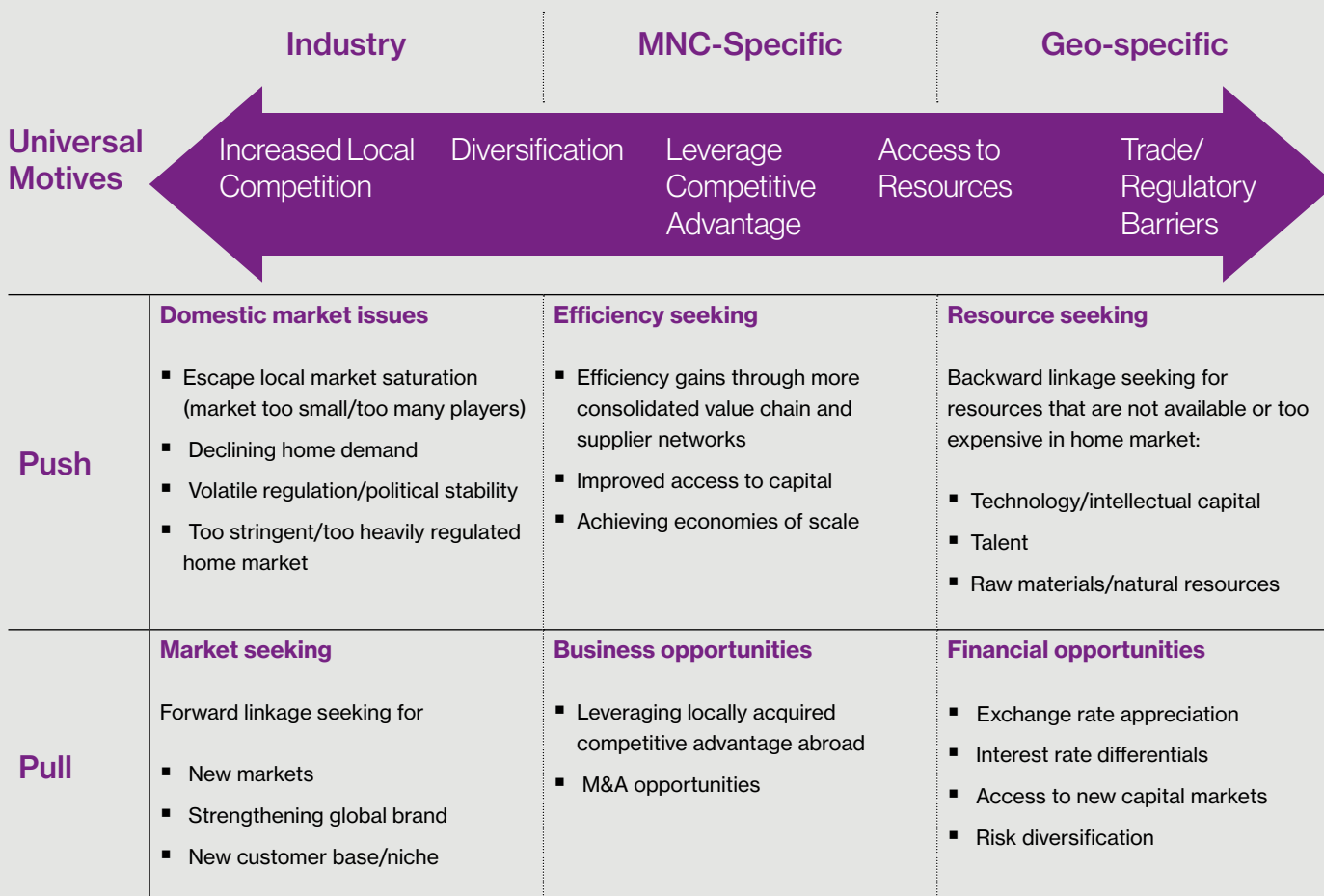
- **Global Governance:** Global firms may have very different approaches to global governance, but all have something in common: they typically have some form of global governance model in place that allows for a certain amount of systems complexity.
- **M&A:** Less opportunistic and more strategic acquisitions with clear synergy goals, a strategic fit and carefully thought-through post-merger integration phases. Delayed PMIs are too costly and too risky and in most cases leave the acquirer with an empty shell.
- **Data has a strategic value:** With the current data overload, there is little value to buying or building immense databases, without understanding how to make strategic use of the data.
- **Global mobility programs:** Soft issues, such as cultural clashes or the impact on the expat's family, matter as much as compensation and benefits packages. Mobility must be rewarded and explicitly integrated into career development programs.

# Globalisation strategies

To transition along the globalisation lifecycle, MNCs have to visualise their organisation in a future state, where not only their global footprint will have changed, but also the way in which the company allocates power and communicates internally. In addition, the company's external web of relationships will also have changed. Firms that do not envisage a transformation along all three dimensions – geographic footprint, internal organisation, external network – usually find themselves struggling with inefficiencies and friction or even with significant financial or human capital losses once the consequences of their globalisation journey start to sink in.

Given that the motivation for international expansion varies among MNCs (Figure 12), so do the markets they select to enter and the mode of entry they choose. According to our 2014 Global Talent Management and Rewards Study, 88% of Asian MNCs will focus on more international expansion in the next three years, while a slightly smaller percentage of Western firms (84%) say the same. The share of Asian Trailblazers seeking product expansion (93%) and looking to offshore/outsource overseas (48%) is larger than the share of their Western counterparts planning to pursue those activities in the next three years (84% and 31% respectively). Another interesting difference is that Asian Trailblazers are less focused on reducing expenses through expansion than non-Asian MNCs.

Figure 12. Motives for international expansion



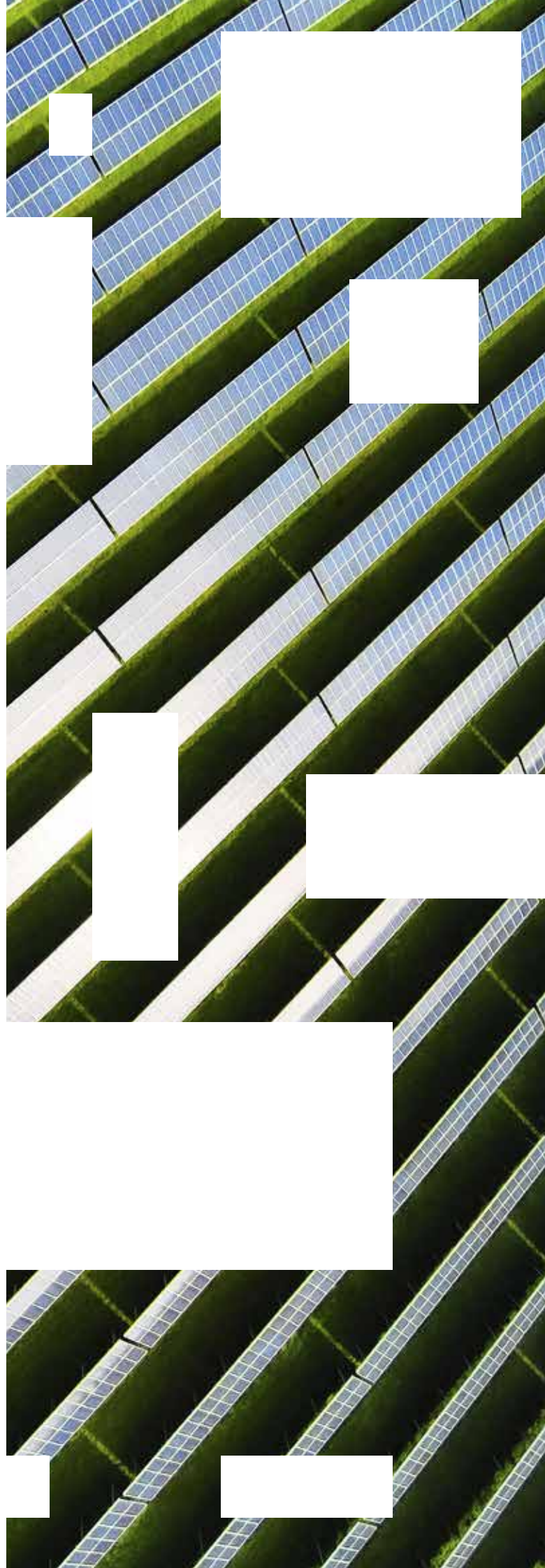
Source: Willis Towers Watson Research and Innovation Center 2015

The main reasons why Asian firms are expanding internationally are push reasons (*Figure 12*, page 16). Some countries, such as Japan, have had stagnating home markets for decades, while other large dynamic markets, such as China, have changed in their composition, tastes and segmentation. New consumers in China are demanding Western brands. Emerging middle classes in India expect higher quality products. Mass markets in Southeast Asia require partnerships and more sophisticated distribution channels.

In addition, even for traditional low-cost locations, labour and capital are becoming more expensive in some of these firms' home countries. Economic growth is slowing down at different rates in booming markets such as India and China, and Asian MNCs also face intensified competition in both local and global markets from Western and other regions' emerging MNCs.

As depicted in *Figure 4* (see page 9), the first stage of a firm's globalisation journey is becoming an **Exporter**. It seems a rather simple step, but it implies building an international network (usually from scratch), interacting with distribution channels in other countries, and globalising products and services, adapting them so that they can be sold abroad. This stage presents limited HR issues (if at all) and those issues are typically restricted to hiring local sales support or sending some expatriates to help. The first three tiers of Asian Trailblazers are past this stage and several new players in the international arena have skipped this stage altogether, directly establishing a physical operation outside of the home country.

During the stage of **Initial Expansion**, firms start to have a stronger presence in their subsidiaries abroad and "how to" issues around managing talent across locations start to emerge. For example, how to design expatriate programs, how to define and implement local policies and programs, how to introduce HR information systems, how to deal with basic administration and communication with HQ and how to make sure there is compliance within foreign units. This is the current stage of most third-tier Asian MNCs. These are smaller, often family-run businesses, which started out by building a small presence in one or two neighbouring countries. Further, in the next five years, many more small and medium-sized firms can be expected to start their initial expansion. The level of entrepreneurship in countries such as India and China is very high, and even more so among younger generations. Both markets have invested significantly in innovation, which is enabling these start-ups to achieve scale and go beyond borders right from the beginning.



In the next globalisation stage, **Multi-domestic** companies usually rediscover economic “how-to” issues. They introduce market-driven programs and they look at cost-efficiency and introduce cost and performance management processes. This is also usually when executive programs for key talent are put in place. In this stage, firms start conducting outbound M&A, and need to professionalise their due diligence processes and how they manage acquisitions. The collection of or access to data on compensation and benefits for benchmarking becomes a priority. While there is some professionalisation of individual country units, these units behave much like independent firms and there is little alignment or collaboration between them.

This stage is where many Asian MNCs get comfortable. Many emerging Asian MNCs skipped the previous two stages and established a global geographical presence too quickly, without developing a global governance framework that enabled them to transform a multi-country operation into one consolidated firm. Most MNCs in Japan and South Korea manage their firms as a multi-domestic giant, but mainly due to their strong national culture. Some of these large firms have developed very sophisticated HR systems at headquarters, but keep their rest-of-the-world operations almost as independent satellites with basic local corporate functions.

**Multinational** firms are much more integrated than multi-domestic ones, with a higher degree of sophistication in the interaction among units and in their corporate functions' processes. In this stage, firms focus more on staffing, retention, and effective HR management; they develop a global HR framework and global programs; they introduce shared services and develop corporate governance principles. Global mobility programs and global succession planning become more relevant. Usually the process of becoming multinational also implies rationalisation, harmonisation and significant reorganisation of processes, so that firms have to professionalise in areas such as change management, change communication, strategic use of HR data and information systems.

With respect to M&A, multinational firms not only have to focus on strong due diligence, but also on timely and adequate post-merger integration. In this stage, there is usually a push towards more HQ centralisation.

Firms that become truly **Global** take most of the previous tools and processes to the next level. There is more focus on achieving global synergies, on working as one large, integrated organisation, on having “one-firm” communications. Talent management and leadership development strategies are defined on a global basis

and entail more “soft” aspects: multiculturalism, cultural sensitivity, fluent English skills, mobility, and having a global mindset become key development aspects. Global data is not only collected but also used strategically. The companies in this stage establish a global leadership team and put global systems in place. Global systems not only encompass global programs, but also mirror a global governance framework. Firms develop and articulate a clear understanding of their global identity in this stage, to be able to find the right global governance framework – one that matches their business strategy and reflects their global vision and values.

While several Asian Trailblazers can be considered truly global according to the above definition, over 80% of Asian firms with some degree of global footprint are still far from this globally coherent stage. Nevertheless, an increasing number of Asian MNCs are in the process of becoming truly global and have developed strategies to get there over the next five years. Examples of such companies are Hyundai, Bharti, Rakuten and Lenovo. In each case, the company leaders demonstrate an explicit vision to behave like a global firm, starting by having English as their official language and allowing more vertical mobility for their foreign talent.

### Where: Asian Trailblazers' markets of choice

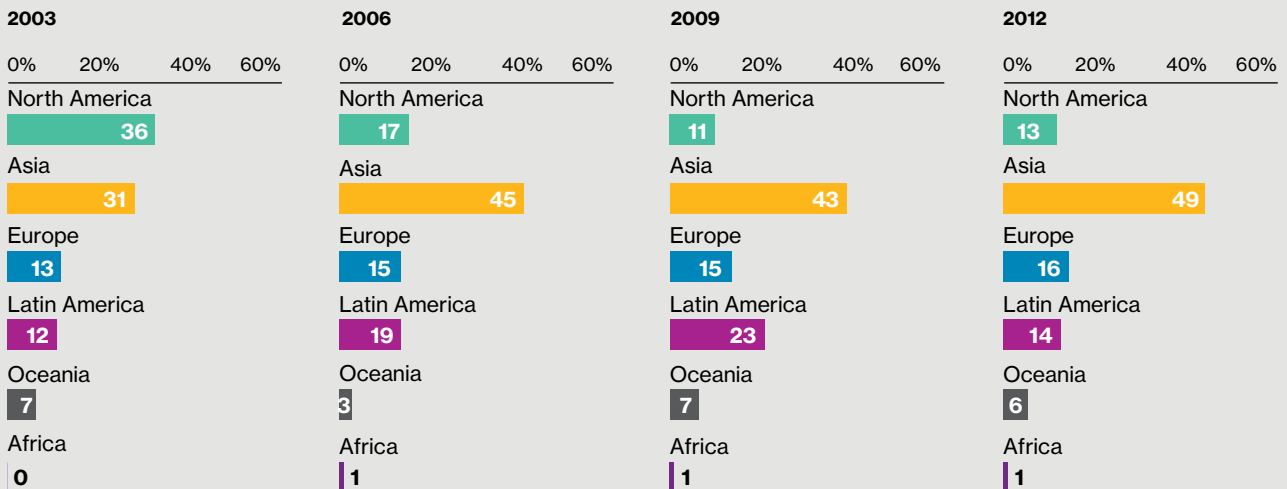
Asian MNCs have a presence all around the world, but which is their latest expansion trend? Are these companies expanding into the developed world, or does their strongest growth come mainly from neighbouring markets?

When analysing the geographic pattern of Asian firms' FDI, it seems that other Asian countries are the main destination of these investments. Current findings suggest companies headquartered in Asia tend to invest more in their neighbouring markets than in other emerging or developed regions, but this was not true 10 years ago.

Indeed, in 2003, Asia Pacific firms were investing approximately a third of their outbound FDI in their own region, another third in North America and the rest in Europe and other regions (*Figure 13*). Ten years later, half of their outbound FDI stays in Asia Pacific, while only 13% goes to North America and 16% to Europe. Usually, firms follow the Uppsala model, starting their expansion first

*Today, half of outbound FDI stays in Asia Pacific, while only 13% goes to North America and 16% to Europe.*

Figure 13. Asia Pacific FDI flows abroad, by geographical destination



Source: Willis Towers Watson Research and Innovation Center 2015. Calculations based on UNCTAD data.

in their own region and then going to other – culturally more diverse – regions. This was not true for most Asian Trailblazers, which ventured first into North America and Europe even though at that stage they had little, if any, globalisation experience.

This change has two interesting dimensions. First, it does not mean that Asian Trailblazers withdrew investments from North America or Europe. Indeed, most Asian MNCs stick to their investments over the long term, even if they are not able to realise gains from those investments in the short to medium term. Instead, despite – or in addition to – having a presence in developed regions, Asian firms sought new growth in other Asian countries, given that developed regions were growing more slowly.

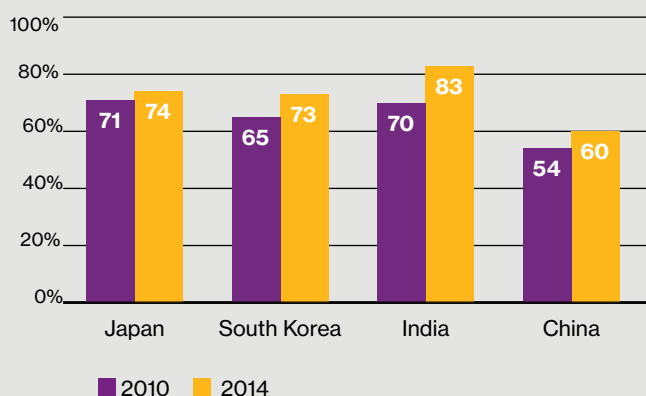
Second, fuelled by a decade of sustained growth, Asia Pacific has generated a plethora of new companies. These new organisations, which did not exist in the early 2000s, have just started their globalisation and seem to be following the Uppsala model of expansion, since their initial moves involve going to close neighbouring markets. Part of this trend could be motivated by the fact that these companies are still inexperienced and lack globalisation expertise, but mostly they decide to stay close because that is where most economic growth is coming from at the moment.

But what about the first- and second-tier organisations that started the globalisation race a long time ago? Are they also expanding more aggressively in their own region driven by the economic growth?

Most Asian Trailblazers – i.e. first- and second-tier Asian MNCs – are not following the same foreign expansion pattern as other, less experienced, Asian MNCs. Japanese and South Korean Trailblazers were among the first Asian MNCs to become global firms. Therefore, both Japan and South Korea have a small, well-established first tier of global players – LG, Samsung, Toyota, Nissan and Honda – as well as an interesting, and rapidly growing, second tier – Suzuki, Mazda and Doosan (the oldest Korean firm, but rather young in its international ventures). Strong push reasons led them to international expansion, due to small and saturated local markets that were holding back their growth.

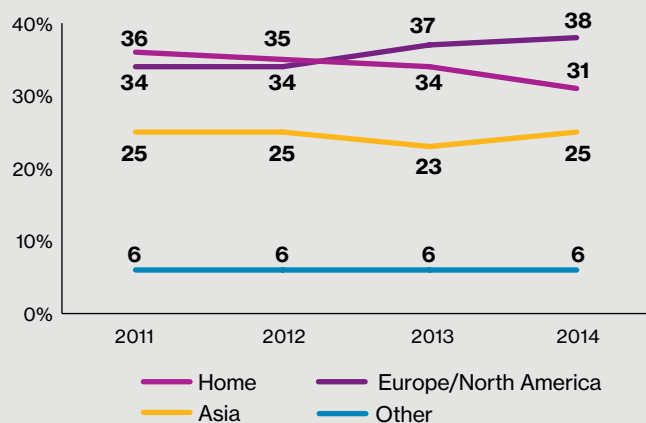
In the past 10 years, first-tier firms' share of foreign revenue ranged between 50% and 90%, depending on the specific sector and firm (*Figure 14*). Second-tier firms have also expanded in the last five years and seen their share of foreign revenue growing significantly. However, South Korea's second-tier firms tend to be in earlier expansion stages than their Japanese counterparts.

Figure 14. **First-tier firms' average foreign revenue, as a percentage of total revenue**



Source: Willis Towers Watson Research and Innovation Center 2015. Calculations based on Bloomberg data.

Figure 15. **First-tier firm revenues by geographical location as percentage of total revenues**



Source: Willis Towers Watson Research and Innovation Center 2015. Calculations based on Bloomberg data.

First-tier Indian companies have a high concentration of foreign revenue, with values ranging from 65% to 98% in 2014. These companies have engaged in recent M&A activities, but to a lesser extent when compared to other Asian MNCs, as they tend to rely more on organic growth. Still, in the past five years, these companies have seen their share of foreign revenues rise, due to expansion to both Western and emerging markets. The globalisation gap between first- and second-tier Indian firms is greater than their counterparts in South Korea and Japan.

Chinese firms rely significantly on international M&A to expand, but their main motivation revolves around acquiring intangibles: intellectual capital, internationally recognised brands and specialised talent. There has been strong growth in the ratio of revenues these firms get from abroad, but most Chinese MNCs (with some specific exceptions) still generate most of their revenue at home.

While Asian Trailblazers' recent foreign investments went mainly to other Asian countries, in the same period they still achieved an increase in the share of revenue stemming from their units located in Western economies.

The geographic origin of the revenues of 15 first-tier Asian MNCs during the period 2011-2014 is analysed in *Figure 15* to determine how much of their revenue ceased to be generated at home due to their expansion abroad. To do the analysis, revenues were classified into four categories: home country, Asian region, Europe & North America, Other (Middle East, Africa, Latin America and Caribbean). The distribution of revenues across these categories and its evolution over the years showcases the globalisation preferences of these top Asian MNCs.

The analysis finds that these Asian MNCs' globalisation in the past five years was mainly market-driven, since the share of revenue stemming from foreign units, as opposed to revenue generated in their home country, went up significantly. When international expansion is driven by other motives – for example, lowering costs or seeking foreign talent – this is usually not the case. The median decrease for the 2011-2014 period in the share of domestic revenue was 5%.

The share of revenue stemming from developed markets, particularly Europe and North America, saw a more significant increase, with 4% growth over the same period. Since 2012, advanced economies have become the first source of income for the first-tier Asian companies analysed.

Asia continues to be the third most important source of revenue for these top 15 Asian MNCs and its relative importance has stayed stable over the period.

Other developing markets, including Latin America and Africa, did not see a change in their share of revenue generated. These markets account for only 5% of these Trailblazers' income. This may seem surprising given the latest press coverage of Asian MNCs venturing into Africa and into distressed Latin American economies such as Argentina, but it is consistent with the type of investment these firms have made in these locations, which is long-term in nature and expected to yield revenue over a five- to 10-year horizon. It's also consistent with *Figure 13* (page 19), where Africa accounts for less than 1% of FDI and Asian MNCs' position in Latin America remained stable in the past five years.

### Case study: Chinese Telecommunications MNC

- This MNC developed significant cross-border M&A experience with transactions in more than 50 countries. It has a dedicated Corporate Strategy and Investment division that specialises in cross-border M&A.
- Most Chinese companies use M&A as their preferred expansion mode, since they think it is a shortcut to globalisation. However, this particular firm has taken a different expansion approach, by investing significantly in organic growth strategies and sending staff to new locations.
- While this MNC has fostered a multicultural environment by having multiple foreigners in senior positions and also by using foreign coaches for Chinese executives and local CEOs, it still had to deal with significant problems stemming from cultural distance:
  - Due to inadequate expatriate programs and packages, turnover among expats increased when foreign locations were too culturally distant.
  - It also found significant roadblocks when applying its Chinese hiring strategies in foreign locations.
- The MNC therefore realised that culturally sensitive HR processes and programs were as critical to success as having multicultural leaders and it made sure that HR was included earlier in the globalisation process and that HR programs accounted for cultural differences.

## How: Is M&A Asian MNCs' new acquired taste?

In terms of acquiring abroad, currently MNCs from all regions seem equally acquisitive and expect to see significant M&A activity in the next three years, which will increase competition for attractive targets and reduce the scope for opportunistic M&A.

Outward investments in the forms of M&A and Greenfield investments (GI) increased significantly over the last 10 years, at an average annual growth of almost 7%. Although Greenfield FDI projects remain the dominant entry mode of Asian companies, M&A is gaining in popularity (*Figure 16*).

In terms of value, the gap between outbound GI and cross-border M&A has steadily shrunk since 2011. Companies' investments through M&A as a percentage of total outward investment in 2014 has more than doubled since 2009. In the past five years, the value of M&A over total investments increased from 20% to 44%.

The increase in outbound cross-border M&A is not due to a higher number of deals but to larger deal size. In the period 2004-2014, the average value of GI fell from 83 USD million to 78 USD million – while the outbound M&A average deal value increased from 20 USD million to 94 USD million.

This trend towards M&A as the preferred entry mode is not observed in other regions. Europe and Africa are characterised by their low ratios of M&A (11% and 26%

respectively in 2014) while in North America and Latin America both modes of entry are very similar in popularity (47% and 49% respectively in 2014).

As *Figure 17* shows, Taiwan-, Malaysia- and South Korea-headquartered firms have a stronger preference for GI, and their share of M&A in total outward FDI is less than 20%. Hong Kong-based MNCs have the strongest preference for M&A. Singapore- and Japan-based MNCs have M&A to GI ratios that are more stable than in other countries and close to one, meaning that there is a relative indifference in the chosen mode of entry. The graph below should be interpreted with caution in the case of the Philippines, since when looking at the entire time series available for that country there is high volatility of the preferred entry mode for FDI, with drastic changes from one year to the next. Similarly, results for India in *Figure 17* are not representative of the country's past 15 years of data, since it has had a stable preference for GI in the past 15 years, with an M&A share in total FDI fluctuating around 15%, and two exceptionally high years in 2007 and 2010.

*Senior executives in Asian MNCs explain the preference for acquisitions by pointing to the speed with which scale and market entry can be achieved.*

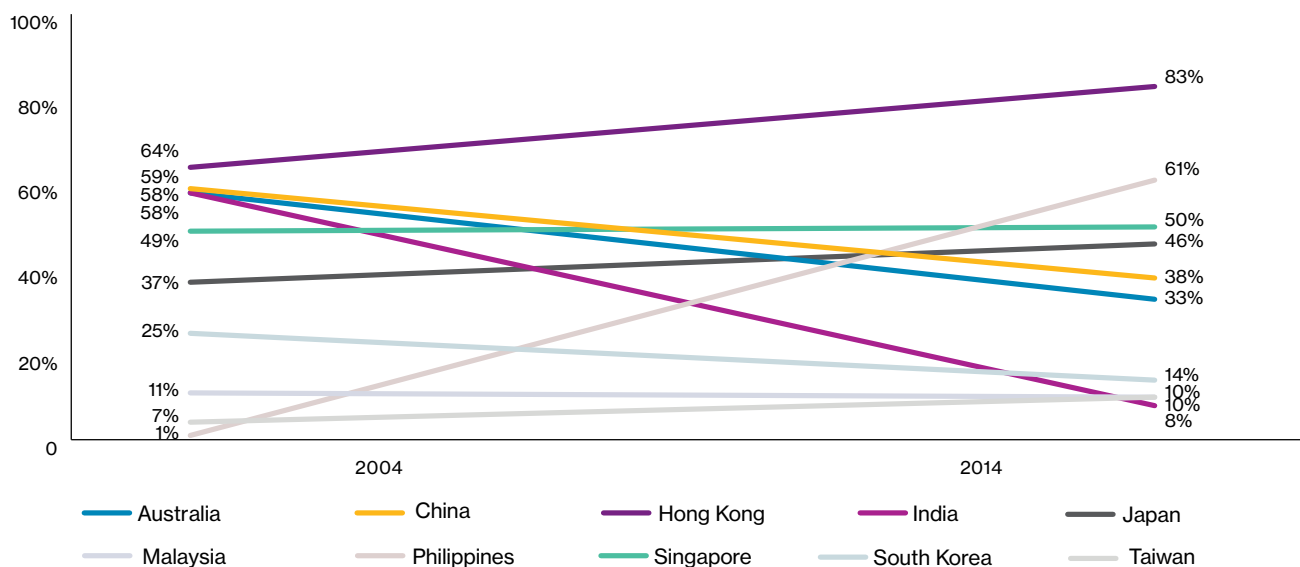
Figure 16. Outward FDI from Asia Pacific (USD millions)



Source: Willis Towers Watson Research and Innovation Center 2015. Calculations based on UNCTAD data.  
Note: Asia Pacific is defined as regions of South, East and Southeast Asia and Australia



Figure 17. Share of M&A in total FDI by country



Source: Willis Towers Watson Research and Innovation Center 2015. Calculations based on UNCTAD data.

Senior executives in Asian MNCs explain the preference for acquisitions by pointing to the speed with which scale and market entry can be achieved, when compared to GI. The visibility of acquisitions is also perceived as important since this can have a strong positive impact on the local brand: “lots of international M&A means the firm is doing well, it has cash, and it is growing,” said one senior executive.

The risks of M&A are seen as less important and many of these MNCs do not have clear accountability mechanisms when it comes to M&A failures. Moreover, when some of these transactions fail, the acquired company is often left adrift for many years before the acquirer takes any action.

### Why globalise?

As Figure 12 (page 16) showed, motives behind international expansion varies among MNCs. Chinese companies tend to have the most complex mix of motives in the region; and these vary significantly by sector. For instance, while energy or mining firms go overseas to find natural resources, the reasons prompting Chinese companies in the communication, banking or retail industries to globalise are more varied and complex – for instance, they may want to acquire a Western brand, or strengthen their own local brand. Acquiring ready-to-use technology and patents

is another important reason for Chinese firms to acquire assets overseas, as developing these assets in-house would take longer, and their aggressive approach seeks instant growth. Most Chinese firms think M&A is a shortcut to globalisation and, given the strong mandate of Chinese state-owned enterprises (SOEs) to become more global, it is not surprising that outbound M&A has seen a strong rise in China.

South Korean companies seek foreign markets that are more dynamic than their own mature home market. International expansion seems to be the answer to increase profits through growth markets, as companies are healthy and managed to generate a large capital surplus after the 2008 financial crisis. Typically, Korean companies prefer to start with a JV, which enables them to develop an understanding of the business and foreign culture – only after they have done their homework do they look to acquire.

However, in the past three years, South Korean conglomerates have demonstrated a more aggressive growth strategy, and M&A appears to be the preferred entry mode for larger firms, which are acquiring small and medium-sized firms abroad.

### Case study: South Korean conglomerate

- This South Korean MNC has been expanding abroad for over a decade through acquisitions. An aggressive M&A strategy was chosen to increase the MNC's range of products and access to new technologies.
- Its first M&A wave had some large failed integration attempts, mainly due to cultural differences and challenges. During its second wave of M&A, PMI was heavily delayed and the acquired companies were mainly left to continue operating on a standalone basis.
- Inside South Korea, the company has engaged in a lot of joint ventures, but abroad it minimised partnerships as a mode of entry, as cultural clash is a major concern.
- To avoid cultural clashes, the company has put a stronger focus on hiring local expertise for its foreign units rather than on sending out expatriates. However, this was not a solution for the overall integration of foreign units into the firm as a whole.
- In the past five years, this conglomerate has focused on improving synergies for cross-border M&A deals, and it is working on developing new practices to understand other countries' cultures, industries, regulations and HR practices. It has also increased its research and development budget and created several research departments, which are tasked with targeting synergies among the different areas of expertise brought on board through the acquisitions. This is a further example of how this MNC aligned its in-house resources with its globalisation strategy.

Southeast Asian MNCs have displayed an interesting mix of motives for embracing globalisation in the past five years. Besides their global ambitions and the fact that most successful Asian Trailblazers from this region are sitting on a lot of cash, Southeast Asian conglomerates have started to show strategic interest in niche start-ups, high-tech companies and early-stage technology firms, mostly in the U.S.

For instance, five years ago, Thai firms were not making major acquisitions overseas, but in the last three years, Thai conglomerates have made significant acquisitions abroad, mostly in Asia Pacific as well as in the U.S. In 2014 alone, Thai firms invested almost USD 4 billion in other Asian countries, more than doubling the figure of previous years.

### Have they succeeded and are they getting better at it?

In terms of due diligence and pre-acquisition processes, Asian Trailblazers still lack the in-house capabilities and internal processes of their Western peers. Consequently, they rely more on external advisors, very often lawyers, actuaries and financial advisors, who help these firms' leadership to build know-how during the deal.

The lack of streamlined processes, specific to M&A decisions, makes certain deals take longer – in some cases, for instance, deals fail because multiple decision-making layers significantly slow down the due diligence process. Japanese and Australian companies have well-developed due diligence processes; and Hong Kong and South Korean MNCs have significantly improved in this area. In all four countries, MNCs have developed in-house teams that are well versed in M&A. Chinese and emerging Southeast Asian MNCs have the least robust due diligence processes for outbound deals. However, MNCs from Japan and South Korea lag behind Chinese or Southeast Asian companies in their post-deal approach, often leaving acquired targets on their own for several years before starting post-merger integration.

This is a further reason why HR departments of most of these Asian MNCs have had to learn to multitask. When HR becomes part of the process, the range of topics they have to cover is very broad and the fires they need to extinguish start spreading before they have had the time to go through the technical HR implications of the deal.

In addition, for all of these companies the cultural aspect of M&A is critical. When Chinese, South Korean or Japanese firms buy businesses in North America or Europe, they are worried right away about the reaction of talent in the acquired entities and whether they will stay in a firm under Asian leadership. That is why post-merger integration is even more critical in outbound M&A of Asian MNCs than it already is in any other context.

Japanese MNCs have struggled the most when it comes to transforming their corporate culture to embrace procedures that tackle national cultural differences with units abroad. MNCs from other parts of the region – including those from China, South Korea, Hong Kong and Southeast Asia – are not only aware of how critical the cultural aspects of the deal are, but are also willing to address these challenges. These organisations have become more proficient at taking cultural considerations into account right from the outset. However, understanding and managing cultural differences remains a large issue.

Asian Trailblazers expanding in Asia Pacific have also undertaken their share of JVs, mainly due to existing market restrictions on full ownership such as exist, for example, in India. Still, JVs with Asian partners have a much higher failure rate than in other regions, even when both sides are from Asia Pacific. The way in which partnerships and acquisitions are understood by MNCs from different Asian countries drives that high failure rate. But this can also be attributed to the fact that most partners enter these partnerships without realising in advance that cultural differences can create a huge risk.

A third reason for the JV failure rate stems from the fact that partners usually have very different checklists and processes when entering into the agreement – or none at all. Deviations from a structured process designed to establish a clear JV agreement multiplies inconsistencies and confusion, and is usually a recipe for disaster.

Asian MNCs from developed Asia Pacific countries have shown some interest in divestitures and spin-offs, for purposes of consolidation and eliminating non-core businesses, rather than as a result of M&A failures. Southeast Asian companies and Chinese MNCs have had less divestiture activity, mainly because they are still in the process of growing their portfolio and are after opportunistic M&A, for example in a weakened Europe and distressed Latin American countries. They have not reached the point in the cycle in which they look at the sum of all parts in a strategic way and eliminate those that no longer add value. Despite seeking cheaper opportunities for inorganic growth, Chinese MNCs remain cautious, as they look for opportunities mainly in industries that add technical know-how and talent to their portfolio.

### Case study: Taiwanese high-tech MNC

- This Taiwanese MNC put a strong focus on redefining its human capital strategy after it changed its business strategy.
- The new business strategy shifted the firm's core activities from mainly manufacturing to also focusing on the designing, branding and selling of its products.
- This made new types of talent and foreign talent necessary, and acquisitions became more strategic and talent-driven.
- Given the strong focus on accessing new talent through acquisitions, retaining the talent of target companies was indispensable for this MNC. It has therefore been among the first Taiwanese firms taking steps to expedite and improve post-merger integration.

### Family Business Legacies

Especially among Southeast Asian MNCs, the due diligence process for M&A deals conducted by family-run businesses has become an interesting field. These MNCs do not follow typical M&A processes and often family patriarchs conduct their deals on the strength of a handshake. They make deals because they see the strategic fit of an acquisition and think it will work, skipping traditional due diligence procedures, including those that are necessary for accurate pricing. In these cases, leadership is focused more on execution than on assessing and planning.

The family business legacy aspect also becomes an issue when the family-run business is the target. When acquisition targets have been run in a very hierarchical way, with a single person or family head controlling most of the decision making and vision within the company, the risks of acquiring an empty shell are higher, not because talent leaves, but because the target loses its direction if not integrated quickly. This applies not only to family-run businesses in Asia Pacific, but has also recently come up as an issue in M&A deals of Asian MNCs targeting Latin American companies.

# Case studies

## We are relocating employees from Spain to Poland

- In each of three very different acquisitions in Europe, executed by MNCs from South Korea, China and Japan, a post-merger consolidation of units was planned to generate cost savings and synergies.
- These plans had been made under the assumption that mobility across Europe and the willingness of employees to relocate from Spain or Germany to Poland or from Eastern Europe to Ireland was a given, in the same way as a relocation of management between two U.S. states would work.
- In two of these cases, it was only after the acquisition was made that the acquiring company realised moving a unit from one country to another was not feasible at all.

## Keep the engineers

- In a recent acquisition by a Southeast Asian MNC in Silicon Valley, the acquirer realised early on that strong due diligence and having HR on board from the beginning was critical to success.
- In the first meetings during the pre-acquisition stage, the main goal of the transaction was very clear: “Keep the engineers.” The acquisition had a clear target of accessing foreign, specialised talent and the risk of losing that talent due to poor post-merger integration was high.
- The acquirer worked with Willis Towers Watson from the beginning on bridging cultural differences and aligning interests with the target’s U.S. management team.
- This process proved essential to understanding the perspective of the target’s U.S. management team. The team needed a clear medium-term strategy for the acquired unit, and clear definitions of responsibilities and compensation going forward to stay in the new entity.
- Once the Southeast Asian MNC understood those priorities, it worked jointly with Willis Towers Watson and the U.S. management team to develop a strategic vision for the acquired unit and agreed upon a new organisational structure. As a result, the U.S. management team stayed on and played a key role in minimising post-merger turnover among critical-skill employees.

## Chinese banking MNC

- This Chinese Banking MNC realised that it needed to understand how it was dealing with compensation in its foreign subsidiaries and hired Willis Towers Watson to help with this task. What started as a project consisting of a job matching and cost-management overview turned out to be part of a much larger and more complex journey.
- To gather the relevant information, consultants started talking to the bank’s compensation manager and quickly realised that various roles across the organisation had different, sometimes conflicting compensation information and that there was a shared responsibility for making compensation decisions in foreign subsidiaries.
- The roles involved in compensation decisions, including a global role dealing with foreign subsidiaries’ HR issues, the local HR data manager, an employee at headquarters responsible for gathering data on foreign countries, and HR people overseas. The global HR role was very reactive though, mainly responding to requests from local HR managers when compensation and benefit decisions for foreign employees had to be made.
- After discussions with all involved parties, it became evident that there was need for better coordination among these roles and consistency across various areas: from how and where data was gathered; to systems to process the data; and protocols used to make decisions about compensation and the design of job architecture and rewards programs.
- Before articulating a job matching strategy and introducing global grading systems, the bank had to undergo an organisational transformation of its HR function. This transformation started to redefine the HR processes for foreign subsidiaries, as well as the reporting lines and interaction of their various HR roles that were dealing with foreign operation issues in a fragmented way. The resulting structure was leaner and had clear accountability. In addition, formal processes were designed to gather and process HR data, as well as to use the data to take HR-related decisions

# Global governance: Using a framework to take multitasking to the next level

For a multinational organisation, having a global governance framework is a necessary condition to survive – sustainability and further growth depend on it. Still, there is no right or wrong answer with respect to the nature of the global governance framework. Its design depends on the company's industry, strategy, culture, mission and values.

Indeed, when MNCs become truly global by achieving the last step in the globalisation ladder through a full-fledged global governance framework, they may decide to change their governance principles completely. Some go back to a less centralised approach than the one they had at the previous stage. Other companies redistribute power between two or more regional HQs, or have hybrid models with centralisation levels differing for different functions (Bharti Airtel is a good example). Many global firms, particularly in markets such as Japan and South Korea, follow a very hierarchical, centralised and standardised global governance model (Toshiba and Hitachi are classic examples).

While many Asian Trailblazers have achieved considerable success because of their ability to multitask, in order to move to the next level they need to bring different areas up to a certain level of quality and consistency by integrating them into a wider global governance framework.

How do Asian Trailblazers manage their increasing complexity? Clearly, there is no right or wrong answer to the question of whether to apply the same strategy in different markets or whether to have differentiated strategies for different markets. The extent to which a firm allows heterogeneity and how it manages that across its geographic portfolio is comparable to introducing more or less heterogeneity in talent management for different employee segments. There is a clear trade-off between allowing more heterogeneity and having a more complex and costly governance framework. Most high-performing companies have global leadership competency profiles and strike a good balance between globally standardised and integrated systems, and localised implementation/interpretation of programs.

## Case study: Japanese conglomerate

- A Japanese corporation specialising in technology products, among the most globalised in Japan, was facing financial challenges. This forced the firm to restructure.
- The restructuring gave the firm's foreign leadership more power and independence.
- The firm also embarked on an HR transformation in response to the restructuring. The transformation included the introduction of global grading and job levelling systems, and the implementation of employee engagement surveys across locations.
- It transformed its global governance approach and transitioned from a heavily centralised structure relying on strong control from HQ to a decentralised structure with foreign units having more independence and dotted reporting lines to Japanese HQ.
- As a result of this transformation, this Japanese MNC not only increased efficiency and tackled its financial challenges, but also was able to adapt its cultural DNA, fostering a multicultural environment and being among the first MNCs in Japan to appoint foreigners to senior management positions.

### Case study: Chinese telecommunications MNC (2)

- This multinational telecommunications firm was looking to implement a global grading system and hired Willis Towers Watson to help assess what could be salvaged from its current system. A task force was organised to conduct this assessment, and it detailed the changes that would be required to the existing grading system.
- At the conclusion of the assessment, the MNC decided that implementing the changes in its current grading structure would be too burdensome. Instead, it opted to build a grading system internally, relying on its current system, which had been designed and implemented only in China.
- However, when faced with the fact that the company needed local market data to feed the grading structure, the firm realised that it also needed job matching using a globally consistent approach.
- The firm partnered with Willis Towers Watson to deliver data for foreign countries and applied its own internal grading principles to Willis Towers Watson's global grading system.
- Although time-intensive, this process allowed for a better understanding of how global grading systems are designed and resulted in the development of a new, tailored, model for global grading at the MNC.

*Employers from developed Asian countries report a higher prevalence of a local control approach than employers from developing Asian countries.*

Chinese MNCs are in the very early stages of developing global governance frameworks. Their HR departments are still fragmented, with local teams that do not communicate much with headquarters, and vice versa. Their governance approach is very much decentralised for both foreign units and – geographically dispersed – Chinese subsidiaries. Still, for Chinese units, programs and protocols are consistent, while foreign subsidiaries are usually left alone to manage their own programs. However, in the past five years, with an economic slowdown and the need for more efficiency in corporate functions, Chinese Trailblazers have started looking at frameworks that, even if not consistent with their approach for China, at least provide a unified framework to manage all their business units abroad.

Employers surveyed in our *2014 Global Talent Management and Rewards Study* confirmed the evidence provided during the interviews conducted for this study: Compared to MNCs from other regions, Asian firms tend to prefer local control of talent and rewards programs. However, their regional control is less dominant in HR areas, and moreover, significant differences are found in their corporate control approach for some specific areas – HR systems, technology and talent management, for instance – where Asian firms opt for centralised control significantly less often than Western MNCs.

Asian markets differ from each other in the way they approach global governance. Employers from developed Asian countries report a higher prevalence of a local control approach than employers from developing Asian countries. These results are mainly driven by Japanese and South Korean firms, which, due to national cultural aspects have traditionally delayed the integration of foreign subsidiaries, leaving them with considerable autonomy. On the other hand, companies headquartered in emerging Asian countries stated they had more corporate or global control in all HR areas, and therefore, relied on a more centralised approach. This is especially true for Indian and Southeast Asian conglomerates with a strong family business heritage.

Multinationals that had 17 of the most common HR programs in place in two or more countries were asked whether these programs were globally consistent.<sup>2</sup> On average across all 17 programs, 36% of Western MNCs said that they had a globally consistent approach. For Asian Trailblazers, this figure varies significantly between MNCs from developed and emerging economies. Indeed, while only 13% of MNCs from developed Asian countries – Japan, South Korea, Singapore – have globally consistent programs, 32% of MNCs from emerging Asian markets claim to have a globally consistent approach. This

<sup>2</sup>Programs surveyed were: job architecture; job levels/career framework; job evaluation methodology; competency models and competency architecture; base pay; short-term incentives; long-term incentives; sales compensation; recognition programs; performance management; recruiting/selection; career pathing and planning; employee learning and development; leadership development; succession management; workforce planning; and deferred compensation.

gap in global consistency persists even if we look only at first-tier companies. While 41% of first-tier Western MNCs have consistent programs, only 23% of first-tier companies in developed Asia Pacific state their programs are globally consistent and on average, 37% of first-tier MNCs from emerging Asia Pacific countries claim to have global consistency across their HR programs. Around half of Asian Trailblazers from emerging Asian countries stated that their job architecture, job levelling and evaluation frameworks were globally consistent.

Although Asian firms implement a great variety of HR programs, the way in which these programs are designed and administered varies. In organisations from developed Asian markets, HR programs in general are more prevalent. Still, in these countries global consistency and central administration is much less common than among MNCs from emerging Asian economies. So, while companies headquartered in countries such as Japan or South Korea tend to control their HR practices locally, giving foreign subsidiaries more autonomy, companies from emerging Asian markets tend to have a more consistent and centralised global approach, with a preference towards corporate or shared control of most HR programs.

### Inside the data

- In Asia Pacific, 13% of firms use a shared control approach in their main HR areas, while among Western MNCs, almost 20% claim to do so.
- Among MNCs from developed Asia Pacific countries, almost 80% manage total rewards, benefits and sales compensation locally; and approximately 70% have local HR systems and technology.
- In emerging Asia, this is only true for around 30% and 20% respectively.
- On average, across all nine HR areas surveyed, 59% of emerging Asia MNCs claim to have corporate or shared control in place, while among MNCs from developed Asian markets, this figure is only 24%.
- Across 17 types of HR programs, a much larger share of Western MNCs have globally consistent program designs in place than Asian ones, with gaps ranging from 0% to 20%. The largest gaps are in incentive design and succession planning, where 18% more Western firms claim to have global consistency, and in leadership development, with a gap of 15%.
- Fewer Asian MNCs than Western MNCs take informal action to address attraction, retention and engagement issues.
- Most Asian MNCs do not integrate acquired companies right away, delaying PMI up to as much as 10 years, which – even in the case of those that have global frameworks in place – promotes isolation.

# Cultural DNA drives multitasking needs

In many cases, national or cultural DNA is the main driver behind Asian MNCs' propensity to multitask and their approach to global governance. Even within Asia Pacific, cultural differences can be extreme and can drive very different corporate strategies and globalisation approaches.

Culture is a word used often, but not always clearly understood. Willis Towers Watson defines culture as the shared beliefs (either explicit or implicit) that exist within a country or organisation and drive national or organisational behaviour. In that sense, a "culture of globalisation" is one that understands and supports an organisation's international expansion and goal of becoming a global player. It is a set of shared beliefs among employees and leaders within an organisation that are aligned with embracing a multicultural environment, responding to constant change, integrating new acquisitions, understanding new markets and environments and being flexible.

## Aligning internal culture to globalisation

A culture of globalisation is one that emphasises diversity of thought and opinion, that supports risk taking or where a bias for action or mobility exists. However, even a global firm can have an internal culture that is not a culture of globalisation. Several very large multinationals in Japan still have an internal organisational culture that is conservative, slow in accepting and implementing change or unwilling to take risks or move abroad. In organisations in which culture is misaligned with a strategy focused on international expansion, the globalisation journey becomes more burdensome and is exposed to more risks.


Empirical research shows that companies that succeed financially by competing in different ways have different cultures, each aligned with their unique strategic goals. By comparing a company's culture with research-based "ideal" profiles, it is possible to measure the degree to which a company's culture supports its strategy, that is, the degree of strategy/culture alignment. Once gaps have been identified, they can be addressed with a thoughtful and targeted talent management vision and strategy. So, before tackling cultural differences between countries – which are also critical to globalisation – multinational firms must assess whether their company culture is aligned with a strategy focused on international growth.

A key aspect of multinational companies with a corporate culture that fosters and enables globalisation is that they acknowledge the cultural differences that exist between the culture of the country in which they are headquartered and the local culture in the host countries in which the company has foreign affiliates. It also acknowledges that besides differences in national culture, acquisition targets may have a very different company culture than their own. To minimise the negative effects of a cultural clash, these MNCs must be ready to understand their differences, to compromise on some of their own cultural values and be ambassadors of their own culture. This will enable foreign units to understand the headquarters' point of view and feel integrated into the company as a whole and empowered by it.

Asian countries have key cultural differences with Western countries, and in most cases the first barrier to overcome is language. For most Western companies, English is their business language. On the other hand, most traditional Asian MNCs still have leadership that struggles with English itself and with the idea of having to use it as a lingua franca. There is no unifying language in the region as a whole, so traditionally the approach used was to have expatriates or regional diaspora in key positions abroad reporting in the language local to HQ. This obviously restricted the access of foreigners to leadership positions and added complexity to the management of foreign units or acquisitions.

Many Asian firms still do not have international mobility programs, and expatriates see international deployments as a punishment rather than an opportunity for career advancement. For example, a Chinese MNC that entered into an acquisition with a company in Pakistan had serious problems communicating with local management and, in the absence of an adequate mobility program, could not find Chinese employees willing to relocate to Pakistan to manage the foreign unit. In fact, its executives preferred to resign than to move there. The MNC's HR department claimed that these difficulties were foreseeable and that had it been invited to the discussions on expansion plans earlier, it would have been able to avoid the HR costs associated with that particular foreign venture.





A culture of globalisation is one that emphasises diversity of thought and opinion, that supports risk taking or where a bias for action or mobility exists.

### Managing cultural distance

The communication style in Western cultures is typically direct and explicit. In most Asian cultures, meaning is embedded in the way the message is presented and more sensitivity is needed when communicating. Asian employees tend to avoid conflict and loss of face at work in contrast to other cultures that are more direct in their communication. There are also clear differences in the attitudes towards hierarchy and authority. While in Asian companies structures are more hierarchical, Western firms prefer a more horizontal approach. Team members who are uncomfortable on flat teams may, by deferring to higher-status teammates, damage their stature and credibility – and even face humiliation – if most of the team is from an egalitarian culture. Moreover, informal hierarchies may arise that, although not explicit, affect the team's working dynamics. Cultures also differ enormously when it comes to decision making – particularly, how quickly decisions should be made and how much analysis is required beforehand.

Unlike many other countries, the Indian workplace, for example, is characterised by hierarchical patterns where decisions are typically made by the person with the most authority and hierarchy is maintained in most forms of

communication. This is also true for most Southeast Asian countries. While expanding to other countries, Asian business leaders are now mindful about the relatively flat workplace structure and give subordinates more say in running the business.

Asian MNCs also increasingly realise that employees in other cultures may be open to taking equal responsibility for managing their own career, unlike in most Asian countries where career management is considered the boss's responsibility. That also implies that performance management processes need to be adapted to suit local needs, which often means having a more structured and formal process along with forthright discussions about strengths and weaknesses instead of fostering a discretionary and ad-hoc performance assessment culture.

Asian MNCs' management style is usually characterised by manager-subordinate relationships, with a mutual sense of respect and personal loyalty. In Western MNCs, employees are more used to managers being friendly and interacting informally with them on social occasions outside the workplace. Also, certain cultures in Southeast Asia, as well as in India, focus more on following rules and processes,

### Case study: Japanese automotive MNC

Even in instances where a firm has a standardised PMI process, cultural problems can persist.

- Take the case of a Japanese automotive firm that, facing a shrinking local market, pursued an aggressive expansion strategy, including multiple M&A transactions, many with the goal of accessing local talent, and several Greenfield expansion projects. As a result, 90% of this firm's revenues and most of its profits were earned outside of Japan.
- This company was among the first Japanese MNCs to develop a standardised and ongoing process for PMI. This included standardised onboarding and talent integration processes that introduce the company's values and culture to new (foreign) talent and that, in theory, allow for vertical mobility for foreign talent.
- Despite these efforts, the firm still struggles with the challenge of adapting its internal culture from one that relies on relocated expats to serve as intermediaries between local talent and HQ, to one that empowers local talent to communicate directly with HQ. As a result, foreigners in this MNC still face a glass ceiling when it comes to achieving higher positions within HQ.

as opposed to the Western mindset of being more result-oriented. Another interesting aspect of Asian companies is that they typically have a longer-term view that can initially frustrate those coming from a more short-term, bottom line-oriented Western company.

### Asian MNCs' cultural portfolio

While most of these cultural differences might appear anecdotal, Asian Trailblazers actually suffer from not being able to manage their cultural DNA in a way that does not affect the manner in which they expand internationally and how they manage foreign units. Although many of these companies understand that cultural differences can generate friction and reduce efficiency, which in turn brings financial costs, they still do not want to sacrifice their own national or corporate cultural identity to become better global players. Japanese MNCs are a great example of Asian Trailblazers that have not been able to

minimise the impact of their strong cultural inheritance on their investments abroad despite having started their globalisation journey more than half a century ago. Consequently, they have decided to employ an HQ-satellites approach, which has resulted in very independent foreign units that are not fully integrated into the main firm. However, today, newer generations of leaders are starting to change course and are now seeking more integrated enterprises and business synergies.

Cultural differences can also shape actual transactions and acquisition targets. For example, a Southeast Asian MNC decided to back away from an acquisition in the U.S. because the leadership structure of the American target was predominantly female, and the firm had neither the experience nor comfort level required to deal with female leaders.

*Although companies understand that cultural differences can generate friction and reduce efficiency, they often do not want to compromise their national or corporate cultural identity.*

Another interesting area where globalisation and cultural differences may affect talent management strategies is leadership effectiveness. For instance, effective leaders in China may not be effective in other countries as employees' perceptions and expectations about what an effective leader looks like differ between countries. For example, employees in Germany and Japan highly value leaders that promote a positive external image of the company and that control their emotions and maintain composure. Neither of these two effectiveness drivers is mentioned in the top five attributes of effective leaders in India, China, Brazil, the U.S. or U.K. All of the six comparator countries include "the ability to inspire employees to give their best" as a key effectiveness driver for leaders, while that trait does make the top five in China. In other words, if Asian MNCs do not assess the differences in effectiveness drivers among different countries, their leaders in foreign subsidiaries may have the wrong combination of attributes to run that subsidiary effectively.

Cultural assessment and redesign of communication and management processes are key tools to start or complement the multidimensional transformation journey of most successful Asian MNCs that we observe.

# International mobility and leadership development

Global expansion inevitably results in the relocation of some employees. Having well-designed global mobility programs, developed to specifically manage repatriation and expatriation needs, is critical to a company's ability to retain key talent and to develop and deploy employees who are best suited to international assignments. International mobility is a significant challenge for most MNCs, but for Asian MNCs it has become one more area to add to their growing list of multitasking activities.

Few Asian MNCs have international mobility programs in place but an increasing number see mobility as a key requirement for leadership roles. As opposed to Western regions, the cultural heterogeneity within the region puts further pressure on international mobility, since even in geographically close countries, cultural distance can be significant. Many Asian MNCs see cultural clashes and the lack of preparedness to conduct business in other countries, regions or languages as a significant obstacle.

There is often also resistance among local employees in foreign units to having expatriates managing them. Given the important size of the Asian diaspora across the world, many Asian MNCs come to rely on local Asian communities abroad to source talent. Among younger generations, there seems to be less resistance to international mobility and this is observed regardless of cultural background.

Almost half of Western companies included in our *2014 Global Talent Management and Rewards Study* have developed special programs to promote international mobility. The percentage of Asian MNCs utilising these programs is lower, at 38%.

In order to build trust across the organisation, successful global firms bring in foreigners at various job levels to their global or regional HQs. A number of MNCs assign younger people to international operations – and these employees often accept less than luxurious packages as long as the international assignment implies better prospects of career growth later on. This helps in building leadership skills at an early stage and it also serves as a retention driver.

Designing packages for expats involves juggling multiple issues at the same time, from determining adequate and locally competitive compensation offers, to having programs that help expatriates better align with foreign cultures and leadership styles, and making sure international

## Case study: South Korean conglomerate (2)

- Despite its very attractive compensation packages, a large South Korean MNC in the automotive sector struggled to retain Korean nationals that it had assigned to one of its subsidiaries abroad.
- Willis Towers Watson was brought on board to do an in-depth assessment of cultural elements affecting that subsidiary's performance.
- The challenge stemmed largely from cultural misalignment. An engagement survey conducted among that unit's employees revealed that the employees in the foreign subsidiary resented the leadership style of the expatriates. This, in turn, made the expats feel unwelcome.
- In addition, expats explained during in-depth interviews that they felt they did not have adequate tools to manage the foreign unit. Consequently, many opted to resign rather than to remain abroad.
- To address these issues, the MNC worked on a renewed environment for both local employees and expats, and implemented significant changes to the unit's working style, as well as trainings to create awareness about cultural differences.

assignments are aligned with the MNC's overall business strategy. Half of the companies from developed economies in our research aligned their talent mobility programs with their business goals, and almost half of Asian firms do the same. Integration of international mobility with career management is less frequent among all companies, with only 33% of employers integrating talent mobility with career management (34% among Asian MNCs).

In South Korea, companies that have reached an advanced stage of globalisation focus more on building local expertise and developing local leaders rather than sending out and hence managing expatriates, which is more of a concern for second- and third-tier Korean firms. In China, firms that are in their initial stage of expansion use a large number of expatriates to run and manage units abroad and have a

small number of local employees in senior positions. Firms at that stage are more concerned about how to pay, recruit, and design locally competitive packages in their foreign units than about developing global mobility programs.

Repatriating employees is a common practice, but only around a third of companies have a clear plan for repatriating employees, and this practice is slightly more common among companies from Asian economies (30% vs. 28% of Western firms).

As expected, employees are sometimes reluctant to move. Working from a different location may mean moving the employee's family and starting a new life. Some employees – usually among younger generations – may be excited about the new opportunity and challenge, while others have to take multiple factors into account. According to the information gathered during interviews, many employees in Asia Pacific, especially in Japan, South Korea and countries with a strong local culture, see international deployment as a punishment rather than as a reward or career opportunity. This is particularly the case if the deployment is not part of a mobility program that provides opportunities for career advancement and has a well-defined time horizon and repatriation plan. Multinationals in these countries struggle more with developing the right approach for their expats who demand that their employer's mobility strategy include a medium- to long-term plan.

### *35% of Asian firms indicate that employees' unwillingness to move was a main obstacle to global employee mobility.*

Indeed, 35% of Asian firms indicate that employees' unwillingness to move was a main obstacle to global employee mobility. Additionally, more than 30% of Asian employers report manager unwillingness to share talent as an obstacle to mobility, while only 24% of respondents from other regions see this as an obstacle. The lack of a globally consistent approach to job levelling and job architecture is mentioned as an obstacle by 27% of interviewed firms, but the percentage increases to 33% for Asian Trailblazers.

Asian Trailblazers' multitasking in the area of global mobility hence involves implementing locally attractive packages and finding the right cultural fit for the employees they have to deploy abroad, and simultaneously trying to develop global mobility programs from scratch. These programs should formally align long-term career prospects with acquiring international experience. In addition, they should provide a framework in which new leaders are born, rather than having high-potential employees burn out in

assignments abroad for which they were not prepared and lacked the tools to compete successfully. In addition, Asian Trailblazers are also struggling with the geographic and vertical mobility of their foreign employees, middle management and potential leaders in foreign units, for which different types of programs need to be developed.

### **Leadership development**

For a global firm or a multinational firm with global aspirations, leadership development is very closely linked to its international mobility approach. Leaders with no significant international exposure will lack the attributes needed in a global firm. Hence, successful global firms all across the world have realised the importance of building global leadership bench strength at the right time. They have learned that developing strong global leaders is a critical prerequisite to globalising their business. They focused on developing leaders without being biased towards their nationality and with the right foresight of their future leadership needs. With the exception of a few firms in Asian countries, virtually all of the top executives in most of Chinese, Korean, Indian and Japanese MNCs tend not to be foreigners. Building diverse leadership teams and compelling career paths becomes even more complex in state-owned or family-owned enterprises where leadership roles can be politically determined.

According to our *2014 Global Talent Management and Rewards Study*, formal leadership development programs are very common among MNCs. Almost seven out of 10 Western companies provide this type of development program for their leaders. Although Asian firms are also familiar with these programs, the percentage of firms introducing them is somewhat smaller, at 64%. Among those firms with leadership development programs in place, Asian MNCs tend to have a less globalised and centralised approach than the rest. Indeed, only a fourth of Asian leadership programs are globally consistent and a third of them are administrated centrally.

Global leadership development programs need to include participants with very diverse backgrounds to build cross-cultural and global business competencies. Some of the successful programs adopted by leading MNCs include modules that bring together participants from different regions or countries multiple times a year and include activities that keep them connected when they return to their home country. Some companies also make it mandatory for employees to complete an executive development program before being promoted to their most senior leadership positions.

Our research reveals that Asian MNCs (Japanese and Australian firms being exceptions to this) develop leaders very early and with a less structured approach – a lot of early “succeed-or-burn-out” opportunities for young high-potentials, with not many tools, no external coaching, and no significant investment in external education. In addition, in most emerging Asian MNCs, there is no single common leadership development program or a systematic approach to leadership development.

The leadership style of executives in countries like Japan and South Korea creates a huge cultural clash in Western subsidiaries. Due to this, some of the more open and innovative Asian MNCs are forcing a change in that leadership style, even if it means changing the mindset at their headquarters.

We find that in a large number of MNCs in Japan, a combination of cultural and organisational factors pose barriers to career progression for non-Japanese people. High-potential foreign talent with leadership ambitions are reluctant to join these firms due to the perception that they can only go up to a certain level before hitting a glass ceiling. Despite government efforts to incentivise businesses to have more women leaders – the initial goal was 30% – Japanese MNCs have failed to increase female representation among their executives and board members. In fact, the government recently scaled back the 30% target for women in leadership positions to a much more modest 7% by 2021.

Since the 1980s, more and more leaders of Korean MNCs – of Korean origin – have been encouraged to go overseas to study. Many Korean MNCs have programs to foster more Western education among their senior managers and leadership. These firms expect to accelerate that process even more in the future. In addition, some of the bigger companies are increasingly becoming more open to hiring foreigners for senior leadership roles. Family-run Hyundai is among the best examples of this, with its recent addition of two German senior executives to its leadership ranks. Another great example of developing leaders through planned international mobility is Samsung, where C-suite executives are rotated across different divisions and regions through the entire group.

Chinese MNCs expanding abroad often retain the local leadership in their acquired companies and hire employees from the local Chinese diaspora rather than sending out Chinese expats. Second- and third-tier Chinese MNCs try to keep foreigners in leadership positions and several have programs that encourage foreign leaders to learn Chinese

to break the language barrier. Still, in other emerging regions like Africa or South America, where the Chinese diaspora is too small or non-existent, several Chinese MNCs initially deploy full teams of Chinese expats, across all job levels, transitioning over time to a more balanced mix of Chinese and locals.

### Case study: Indian banking MNC

- This Indian banking MNC was struggling with high turnover among its expats and senior managers in foreign units. It therefore conducted a study interviewing its senior leaders and also assessed employee engagement.
- Through the survey the bank realised that most of its expats felt they were neither prepared nor had the tools for the job they were assigned to do abroad. The main reason was that they lacked leadership training for senior positions abroad and they felt that their international assignments had not been well planned. They also felt that their work-life balance worsened after they were sent abroad and that the impact of the assignment on their immediate family had not been taken into account.
- The bank – which always had been very proud to be innovative in its leadership trainings and betting on young high-potentials – realised it had to go even further to prepare its future leaders for international assignments.

Since then, the bank has:

- Designed a unique program for leadership development – each year 600 out of a pool of 5,000 candidates are chosen by a review panel to go through a four-day leadership training program.
- Introduced an MBA program in collaboration with a leading university and developed a geographic mobility program.
- Strengthened its international managers program, which recruits local talent in foreign locations and trains them on the job for two years. The first-year training takes place in their own country and the next year's training occurs at Indian HQ.

# Diversity and inclusion: Slow progress

Diversity in the workplace has gained in importance in recent years, mostly driven by an increasingly globalised marketplace, demographic changes and government-sponsored inclusion programs. Among most Western MNCs, diversity has become a business priority, not only because of Western countries' non-discrimination laws, but also because more women, disabled and people of different ethnicities, religion and lifestyles are expected to enter the workforce in the near future.

Workplace diversity and inclusion (D&I) programs are commonly developed to foster an inclusive environment for employees. This is particularly important for multinationals with operations in several regions, as they will be managing a very diverse workforce. Employers must consider diversity across many different dimensions, with age and gender being the most common ones. However, disability, race and sexual preferences are usually considered as well among Western MNCs' programs.

Half of Asia Pacific companies state that they have a formal diversity program. This finding applies to firms headquartered in both emerging as well as developed Asian markets (51% and 50% respectively). Gender is the main focus of Asian organisations' inclusion programs, followed by age and disability (*Figure 18*).

While a high proportion of MNCs in Asia state that they have formal D&I programs in place – 51% as opposed to 44% global average – when answering about the specific program types and in which areas they are implemented, Asian MNCs have fewer programs in place and interviewees agreed that these programs, if at all, are less developed and specific than those found in Western MNCs.

Asian MNCs have a significantly greater focus on age – 54% of Asian respondents select age as an employee group to be targeted, compared to only 38% of employers from other regions. Gender diversity is targeted by all groups with the same prevalence. On the other hand, other diversity criteria, such as disability, racial and sexual diversity, are included in programs among many Western employers, but are not at all prevalent in Asia. Results suggest that Asian MNCs are beginners with respect to D&I programs. Most Asian MNCs do not see diversity as a priority, although there are some interesting exceptions among Indian and Southeast Asian MNCs. Most Asian

multinational employers are just covering the basics in terms of diversity programs, and still lack initiatives to integrate other smaller but equally important groups that are part of most Western MNCs' diversity initiatives.

In Japan, generational diversity is a major issue and therefore age is typically a part of D&I programs in Japanese MNCs. Among family-run businesses, while great diversity exists – sometimes with a firm's leadership spanning four generations – opportunities are not perceived as equal for younger talent, which usually faces strong generational ceilings. In addition, context and knowledge is not passed along from older leaders to younger ones, making succession planning an issue with a strong cultural connotation.

Although the groups targeted are not the same, programs used by employers to support an organisation's diversity goals are similar among all companies, with no significant differences between regions. Employee learning and development, action planning (developing targeted actions based on findings of engagement surveys or other employee feedback) and leadership development were the most mentioned programs by all surveyed companies.

## A glass ceiling

Minorities face multiple drawbacks when scaling the corporate ladder, which translates into very poor representation of these groups in senior and management positions, especially on boards. Although the existence of intangible barriers that prevent minority groups from obtaining upper-level positions – a glass ceiling – is declining, there is plenty of evidence confirming it still exists.

*Diversity criteria such as racial and sexual diversity are not at all prevalent in Asia.*

Both developed and emerging Asian economies have significantly less female participation on their boards than U.S. or European firms (Figure 19).

Interviews provided mixed views on diversity. Some shared the view that Chinese MNCs have a strong glass ceiling and a male leadership structure prevails. This is also the case in MNCs from Japan, South Korea and most firms from Southeast Asia, with their relatively strong patriarchal culture.

While some firms indeed are more inclusive in terms of gender, racial diversity is still a problem. Literature also suggests that gender glass ceilings in China are less of an issue than in the U.S. or Europe. In Japan, gender and racial glass ceilings are stronger than in developed markets, and only very recently have some Japanese MNCs started hiring foreign and female executives.

Some Asian countries, such as India and the Philippines, have started to establish regulations that aim to foster more gender equality in large enterprises. While some firms have reacted to this by, for example, putting mothers or wives on the boards of family-run businesses to fulfil quotas, several more forward-looking Indian firms have started to acknowledge that diversity is an important issue that should have higher priority on their agendas.

Indeed, when looking at Indian MNCs in the *Fortune* Global 500, over 10% have female CEOs, as opposed to less than 5% at the global level. In the financial services industry, women constitute a large part of the workforce (in fact, many banks in India have female CEOs) and other service industries also have seen female leaders flourish. Despite that trend, in Indian MNCs – in particular those with a strong family

Figure 18. What employee groups do you target for your diversity and inclusion programs?

	Asia	Non-Asia	Global average
<b>Formal diversity and inclusion program</b>	<b>51%</b>	<b>40%</b>	<b>44%</b>
Age	54%	38%	44%
Gender	84%	84%	84%
People with disabilities	43%	53%	49%
Racial and ethnic groups	36%	55%	48%
Religious groups	12%	12%	12%
Sexual preference	7%	30%	20%
Previous military service	12%	27%	21%

Source: Willis Towers Watson 2014 Global Talent Management and Rewards Study

Figure 19. Percentage of women on company boards, by region

	0%	<10%	10% – 20%	20% – 30%	>30%
North America	25%	11%	40%	19%	6%
Europe	10%	6%	31%	33%	19%
EMEA	40%	10%	29%	15%	6%
Latin America	56%	13%	19%	11%	1%
Developed Asia	54%	11%	24%	9%	2%
Emerging Asia	50%	17%	23%	7%	3%

Source: Credit Suisse Research 2015, <https://www.calpers.ca.gov/docs/diversity-forum-credit-suisse-report-2015.pdf>



Among emerging market Asian MNCs, India has the least notable glass ceiling for women.

legacy, e.g., in areas such as infrastructure, construction or power – structures are still very hierarchical and patriarchal.

Among Asian MNCs from emerging Asia Pacific countries, India has the least notable glass ceiling for women. Even in male-dominated industries, women have managed to get into the highest ranks: Mallika Srinivasan, CEO of TAFE, is a great example, not only because she rose to become the CEO of a family-run enterprise, but because she led this Indian MNC through its globalisation. And under her direction, TAFE became the third-largest tractor manufacturer worldwide. In the Philippines, several women are running some of the country's largest firms, mostly family businesses. Overall, the country has very high scores in the World Economic Forum's country ranking of female empowerment. Still, among Philippine multinationals, a male-dominated culture of leadership prevails. However, interview findings indicate that this may be due to the nature of the business these firms pursue, or the family composition in the case of family-run enterprises, rather than a gender bias.

Chinese MNCs have a very large share of women in their workforce, but the glass ceiling still prevails in China. Among Asian Trailblazers, Chinese MNCs are the least concerned about diversity – and because they do not see it as a problem, they do not have any diversity programs in place. Chinese MNCs are perceived as firms that prioritise critical skills over everything else when sourcing talent, including fostering gender and (to some extent) ethnic diversity in the workforce.

All interviewees though, agreed on the fact that Asian MNCs do not yet have diversity on their agendas and are not implementing formal programs to address it. Many leaders of large and successful Asian MNCs do appreciate the issue of diversity, and are becoming concerned about the impact it could have on their business, as well as their ability to compete globally. But they are not even close to their Western counterparts in using these insights to implement changes in talent programs and leadership development.



# Hybrid approaches to talent management

To be truly successful as a global firm, organisations need talent strategies that enable them to get the entire employment deal right: they must offer and deliver a deal that is formally articulated, tailored to different workforce segments and that sets their organisation apart from competitors. While the most successful Asian Trailblazers have a strong employer brand and Employee Value Proposition (EVP) that builds an emotional connection with employees, the majority of the second- and third-tier firms still find developing an EVP a challenge.

In developing an effective employment deal, all organisations need to have the basics in place – globally consistent job architecture and a formal approach to job levelling and competencies. A truly global firm is one that is successful at leveraging technology to manage programs and measure employees' satisfaction with the employment deal. It also aligns its talent management programs with drivers of attraction, retention and sustainable engagement across geographies and workforce segments. A global

firm builds solid career management programs backed by effective managers and leaders. A handful of Asian firms have reached the next level of sophistication in terms of not only getting the basics of talent management right, but also in successfully creating a consumer-like experience for their employees.

In addition to the major talent management areas examined in the previous sections – such as leadership development, cultural alignment, international talent mobility and global governance – HR leaders at most successful Asian MNCs also simultaneously juggle priorities in other crucial areas. What does this multitasking look like in areas such as talent attraction and retention, performance and career management, in hiring practices and how effectively they leverage technology? We find that Asian firms are, overall, increasingly investing more in managing talent, and some are combining home country methods along with global practices for effective talent management.

Figure 20. **Attracting and retaining employees**

To what extent is your organisation experiencing problems retaining employees in the following groups?	Asia	Non-Asia	Developed Asia	Emerging Asia
<b>All Employees</b>				
Not at all/Slight extent	63%	82%	78%	54%
Moderate extent/Great extent	37%	18%	22%	46%
<b>Critical-skill employees</b>				
Not at all/Slight extent	39%	57%	58%	30%
Moderate extent/Great extent	61%	43%	42%	70%
To what extent is your organisation experiencing problems attracting employees in the following groups?	Asia	Non-Asia	Developed Asia	Emerging Asia
<b>All Employees</b>				
Not at all/Slight extent	57%	77%	64%	54%
Moderate extent/Great extent	43%	23%	36%	46%
<b>Critical-skill employees</b>				
Not at all/Slight extent	34%	41%	44%	29%
Moderate extent/Great extent	66%	59%	56%	71%

Source: Willis Towers Watson 2014 *Global Talent Management and Rewards Study*

## Focus on key drivers of attraction and retention

Asian MNCs face strong brand issues and feel they have a harder time trying to attract critical-skill employees. Results from the 2014 *Global Talent Management and Rewards Study* show that 66% of Asian firms experience problems in attracting critical-skill employees but only 59% of the other firms surveyed expressed the same concern (Figure 20). In addition to this, almost half of Asian employers indicated they had problems attracting employees overall, while this was an issue for only 23% of the other firms. Firms in developing Asia seem to face more severe attraction problems. In developed Asia, some firms are already

recognised and respected globally and thus they do not face this issue to the same extent as emerging Asia.

Retention of critical-skill employees is also a major concern among Asian firms, although to a lesser extent than attraction. Retaining critical employees is problematic for six out of 10 Asian companies, and this ratio rises to 70% among companies headquartered in emerging Asia.

Recognising differences in employee opinions about attraction and retention drivers across countries can help firms deal with talent shortages and minimise the

Figure 21. **Attraction and retention drivers**

Attraction Drivers	Global		Asia Pacific	
	Employer View*	Employee View**	Employer View*	Employee View**
Career advancement opportunities	1	3	2	3
Base pay/salary	2	1	1	1
Challenging work	3	5	3	4
Organisation's reputation as good employer	4	6		6
Organisation's mission/vision/values	5		6	
Learning and development opportunities	6	4	4	5
Job security	7	2	7	2
Vacation/Paid time off		7		
Organisation's products or services			5	
Healthcare and wellness benefits				7
Retention Drivers	Global		Asia Pacific	
	Employer View*	Employee View**	Employer View*	Employee View**
Base pay/salary	1	1	1	1
Career advancement opportunities	2	2	2	2
Relationship with supervisor/manager	3	6	3	3
Manage/Limit work-related stress	4	7	4	4
Learning and development opportunities	5		7	
Short-term incentives	6		6	
Challenging work	7		5	
Trust/Confidence in senior leadership		3		5
Job security		4		
Length of commute		5		6
Physical work environment				7

Source: Willis Towers Watson \*2014 *Global Talent Management and Rewards Study* and \*\*2014 *Global Workforce Study*

risk of losing key employees during periods of expansion. According to the *2014 Global Workforce Study*, employees place the most value on base pay and job security, which emerge as the top drivers of attraction – globally as well as for the Asia Pacific region (*Figure 21*).

Within Asia itself, there are significant differences in employee opinions. In Japan, employees rank “challenging work” among their top three drivers of attraction, while this driver does not even make the top five in China or India. When we look at retention drivers, we see that employees in Asia Pacific place more value on relationships with supervisors and managers than those in other regions. “Physical work environment” seems to really matter in retaining employees in China and Japan, but it is not even among the top five reasons to stay with an employer in India.

Asian MNCs have a more serious problem retaining top-performing, high-potential, critical-skill and diverse population employees than Western MNCs. While “base pay” is the main factor for attrition in all MNCs, 17% of Asian MNCs say they lose talent due to the firm’s mission, vision and values, while only 6% of western MNCs cite this reason.<sup>3</sup>

Significantly fewer Asian MNCs believe their employees are highly engaged, would go the needed extra mile for their job, would recommend their job to friends or are committed to the firm’s goals and objectives. Our research also reveals that many foreigners prefer not to work for an Asian firm given a choice. A large number of Asian companies that succeed in attracting foreign talent fail to retain these employees because they are unable to ensure the right cultural fit. In the high-stakes quest for talent, some Asian organisations are increasingly adopting strategies that involve aligning programs with key drivers of attraction and retention in different countries based on local needs, and using workforce segmentation to better manage high-performing and critical-skill employees. However, this remains a neglected area for a majority of companies in Asia.

## Hiring strategy

Talent development strategies define how and from where talent should be sourced: in-house vs. external markets/competitors, intra vs. inter-industries, home vs. host country, through internal or external education programs, and so on. In addition, these development strategies can be tailored for different employee segments.

According to IMD research, firms with 50% of their business in international markets can optimise their performance by hiring roughly a quarter of their executives from the local markets in which they plan to do business.

## Case study: Japanese high-tech MNC

- This Japanese high-tech company, which has a presence in more than 30 countries, decided to conduct a global review of its HR function in order to redesign the department from scratch.
- Among the reasons for undertaking this review was the fact that the compensation of many managers in foreign units was perceived as too high. This was particularly troubling given that the firm was not as profitable as its competitors were in these international markets.
- The firm conducted the global review using employee engagement surveys. It also hired Willis Towers Watson to design a global job levelling strategy and an accompanying global grading system. These measures helped ensure a globally consistent approach to talent and performance management.
- These efforts also helped establish a more globally consistent and fair approach to determining manager compensation in international units.

<sup>3</sup>Willis Towers Watson *2014 Global Talent Management and Rewards Study* and *2014 Global Workforce Study*



Among many American firms, the average is 17% foreign executives in a firm that does roughly 40% of its business internationally. In Europe, the average is slightly higher. However, the research finds that most BRIC countries still have not managed to meet these standards. Indeed, Chinese nationals hold all senior management roles in the top companies in China. Similarly, Indian nationals occupy all the senior management roles in the top companies in India.

Some of the more advanced Asian Trailblazers are gradually becoming successful in determining when to use expats and when to hire locals. Traditionally, recruitment would be mainly done from within the firm, but now firms are hiring using external sources in the markets into which they are expanding, in order to enhance productivity. Our research revealed that the top three critical talent roles for both Asian and non-Asian MNCs are sales, engineering and R&D, but Asian MNCs currently have a stronger focus on acquiring R&D talent.

Firms that hire a certain percentage of executives from key target markets and base them in the home country office long enough for them to absorb the corporate culture face fewer issues when expanding abroad. For example, a well-established Korean MNC that looks for talent abroad

requires all its international hires to spend two years in South Korea to absorb the culture of the organisation before heading to overseas operations. Some firms also send younger executives from the home country to key foreign markets at early points in their career so they can get accustomed to foreign culture.

### Leveraging HR technology

Having the right kind of HR technology and systems in place can help break the various cultural, structural and language barriers that cause problems within global firms. Global talent management processes that protect employees both locally and globally help to reduce workforce costs and maximise workforce performance. Compliance risks, which arise due to differences in legal processes across countries, can also be efficiently addressed if firms have, for example, a global compensation design process that allows for localisation as required.

Increasingly, Western MNCs are establishing a single system of record/core HR system/cloud-based system, which allows them to easily view all employee data across geographies, legal entities and for all employee types. This helps in



### Case study: Chinese high-tech MNC

- This Chinese high-tech firm relied on mergers and acquisitions as its main mode of expansion abroad. The Chinese government has supported the firm's expansion plans from the beginning, which helps ensure its long-term financial stability.
- Among its largest acquisitions was a large Western MNC with a strong global brand. Instead of using the acquired brand to better position itself in the market, the MNC used the acquired company's marketing team to strengthen its own Chinese brand. Today, this brand is globally recognised as one of the strongest in its industry.
- The organisation was not shy about hiring Western CEOs and foreigners for senior executive positions. In most of its acquisitions of Western companies, this high-tech giant left the status-quo unchanged. On the other hand, when expanding organically and hiring abroad, the company makes sure it also recruits from the Chinese diaspora.
- In its M&A activity, the organisation focused on acquiring intangibles such as brand, intellectual capital and key talent. In the past decade, it managed not only to significantly grow its market share, but also to become a leading global "made in China" brand associated with innovation and the latest technology.
- Among the keys to its success were its multidimensional talent strategy and its ability to integrate the intangibles of its acquisitions into its business core, believing and staying true to its original brand.

monitoring workforce changes and in making data-driven decisions. Having self-service capabilities reduces the number of IT and HR staff members required. Our employee opinion research indicates that half of the employees from Asia Pacific think that their organisation's HR technology modules are integrated with one another.<sup>4</sup> About 45% say that their organisation has embedded a global job architecture into the human resource information system (HRIS) throughout the entire organisation.<sup>5</sup>

Still, according to our interviews, many Asian firms, especially those in China and India, struggle with issues related to integrating their overall global HR management system. Many Chinese companies, for example, have an HR information system that works well for their domestic business but poses serious challenges when they expand overseas. In the more developed Asian countries like South Korea, the bigger firms that are further along the globalisation journey have sophisticated HR systems. The second-tier firms that are still in the process of internationalisation (with 50% of revenue generated within Korea and 50% from outside), do not have integrated HR systems or sophisticated systems to manage expats and face many issues with globalisation.

## Developing a global mindset for talent management

A large number of second-tier and third-tier Asian MNCs now realise that they need to refine their talent management practices with respect to performance management and career development to maximise employee potential at home and abroad. Business leaders find it challenging to align the mindset and mentality of employees at home with those in their newer markets (especially in Western countries). Employees in Asia are traditionally used to a work culture where employers take care of all employee needs, where "informal sources" or "special relationships" are accepted while competing for resources, and where there are no formally defined performance evaluation frameworks. For example, in companies in India, informal subjective appraisals are more common and peer appraisals are not considered effective. At the same time, grading systems are more differentiated as compared to Western firms. Many firms have multiple systems, which cause inconsistency and high administration costs. However, the more successful and established Asian globalisers are using technology and global systems that are transparent, which, in turn, enables them to retain their high-potential talent.

The concept of a career ladder, which is still prevalent in many Asian companies, is considered outdated in a lot of Western countries, where career development not

only means moving up the ladder but also lateral shifts in responsibilities across borders or business units. For example, for traditional state-owned enterprises in South Korea, India and China, creating compelling career paths remains an area of struggle. The emphasis on hierarchy in such cultures creates various complications when similar concepts are applied abroad. The more successful Asian employers are hence developing career frameworks aligned to employee needs abroad. They are investing in a lot of on-the-job training and informal training and emphasising the importance of lateral movement and geographic rotation.

The challenge of adopting a global mindset and process for performance management and career development is difficult for local employees in these countries, foreign expats as well as those hired in new markets. Asian MNCs are increasingly investing more resources to effectively manage these areas and reduce workforce costs as well as retain employees.

## Align talent strategy with business strategy to unlock success

While an effective talent strategy has multiple dimensions, for both large domestic firms as well as firms embarking on an international journey, the most important aspect is the required alignment with the firm's business strategy. If a firm wants to become the global leader in mobile applications for travel solutions, for instance, it will develop a talent strategy that fosters a digital and innovative mindset, a technology-savvy workforce and emphasise diversity and programs that reward quick solutions, risk-takers and blue-sky-thinkers.

In the same way, when a firm's strategy is strongly focused on international expansion, it will need a talent strategy that fosters a multicultural mindset, and rewards willingness to take risks and move overseas. A firm following such a strategy will need to design career paths that include stages abroad, develop leaders that are sensitive to other cultures, and emphasise basic elements such as English-speaking skills.

All the above talent management strategies and practices are mostly familiar to leaders at global firms. However, the speed at which Asian firms adopt these best practices as they expand will change the global talent landscape.

<sup>4</sup>Willis Towers Watson 2014 Global Talent Management and Rewards Study

<sup>5</sup>Willis Towers Watson 2014 Global Talent Management and Rewards Study

# Benefits and wellness

Attraction and retention challenges have forced employers to improve their rewards packages, with benefit and wellness plans playing a more important role. Each firm must analyse the trade-offs between a global approach, where all employees are entitled to the same benefits, and a local approach, where each subsidiary provides benefits aligned with market practice. The right answer depends on various factors including business strategy, firm values and industry.

A global approach requires:

- access to consistent information on local benefit market practices for very different countries, and
- benefits valuation and spending information in each market.

This information is not only difficult and costly to obtain, but also needs to be used strategically for the trade-off to make sense. We find that first-tier multinationals choose to allocate resources to address these issues, with the goal of identifying risks and opportunities and increasing the return on investment from their benefit plans. Our study also reveals that two out of three multinationals (most of them second- and third-tier) are at an early stage in the development of a global benefit strategy.<sup>6</sup>

Employers surveyed in the *2014 Global Talent Management and Rewards* Study reported that Asian firms tend to manage benefits locally more often than non-Asian firms. Our *2015 Asia Pacific Benefit Trends Survey* confirmed this finding: employers at Asian companies lean towards a less global benefit approach than their Western counterparts. Among those who do have a documented benefit strategy, Asian companies tend to manage it at country instead of regional or global level.

It is important to bear in mind that being truly global does not mean having a one-size-fits-all benefits plan, but rather having a structure flexible enough to adjust to government and cultural factors affecting each market and each type of employee.

There are some differences worth mentioning related to the objectives that these organisations seek to address with their benefit strategies. Improving attraction and retention, employee engagement and employees' perceived value of benefits were selected as top objectives by surveyed employers. However, among Asian firms, attraction and retention seems to be more of an issue. On the contrary, the percentage of non-Asian respondents mentioning alignment with a global benefit strategy as a top priority is almost double that of Asian MNCs. It is interesting that although Asian corporations have a less developed global approach, they are also less keen to develop this approach further.

Figure 22. Does your organisation have a long-term documented benefit strategy? If yes, how is it determined?

	Asia	Non-Asia
Yes – at the global level with local input	8%	18%
Yes – at the global level	6%	12%
Yes – at the regional level	6%	6%
Yes – at the country level	37%	28%
Yes – other	2%	4%
No	36%	27%
Don't know	6%	5%

Source: Willis Towers Watson 2015 Asia Pacific Benefit Trends Survey

<sup>6</sup>See Willis Towers Watson press release, "Multinationals Have Significant Opportunities to Raise their Global Benefits Game", June 24, 2014

## Inside the data

- One out of three Asian firms reported not having a long-term benefit strategy, but only one out of four non-Asian firms reported the same
- Western MNCs are more prone to having a global strategy in place with local input than Asia Pacific firms (18% vs. 8% respectively)
- Addressing attraction and retention issues was selected as a top priority by 78% of Asian respondents and 62% of Western employers
- Alignment with a global benefit strategy is a major objective for 10% of the firms located in Asia Pacific, and almost 20% of their Western counterparts
- Pension benefits are more commonly offered by Western corporations (59% in the West vs. 49% in Asia), as well as optical benefits (36% vs. 29%) and medical screening (81% vs. 76%)
- Biometric screening (for example, blood pressure, Body Mass Index), get active/walking programs, health decision support and Employee Assistance Programs (EAP) are also prevalent among health management programs of Western companies, but occupational health and safety programs are more popular among Asian multinationals
- 77% of non-Asian MNCs take employee opinion into account to a moderate or great extent to determine the benefits program versus 69% of Asian MNCs
- Economic conditions are considered in the benefits determination by 83% of the firms headquartered in Asia Pacific and by 78% of their Western counterparts

Source: Willis Towers Watson 2015 Asia Pacific Benefit Trends Survey

Figure 23. **Top objectives the organisation's benefit strategy seeks to address over the next three years**

	Asia	Non-Asia
Improving attraction and retention	78%	62%
Improving employee engagement	41%	45%
Improving employees' perceived value on benefits	37%	43%
Improving employee performance	36%	23%
Controlling employment costs	34%	32%
Improving employee wellbeing	28%	26%
Containing health related benefit costs	12%	18%
Alignment with global benefit strategy	10%	19%
Harmonising/rationalising benefits following an M&A or organisational change event	9%	16%
Reducing absence	1%	2%

Source: Willis Towers Watson 2015 Asia Pacific Benefit Trends Survey



The higher percentage of Western corporations intending to keep objectives aligned with their global benefit strategy can be explained by their greater familiarity with global governance policies. Although still in an early stage, Asian multinational employers are switching from an entirely local benefits approach to a regional or global one, showing their capabilities as Masters of Multitasking.

Companies consider diverse factors when determining which benefits to offer. While employee opinion is extremely important for non-Asian employers, economic conditions are relatively more important for Asian MNCs.

### Reducing the benefits gap with Western firms

The study identified a gap between Asian Trailblazers' benefit strategies and those of companies from developed economies in the West. However, the report also found that Asian firms have reduced this gap by increasing the number and level of programs in the last 12 months. Twenty-six percent of Asian firms increased the number of benefits and 25% increased benefit levels, compared to 22% and 10% of non-Asian firms respectively. Furthermore, Asian respondents are expected to continue increasing both the number and level of benefits in the next 12 months at significantly higher rates. Among Asian firms, 41% expect to increase the number of programs in comparison to 33% of their Western counterparts, while one out of two Asian firms expect to increase benefit levels, as opposed to only one out of 10 Western MNCs.

But not all Asian benefit programs/policies have improved over the last year. The implementation of new business systems (such as new payroll, HR software) and particularly the introduction of new types of benefits (for example, work-from-home options, extended leave) were more popular among Western firms. Interestingly, results show the opposite when asking about the expectations for the next 12 months. Asian firms are more optimistic about the future implementation of systems and the introduction of additional types of benefits.

Employers from Asian markets, which lag behind their peers in terms of benefit programs offered to employees, have done a tremendous job of improving and increasing their traditional benefit programs. Still, most have not reached the next stages of implementing new payroll or HR software, nor of introducing additional – less traditional – benefits (such as telecommuting). However, most Asian MNCs expect to do so in the short term. So, as data reveals, a quarter of Asian Trailblazers have caught up with their Western peers and have not only increased the number and level of benefits, but also have introduced new technology. Moreover, half of Asian MNCs say they will implement changes in benefit programs in the next 12 months, including new technology and more innovative benefits. The high overlap of firms planning to do so across all four surveyed areas simultaneously, suggests that again here, Asian MNCs will be facing strong multitasking pressures.

Figure 24. Which actions have you taken/are you planning with regard to your benefit programs over the following timeframes?

	In the last 12 months		In the next 12 months	
	Non-Asia	Asia	Non-Asia	Asia
Increase number of benefit programs	22%	26%	33%	41%
Increase level of benefits	10%	25%	10%	50%
Implement new business systems (such as new payroll/HR software)	28%	25%	33%	43%
Introduce new types of benefits (for example, work from home, extended leave)	20%	0%	22%	50%

Source: Willis Towers Watson 2015 Asia Pacific Benefit Trends Survey

## There is no “one” Asia: Country highlights

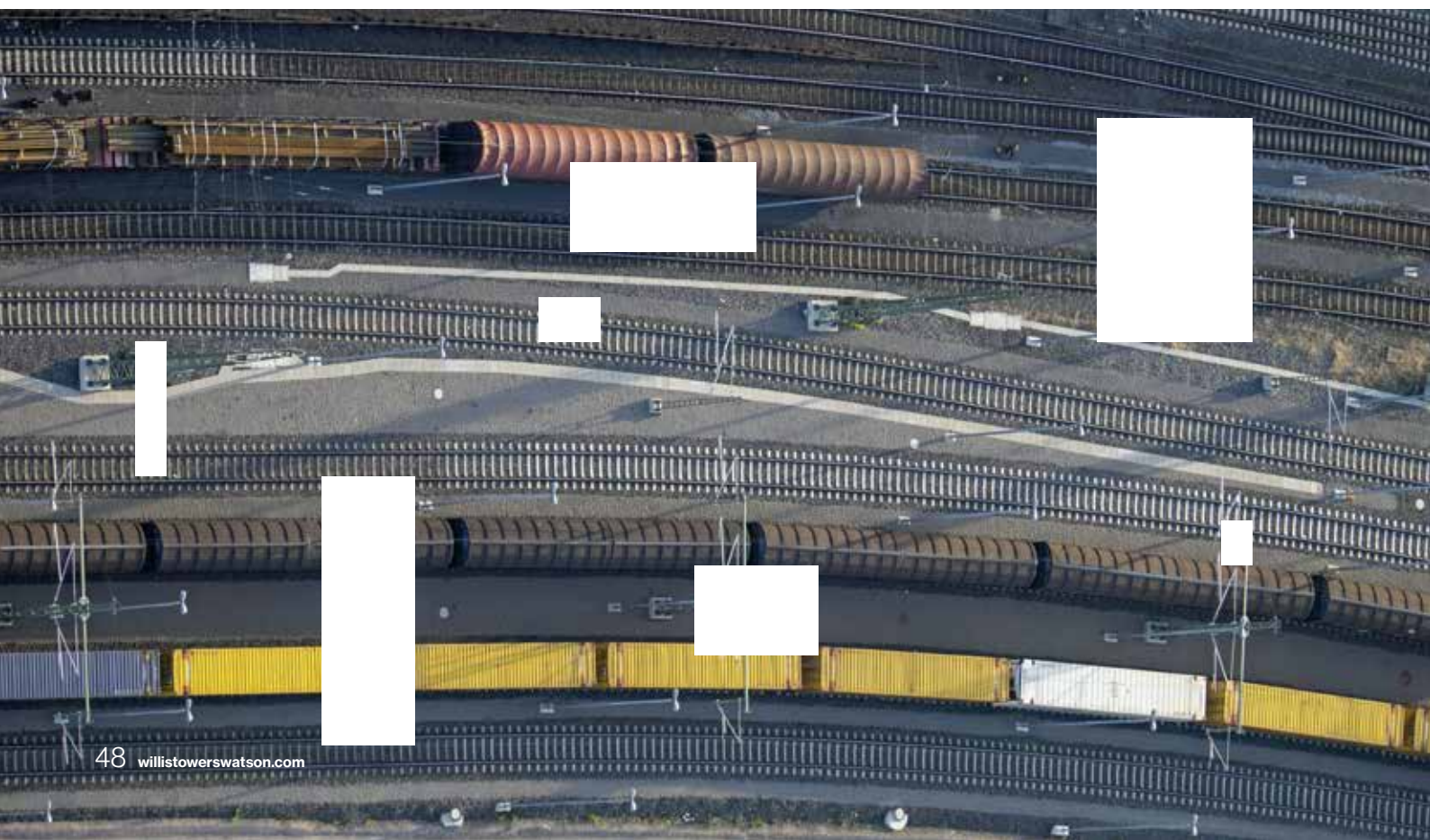
Asia Pacific is a highly diverse region. Countries vary not only in terms of economic wealth and market development, but also have very different cultures and business landscapes. Countries such as Australia, Japan, South Korea and Singapore are highly developed economies with MNCs that have been global for several decades. These countries have similar talent pools. And they have experienced stagnating economies and tough conditions in their local markets. Still, despite the similarities, these four countries could not be more different in terms of their culture and the way in which their MNCs do business.

On the other side of the spectrum, emerging Asia Pacific countries are also very diverse. India and China had a similar growth and international expansion story, but their firms have different organisational cultures: Indian MNCs share a strong legacy of having been or still being family businesses, while Chinese MNCs are mainly state-owned enterprises or enjoy strong government support.

First-tier Indian MNCs have a strong desire for change, and seek more sophistication in their organisational structures. Still, when compared to pragmatic Chinese MNCs, Indian MNCs seem less agile and quick in reinventing themselves. They encounter much more internal resistance to change.

And, due to their family business legacy as well as culture, they require more time to navigate internal politics and move from conception to the actual execution stage of needed changes. Another difference that delays these comprehensive changes is that Indian MNCs are more prone to develop in-house expertise or use their highly skilled, well-educated and well-trained resources to implement change without much external help. Chinese companies are more willing to pay for external help, both at the conception and execution stages, in the same way they are more inclined to acquire key talent abroad than develop it in-house.

Further, Indian and Chinese MNCs both need a more agile and adaptable HR structure. They have traditionally had more flexible programs, compensation structures and job grades in their local markets, given that these are highly dynamic talent markets. Part of their challenge when going global was to adapt and understand practices, which differ by market and industry, and to map them to a globally consistent structure.



### Case study: Chinese home appliances MNC

This major Chinese home appliances manufacturer had pursued a strong international expansion strategy in the past and was looking to continue its fast-paced globalisation efforts. Before doing so, it underwent a strategic review of its geographic portfolio.

It realised that among the business issues it faced was the underutilisation of its production capacity both in China and in other foreign low-cost locations into which it had expanded in its first wave of international growth. In addition, the company was experiencing challenges strengthening its brand abroad, so that its foreign subsidiaries focusing mainly on sales were also struggling.

The analysis concluded that given that the company was not fully utilising its production facilities in China and other foreign low-cost locations, it did not make sense to continue its cost-efficiency seeking expansion of manufacturing units until it had exhausted its ability to produce at a low cost in its current production facilities.

Instead, the company redirected its expansion into developed countries, making greater use of JVs and M&A to access new markets and distribution channels for its products.

Given the need for quick market entry, the company developed a global governance framework that integrated due diligence, pre-merger processes, and post-merger integration. This framework helped ensure its expansion into new markets in a timely manner. As a result, it was able to significantly increase sales and hence the utilisation of its existing production capacity.

The partnership with large retailers and distribution channels in Western economies further helped to increase the brand's visibility among consumers.

## China

Multinational companies from developed markets had the advantage of globalising in a world that was not as fast paced and complex as the one in which Chinese companies are globalising today. Most of these Western firms' geographic expansion followed a more linear path. Asian MNCs have become very bold in their globalisation approach and decided to deal with multiple challenges at the same time, multitasking their way to becoming consolidated global players.

Asian MNCs with the right internal culture of globalisation have four main advantages:

1. They have access to technology, models and program designs as well as data, metrics, research and expertise on talent strategy that were not available in the past in the scale and depth they are today
2. They are financially strong at a moment when the world economy is slowing down and recession in multiple countries makes interesting targets available
3. They are entering markets that are freer and have less political, macroeconomic and regulatory volatility than their own
4. They do not have obsolete systems or technology that need to be replaced, nor inertia to be overcome. Instead, they can acquire the latest technology and systems.

In addition to that, Chinese MNCs – several of them state-owned enterprises – work in a favourable environment at home that supports and fosters their globalisation and makes their foreign expansion easier while protecting their domestic markets from too much foreign competition. In other words, they have the advantage of expanding in a friendlier and more familiar environment than the one faced by their Western peers as they globalised several decades ago. Therefore, the main challenges faced by Chinese multinationals are internal and directly related to their own capability to operate as global entities. They include the ability to attract, manage and retain key talent – at home and abroad – to overcome brand issues, to integrate M&A targets, to sustain growth and/or to develop the right leaders and successors.

There is a new breed of Chinese MNCs, for example, Lenovo or Air China, that took a huge leap forward from operating within China and within the traditional state-owned enterprise mentality to suddenly managing companies and employees around the world. These Chinese companies are

## Assessing Indian Trailblazers' talent management practices

- **Attraction and retention.** Attracting and retaining key talent remains a perennial challenge for Indian companies both at home and abroad. Some of the successful globalisers have invested in talent management programs that combine both home country methods and global approaches to attracting and retaining talent. They invest in training programs locally that help employees develop international operation capabilities and also in programs that help employees in other markets adapt better to the common corporate value system.
- **Leadership transition.** Indian companies tend to keep a majority of existing leaders in place when acquiring an organisation, and ensure minimal intrusion from the parent company. This is especially the case when the acquired entity is bigger than the parent company and operates on a larger scale. However, when companies are moving to emerging markets or acquiring smaller entities, Indian leaders are often sent out to take control.
- Indian MNCs are further along the globalisation journey. These companies are gradually hiring local or international executives for top positions in foreign markets. **In terms of moving key talent, Indian MNCs are efficient** and generally send as many associates as required to learn about the culture of the acquired companies and make necessary changes.
- **Lack of institutionalised HRM practices.** A large number of diverse talent management practices exist in India. Big players, mostly in modern sectors like BPO and IT, have more sophisticated practices as compared to others, where these practices are less formal. When going to Western countries, Indian MNCs struggle with developing well-defined people management practices.
- **Gender diversity.** This is not a stated agenda item for Indian MNCs in the way it is for Western MNCs or even for companies from other Asian countries. While some companies realise the value of having a diverse workforce, they are not yet ready to make the significant changes required to achieve diversity. Some successful Indian globalisers in industries like IT and telecom have appointed women to top positions, while other global companies in the more traditional infrastructure or power industries still have a very patriarchal and predominantly male leadership.
- **Lack of a strategic approach to the management of compensation and benefits.** Governance of benefits and rewards often translates only into compliance for Indian companies. When expanding, Indian MNCs are more concerned about legal compliance and benchmarking against others in the market rather than efficiently managing benefit costs and operational risks.

on a compelling journey, aiming at being globally competitive and having diversity in their leadership.

In the past five years, several Chinese MNCs have embarked on transformation projects with a clear vision of what they wanted to accomplish and where they wanted to be within that period. And they sought the assistance and expertise of consulting firms to get there. These firms have also shown interest in the strategy of their Western peers, often assuming their foreign competition is far more sophisticated than it actually is. These fast growing Chinese Trailblazers are catching up quickly in their HR sophistication mainly due to two factors: they overestimated their gap with Western MNCs and the level of work these firms are willing to put in to learn and change is actually astounding. In addition, their ability to multitask and high level of pragmatism allow them to

make bolder changes than their counterparts in Europe and North America, where there is traditionally more resistance. These bold changes include fundamentally changing their service delivery model, changing their HR programs, bringing in state-of-the-art systems, looking at the role of line managers and people managers and trying to transform those roles to be more significant and empowered.

### India

India is increasingly becoming a major player on the global stage with more and more Indian organisations globalising their operations in developed and developing markets. With more than a decade of rapid economic growth combined with major shifts in economic policies, organisations have begun to think about what globalisation really means. Indian groups like the Tata group, Mahindra & Mahindra, and the

Aditya Birla Group are not only acquiring rivals worldwide but are also producing low-cost, high-quality products that compete with those of their Western counterparts.

Indian organisations tend to view expanding into Asia or outside of Asia fairly equally. Expanding into China or Western Europe both entail similar cultural changes for Indian organisations as India is quite different and culturally diverse from the rest of the fast-growing Asian region. Indian organisations are also looking to expand into African and Latin American markets. With experience in dealing with a tough business environment and political uncertainty at home, they are turning out to be faster at exploring frontier markets that even Western MNCs have in some cases not explored. They see immense opportunities for growth in such markets, and the prevailing uncertainty is not a deterrent for them. Bharti is a great example of an Indian Trailblazer that has thrived in frontier markets – its ventures in Africa and Southeast Asia as well as in “bottom-of-the-pyramid” type markets have earned this MNC great respect from its competitors. Bharti has succeeded in unexplored markets through strategic alliances with local partners and a unique approach to local markets and communities, investing in socially challenged sectors and engaging with local communities abroad.

Many companies in India are realising they need to build competitive advantage through innovation, employee skills and intellectual property as well as by reducing their reliance on low-cost operations. Natural resources, metals and chemicals remain some of the most favoured sectors for outbound investments. Companies in the manufacturing sector are developing near-shore facilities to get better access to fast-growing markets. Companies in the telecom industry are looking to develop niche skills and niche brands when expanding.

Most Indian companies are still in the process of developing strong and robust global governance structures and processes. The most critical challenges faced by companies as they look at globalising relate to how best to harmonise the opposing forces of standardisation versus localisation. While Indian MNCs realise that there is no one-size-fits-all model for governance and that they need to develop a strong core system that has the flexibility to be localised, many are not certain about what the right operating model is for their organisation.

Our research reveals that successful Indian companies use different types of operating models when expanding – some have given complete operational independence to the entities abroad while others have let them operate under very strict guiding principles. Despite differences in their global



approach, all first-tier Indian MNCs rely on multitasking. Some more traditional and family-run Indian MNCs are doing so due to their preference to develop in-house expertise rather than relying on external advisors. Some of the most innovative Indian MNCs are multitasking as a way of getting ahead of their competition, by innovating both simultaneously in their products and in their processes.

Even in terms of HR, some of the leading companies in India are very sophisticated in how they manage the HR function while others are still dealing with basic HR governance and risk issues. According to our research, one such innovative Indian Trailblazer has a truly centralised HR function, where the group's central HR function at its HQ has a say in HR practices across its subsidiaries – a rare finding across Indian MNCs. This group has clearly defined the scope of programs that come under its purview (for example, executive salaries, HR technology) and the programs that are managed by its subsidiaries. On the other hand, two other large Indian conglomerates have a highly decentralised HR function. Their philosophy is to treat each of their subsidiaries as independent entities with minimum interference from the HQ. In such cases, global operations turn out to be very different from local operations.

As compared to the higher degree of control over subsidiaries these firms had five years ago, a few companies have shifted towards providing greater freedom to local units. This shift is largely due to a better understanding of the nature and dynamics of the markets into which these companies are expanding. One of the companies interviewed differentiates between controls at two levels – the program level and the process level. So, for example, while the company customises its bonus plans (a program) to suit local needs, the process of calculating payouts and its monitoring is standardised and controlled by global HQ in order to mitigate risks. This model where program execution is governed globally, but program design is not, yields better returns than having a common centralised plan across different countries. At the same time, some mid-cap companies with significant global operations have not even started thinking about issues related to risk and governance.

In general, apart from a few sophisticated Indian Trailblazers, most Indian companies involve HR at a late stage, once the decision to expand to global markets has been made. Therefore, HR does not really have a voice in the decision-making process. Indian companies tend to tread carefully in foreign markets and prefer to wait, watch and learn about the markets before integrating these units in their more complex corporate functions such as HR. They start by integrating simpler processes such as supply chains or finance where synergies are more obvious. This gives them a five- to eight-

year window to stabilise all their operations. While such a hands-off approach gives the Indian parent company time to understand the new company or market, an approach involving more proactive management of people and cultural issues is often sought as a means of securing a better return on investment.

Most successful Indian globalisers are developing well-defined employee value propositions for foreign markets to attract and retain the best talent. They also prioritise fairness and transparency in rewards and in communication around rewards across different countries.

The pace of globalisation among Indian companies is picking up quite rapidly. Global ambitions are pursued not only by large, well-established companies, but by companies of all sizes. Indian MNCs look at expansion with a clear vision and strategic goals, such as having easy access to growing markets, acquiring niche skills or integrating the value chain. Still, global governance remains a work in progress for many. Successful globalisers have begun to develop sophisticated systems for workforce planning, rewards, incentives, leadership development, and so on. Some of them are undergoing huge restructuring to meet market demands, multitasking their way through a vast array of reforms, from building and maintaining data warehouses, to better understanding foreign markets, to developing new HR technology and professionalising their talent development programs.

## Japan

Japanese MNCs in general used to be very insular and some of them still are. Most Japanese MNCs have aggressively expanded abroad for over 50 years, acquiring significant international expertise. However, due to cultural factors, the way in which they govern and think about their foreign subsidiaries is still very insular. Most Japanese MNCs still work with a governance model where there is one framework for Japanese units and another for the rest of the world.

Until very recently, most of these firms did not have a desire to govern their entire corporate structure in a holistic way nor to be globally consistent. Among first-tier Japanese multinationals, as financial struggles in the past five years have become more pronounced, so too has the need to streamline internal processes in a globally consistent manner. They have recognised the need for better corporate governance, for more transparency in their decision making and for better integration of foreigners into their higher ranks.

But despite recognising that these changes have to be made, there is a major hurdle to be overcome: these firms' well-entrenched corporate culture. Most leaders in these

### Case study: Japanese automotive MNC (2)

- This Japanese automotive MNC pursued a globalisation strategy almost from its inception. Much of the success of this strategy can be attributed to its global governance approach, which strikes a great balance between corporate and local power structures.
- Its decentralised localisation strategy – which grants significant R&D, design and production independence to units abroad, letting them adapt to local market conditions – gave the organisation immense manufacturing flexibility and allowed for creativity and innovation to flourish across all of its units.
- This strategy strongly differentiates this MNC from other Japanese MNCs with respect to how it deals with its foreign units. Indeed, the firm's global governance framework allows for local autonomy in foreign units, not as a way to avoid dealing with these units, but rather as a way to embrace and capitalise on their diversity.
- As a result, this Japanese giant has been able to outperform its competitors by actively managing talent and market diversity, which allowed it to leverage a multicultural talent base as well as to better adapt to the needs of the foreign customer base it was serving.

firms still find it hard to embrace the changes that are really required to tackle these issues. Second-tier Japanese firms seem to be better able to embrace that change and adapt more quickly to the new environment that they operate in.

Japanese and Korean car manufacturing MNCs historically have made acquisitions in multiple markets – and have waited up to 10 years to integrate the acquired entities. Their rigid leadership style, lack of attractive mobility programs and cultural embeddedness made it difficult to send the right people abroad, and prompted key talent from the acquired entities to leave. In the past three years though, some of these firms have embarked on a journey to transform their corporate culture and leadership development.

They started to hold off-site leadership meetings in growth markets such as India or China, instead of in their home country. They introduced English as the firm's "official" language for communications, even at HQ. They began

to look for future potential leaders in-house across the organisation, investing in their development from a multicultural perspective. They also implemented programs to foster intergenerational knowledge transfer and planned explicitly for succession. Lastly, they increased the number of foreigners they brought into their higher ranks from head designers to CFOs.

Another interesting lesson from Japanese and Korean MNCs was that to overcome cultural differences in countries in which they had acquired a company, they started targeting the Japanese and/or Korean diaspora in the host country to help introduce their home culture to the acquired organisation. This was successful to a certain extent. These firms did not see the need to adapt the culture and mindset at HQ as well.

Two new interesting trends have developed among Japanese MNCs in the past five years: first, after facing pressures to improve the performance of units they have had in the U.S. or Europe for decades, they realised that part of their performance boost will come from a closer integration of these units, fostering global synergies and better global governance. Secondly, they have started to expand into new frontiers, among them Vietnam, Africa and Latin America, where they need help along multiple dimensions, ranging from understanding the culture and accessing local market practice data, to finding M&A targets and making sure that this time they get PMI right.

Further, while most Japanese MNCs understand the necessity and value of a more consistent global governance approach, many of them get stuck in the process of integrating their rest-of-the-world portfolio with Japanese headquarters. So, first steps are focused on less independent foreign units and floating satellites with more corporate control, but that does not mean these subsidiaries are integrated into a global framework that includes the firm's HQ yet. Given the recently passed regulation on a corporate governance code, more changes and multitasking pressures in this area can be expected in the next three years.

*Most Japanese MNCs still work with a governance model where there is one framework for Japanese units and another for the rest of the world.*

### Case study: Southeast Asian food & beverage MNC

- During the 1990s, this multinational started targeting the Filipino diaspora in the U.S., the Middle East, Hong Kong, China and Singapore, establishing an initial presence in seven countries. At first, its strategy involved a “multi-domestic” approach, whereby foreign units sold the same products as in the Philippines.
- However, given the small size of the Filipino diaspora in most of these foreign countries and its limited growth potential, this company’s leaders quickly realised that to survive in these markets, it was necessary to change the product to better meet the needs of local markets and to target more multicultural consumers. This would require hiring foreign talent with a better understanding of these consumers’ perspectives and preferences.
- At the same time, the company changed its expansion strategy, shifting to M&A involving large established local brands in China and India. As a result, its international presence grew to more than 15 countries.
- The Philippine MNC’s existing HR systems were too basic, especially in the areas of benefits and compensation, to handle the increasing demands of the organisation’s rapidly expanding global workforce. Therefore, while the MNC was transforming its products and business strategy, it also had to redesign and adapt its HR function.
- The transformation of its HR function was in itself multidimensional and required significant multitasking. Indeed, the firm simultaneously transformed HR frameworks and systems, developed and/or redesigned HR programs, improved basic processes to collect and handle global compensation and benefits data, introduced global grading and also decided to increase the sophistication of its HR technology.

## Southeast Asia

In Southeast Asia, Malaysian and Indonesian MNCs are not yet global, but have expanded to a very significant degree at the regional level. These firms have grown in their aspirations of becoming global players and display similar attributes to Indian MNCs, mostly due to similar family-run business legacies.

Thailand’s MNCs are closer to Japanese ones in terms of being more insular, and finding it more difficult to adapt to change and to think outside the box. While Thai MNCs still have plenty of room for improvement in terms of having a diverse leadership, MNCs from the Philippines – a very culturally diverse country – behave more like Chinese MNCs. These companies hire the best talent from wherever it is available and focus more on qualifications than origin. And they reap the benefits of having a multilingual culture, which contrasts with that of Chinese MNCs.

In most Southeast Asian countries – Malaysia, Philippines, Singapore, Thailand, Vietnam – there are at least two very large and important MNCs that have embarked on a 360-degree transformation towards becoming global and hence more performance-oriented. Some of these MNCs’ CEOs have been vocal about the fact that to become truly global, they have to overcome part of the challenges posed by their cultural DNA.

Cultural distance for Southeast Asian MNCs involves more than English language barriers. The largest clash exists in terms of leadership and working style. Organisational culture in these multinationals is highly correlated with national culture and firms have realised that this is directly affecting their ability to succeed as global players. The area in which most of these firms lag behind is not in their ability to produce strong leaders with a clear vision, who can take risks and make tough decisions. Rather, these companies struggle to have these leaders perceived as such, given that they lack communication skills and foreign employees do not see them as inspiring or motivating. In their home countries, leadership style is more hierarchical, and most employees require less information on vision or strategy to execute their jobs. In Western economies, this poses a challenge to foreign units, since the workforce in these units expects to receive more strategic direction and an explanation of where the firm is headed and how employees contribute to the organisation’s success.

Similarly, there is a difference with respect to how vocal employees are expected to be about problems. While Taiwanese, Japanese and Chinese firms have put more emphasis into the type of leader they need to succeed



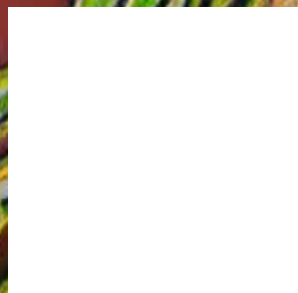
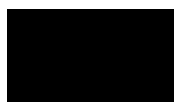
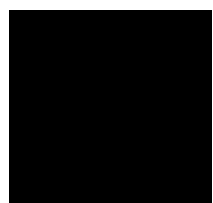
abroad, Southeast Asian firms have put more emphasis into how to integrate foreign leaders in a more effective manner.

Almost all of these Southeast Asian MNCs have started comprehensive internal transformation initiatives in the past five years. These initiatives required a high level of multitasking skills. HR transformations tackle issues ranging from very simple but challenging problems such as global mobility to leadership capability and leadership development issues, as well as cultural distance assessment and the redesign of processes to align different cultures and minimising friction. Part of these transformations may also involve introducing new communication processes and using the latest technology to make employees feel part of one large, unified firm.

Most of these firms also realised that they were losing talent in their acquired companies due to a weak brand in the countries they were expanding to. Some compensated for this by offering more lucrative compensation packages and early career opportunities. Others invested in strengthening their brand abroad through marketing initiatives and engagement with local communities or education programs. Further, some of the brands that started their expansion targeting the Southeast Asian diaspora as their main market soon realised that they also had to adapt their product to local markets, since the market comprised of these people was too volatile and small to be reliable.

Finally, it is interesting to note that most Southeast Asian MNCs operate in well-defined niches in which they have grown to be among the top five players in their industry or sub-industry.

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# Case study: DBS Bank

## Making banking joyful

The story of DBS started in 1968, only a few years after Singapore became an independent country. Initially known as the Development Bank of Singapore, it has been a catalyst for the country's development and industrialisation, funding and enabling growth in the past 50 years.

The bank is now a regional powerhouse. Apart from its regional headquarters in Singapore, it has a presence in China, Hong Kong, India, Indonesia and Taiwan. It seeks to be the Asian Bank of Choice, underscored by its "Living, Breathing Asia" philosophy. It was able to deliver sustained income growth for the past 28 quarters to December 31, 2015. It is the largest bank in Southeast Asia by assets; and the market leader in savings and current deposits, large corporate banking and capital markets in Singapore.

Rather than rest on its laurels, however, DBS recognises that the business environment is rapidly changing and "business as usual" is not a path to success. Multiple disruptors – fintechs, non-banks, new technology, and generational shifts in demand – are affecting the dynamics of the financial industry. Only innovative banks will thrive.

As such, in the past five years, DBS has embarked on a digital transformation journey. Digital banking came to the forefront as a tactical strategy for international expansion. Key Asian markets such as India or China have significant entry barriers. It is very difficult to acquire a bank with substantial footprint in those countries or to significantly grow organically given that local incumbents have 10,000 to 20,000 established branches. Digital banking has become an important enabler of that globalisation strategy and presents an opportunity for DBS to compete in those markets without the need to invest substantially in a branch network.

To support this transformation, DBS had to change its workplace culture. In particular, four themes have gained momentum at the bank:

1. Redefining purpose and values
2. Fostering an innovative mindset
3. Investing in talent
4. Enabling customer centricity

## About DBS Bank

- Headquartered and listed in Singapore, DBS is the local market leader across corporate and consumer banking, and serves over 6 million customers.
- The bank employs over 22,000 people across the organisation.
- DBS has more than 280 branches in Asia, with a presence in Singapore, where its regional headquarters are based, as well as China, Hong Kong, India, Indonesia and Taiwan.
- DBS's private banking franchise is now the eighth largest in Asia Pacific according to the 2015 Private Banker International (PBI) ranking.
- DBS was named the "Safest Bank in Asia" by Global Finance for seven consecutive years from 2009 to 2015, and earned the Gallup "Great Workplace Award" three times.
- It was also named the Bank of the Year, Asia by The Banker, as well as PBI's 2015 "Most Outstanding Bank in Asia-Pacific", "Most Innovative Business Model", "Most Outstanding Global NRI/Indians Offering", and "Most Outstanding Private Bank in Southeast Asia".

## At a glance

- Five years ago, DBS embarked on a transformation journey to foster innovation, purpose and decisiveness across all levels of the organisation.
- Starting with a profound internal cultural shift, the bank cascaded a change in mindset to every part of the business, from customer service and talent management to new products and succession planning.
- Some of the initiatives that followed included an innovative approach to digital banking; an assertive approach to developing leaders; and a focus on internal mobility.

## DBS's value system: PRIDE!



Source: DBS Bank

### Redefining purpose and values

With a strong focus on how it establishes relationships, DBS was already regarded as a trusted company in Asia by both employees and customers. It was seen as reliable even during financial crises. Taking those relationships to the next level required an internal cultural shift. Historically a very traditional and conservative institution, DBS had to change its mindset to foster purpose and innovation, and to become more nimble. The first step was to understand what employees and leadership thought was the bank's purpose and their own role in it.

As such, the leadership team embarked on a two-day workshop to do some deep soul-searching and answer key questions such as: Why does DBS exist? How quickly could it be replaced? What is the true purpose of the bank? How can it encourage innovation and decisiveness? How can it reimagine banking? At the end of that intensive workshop, the leaders came up with an audacious purpose to differentiate DBS from all the other banks: **making banking joyful** – where banking is simple, smart and effortless.

Although this seemed a crazy and ambiguous idea in the beginning, it proved to be a very powerful rallying call, becoming the company's core mission and inspiring everyone to think beyond traditional banking.

In this way, DBS not only redesigned the bank's hardware (by improving systems and processes), but also its 'heartware' (mindset and organisation culture). It re-examined its internal culture and the values that would impact everything at the bank, from customer service and talent management to new product development and succession planning. Consolidating its values as PRIDE! – the purpose of making banking joyful and creating impact beyond banking have transformed the way in which the bank leads relationships, undertakes innovation, and makes decisions, all the while encouraging employees to have fun at work.

### Fostering an innovative mindset

DBS did not want to impose culture change or just talk about it and expect results. It recognised that change had to be embedded in the bank's scorecard, processes and day-to-day activities so that employees could tangibly feel that things are changing.

A critical component has been the alignment and cascading down of the digital agenda across the bank, and strong commitment visibly demonstrated by the actions of top leadership. DBS also enhanced employee communication via online platforms and face-to-face meetings, and fostered stronger community spirit through HR's Power Up app. This mobile platform enables employees to access HR-related information and knowledge content, and is a platform to engage staff proactively.

The bank identified values to focus on to ensure its talent was diverse, agile, and had digital skills – and then took steps to ensure these skills were reflected in the entire workforce, from current employees to new hires and even interns. For instance, the bank reinvented its hiring strategy across the board to focus on talent with skills such as human-centred design, user experience and data analytics. It also reinvented its internships through Uni.Corn, a programme for university students in Singapore to work on specific business challenges in the bank.

Employees are also empowered with tools and methodologies such as human-centred design and the "lean start-up" mindset. They are provided the opportunity to experience what it means to be innovative and to understand that anyone can design and be creative. A centrepiece activity has been "hackathons" where employees collaborate with start-ups to identify and solve DBS business problems within a short time frame – from ideation, designing to prototyping to bring the concept to life. DBS engaged its ecosystem, marrying external start-up talent with employees

and leveraging senior leaders as sponsors and mentors. This is coupled with digital masterclasses that enable employees to learn about latest trends. In 2015, more than 2,000 employees gained exposure to hackathons as well as digital and human-centred design workshops.

Employees can also submit their entrepreneurial ideas to participate in DBS' HotSpot, a pre-accelerator programme for external digital start-ups and social entrepreneurs with a strong technology component to receive mentorship and seed funding. Last year, several employees were given sabbatical leave to develop their ideas. Two employee start-ups reached the final stage and are in talks with the bank and external stakeholders to advance their idea.

## Investing in talent

After several years of bringing in multiple external C-suite executives, the CEO has paid attention to developing leadership in-house to create a sustainable pipeline of talent to drive growth and the long-term business strategy. He prioritised processes that identify and develop talent with leadership potential.

As part of this initiative, DBS's top leaders are required to identify two or three people who could succeed them if given the proper leadership training and development experiences. While this type of succession planning is the norm among several Western MNCs, it remains an exception among Asian multinationals.

The bank has also adopted an innovative approach in further developing current leaders. In addition to the vertical approach, in which senior leaders train younger talent and are invited to speak, share experiences and coach others in leadership programmes, DBS fosters multigenerational and multidisciplinary interaction.

The bank established DBS Academy, a state-of-the-art learning space, in Singapore, Indonesia and Taiwan. In 2015, approximately 129,000 training days were undertaken by DBS employees, and close to 15,000 training sessions each year, with increasing numbers of digital courses, have been conducted.

In addition to formal classroom training or intensive workshops, the company also relies on challenging on-the-job experiences and has a formal talent management program. The bank's international footprint enables the company to expose its executives to various emerging markets and test their business practices in an international environment. International deployment of executives and rotation across lines of business and geographies are explicitly taken into account as growth opportunities

and formal milestones in career development where in comparison, only 28% of firms in the West include international mobility as part of their career development programs.<sup>7</sup> Acquiring international exposure is so valued internally that some managers and high-potentials would be willing to make a transition to more challenging markets in order to enhance their career experience. This is also a way for the bank to retain top talent. In 2015, about 26% of positions were filled via internal transfers.

As part of its purpose, DBS believes in creating impact beyond banking and playing a bigger role to impact communities. For instance, staff are encouraged to give back via People of Purpose, the bank's staff volunteer programme, and do Coffee with SEs where they mentor social enterprises. Across the group, out of its 22,000 staff, more than 4,000 volunteered their time in 2015.

## Enabling customer centricity

Customer centricity and simpler solutions have been guiding principles for everything developed at the hackathons. A way of making banking joyful is to make it simpler, more transparent and more agile. In addition, DBS looked for areas in which banking could leverage technology developed for other industries, such as artificial intelligence used for medical purposes or online applications developed in the e-commerce space.

By embedding themselves in the customer journey, employees conceptualised several ideas that were subsequently launched such as DBS PayLah!, a mobile wallet app that allows customers to transfer money instantly to anyone, including non-DBS customers, using the recipient's mobile number. Another is DBS Home Connect, a mobile app that can tell the latest transacted price of a property by holding up the phone or entering the name of the property. Another is DBS FasTrack, a first-of-its-kind app to be introduced by a bank in Singapore that provides a seamless ordering and payments solution for businesses while eliminating or drastically shortening customers' wait time.

In the past five years, DBS has embarked on an innovative journey that transformed its internal culture, its relationship with customers, its approach to internal talent development, and even its products and distribution channels. In addition, DBS not only sought to change, but also innovated in the way it achieved change by experimenting with hackathons, strengthening the role of international mobility in talent development and taking a multidisciplinary approach and communication across hierarchies and generations. DBS is hence a great example of a 2.0 Asian Trailblazer that managed to accelerate growth and transform by not only changing its culture, but helping its employees embrace that change.

<sup>7</sup>Willis Towers Watson 2014 Global Talent Management and Rewards Study

# Conclusions

A new breed of Asian Trailblazer is focusing less on globalisation speed and more on a multidimensional internal transformation. These firms have had to become adept at juggling multiple activities at once, ensuring that they get the basics in place while at the same time significantly increasing the sophistication of the solutions and technology used to modernise corporate functions so as to become more globally minded. These firms' success comes from their agility, flexibility, pragmatism and ability to multitask.

With the exception of Japan and Australia, most Asian Trailblazers have not had the luxury of time on their side. Therefore, they decided to leapfrog many of the steps taken by Western MNCs over three or more decades and to support that, they became proficient at multitasking. The study found five key areas in which Asian Trailblazers have learned to multitask to transform themselves into global players: **M&A, global governance, leadership development, overcoming cultural differences, and embracing diversity.**

Three tiers of Asian MNCs are consolidating their global position. Mainly those in the first two tiers are on a full-fledged, multidimensional 2020 transformation journey that will allow them to survive and sustain their global position. From a business strategy point of view, these firms are changing their products and go-to-market strategies at home, repositioning their brands both at home and abroad, and establishing a strong footprint in Western countries. They are also pioneering new frontiers: African consumer markets, mass markets and the "bottom-of-the-pyramid" as well as untapped "difficult" niche markets that require combining technology, distribution channels and innovative product redesign to be successful. Many of these changes are being achieved through key acquisitions. Most of these companies are ready to invest for the long run and have developed a vision for their growth in the next 10 years.

This has enabled them to acknowledge that in order to realise their growth strategy, they will also need to transform their business style and foster a more multicultural/global internal environment – even at HQ level. Therefore, they have started to develop a new leadership culture and to build minimum global consistency standards for HR processes and programs. Instead of reinventing the wheel, they are leapfrogging

to the latest HR technologies and sophisticated solutions. They are deleveraging, getting leaner, more agile and increasing efficiencies.

Asian MNCs have improved their due diligence processes but they are still struggling with post-merger integration and generating synergies. Indeed, Asian Trailblazers' very strongly rooted national and cultural DNA directly affects their outbound M&A performance and the way in which they deal with overseas units and govern a multinational enterprise. It also has a direct effect on their approach to developing leaders and managing succession, and to accessing internationally mobile talent.

Consequently, many Asian Trailblazers have started an organisational transformation to specifically resolve these problems. They have started to explicitly deal with generational glass ceilings, top-to-bottom transfer of knowledge and multigenerational succession planning. Some have started to include more foreign executives and women in their C-suite, although this remains the exception rather than the rule.

Some basic areas, such as maintaining data warehouses, accessing consistent data for different locations and designing consistent job levels need to be addressed at the same time as more fundamental changes, such as making sure data on compensation and benefits is used strategically and introducing global governance standards. Setting up shared service models for support functions in general or having regional/global centres of excellence are areas that only a few of the more innovative Asian MNCs are considering. Redesigning programs and developing new ones that foster a global mindset and facilitate global mobility are also part of the agenda. Also needed are cultural assessments highlighting the impact of an organisation's cultural DNA on its ability to manage a global enterprise.

Successful Asian Trailblazers often deal with all of the above simultaneously. To address this multitude of issues, they have developed a keen ability to multitask and turned these challenges to their advantage. These companies approach often daunting changes with a long-term view and have skipped many of the steps that were part of their Western peers' longer and slower-paced globalisation journey.

## About the study

The Willis Towers Watson *2016 Asian Trailblazers Study* was conducted between March and September 2015. To build the report, information and insights were gathered from four different sources:

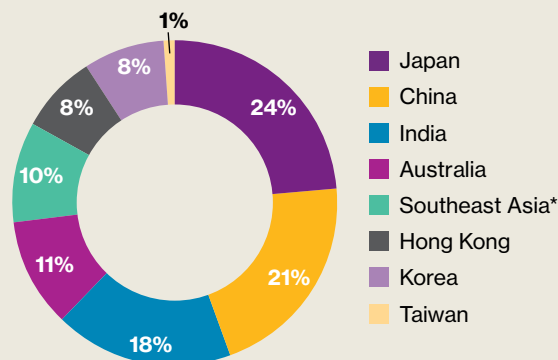
- Qualitative information was collected through one-hour interviews with more than 50 of Willis Towers Watson's most senior consultants and directors, all of whom have vast expertise providing advice, solutions and tools to Asian MNCs;
- Data on financials, globalisation strategy and organisational structure was gathered from public and paid databases, as well as press releases and MNCs' annual reports;
- A selected number of Asian MNCs were interviewed to put together firm-specific case studies;
- Analysis of Willis Towers Watson proprietary data and global surveys was conducted by using sample cuts that were specific to Asian MNCs.

The conducted interviews provided insight on the business issues that the largest Asian MNCs face with respect to their globalisation strategy, and how it affects their approach to areas such as global governance, talent management or M&A. Interviews also covered the evolution of some of these organisations' globalisation journey and broader market trends. The conversational style used for the interviews provided rich qualitative information in the form of "war stories" and specific examples of how these firms are multitasking their way to succeed as global players. Respondents' expertise and area of work covered many Asia Pacific countries – Australia, China, Hong Kong, India, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand – and multiple lines of business.

The information gathered for the study was used to build a database that covers the 80 largest Asian MNCs. The included firms are headquartered in the eleven Asia Pacific countries listed above and all rank in the *Forbes Global 2000*. For the purpose of the survey, we defined an Asian MNC as a company headquartered in Asia Pacific with operations in more than three countries.

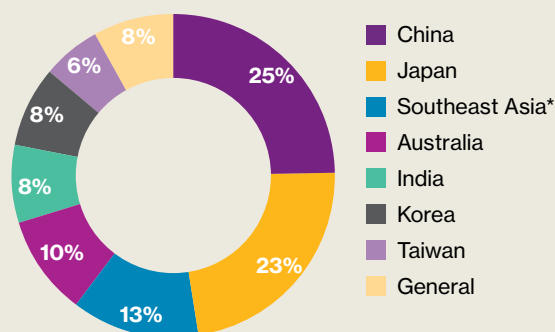
The Willis Towers Watson global surveys used to complement the above information sources are cross-referenced in the text and include the *2014 Global Talent Management and Rewards Study*,

Figure 25a. **80 Asian Trailblazers: Country of headquarters**



Source: Willis Towers Watson Research and Innovation Center 2015.  
\*Includes data from Malaysia, Philippines, Singapore and Thailand

Figure 25b. **Interviews: Country of respondents**



Source: Willis Towers Watson Research and Innovation Center 2015.  
\*Includes data from Malaysia, Philippines, Singapore and Thailand

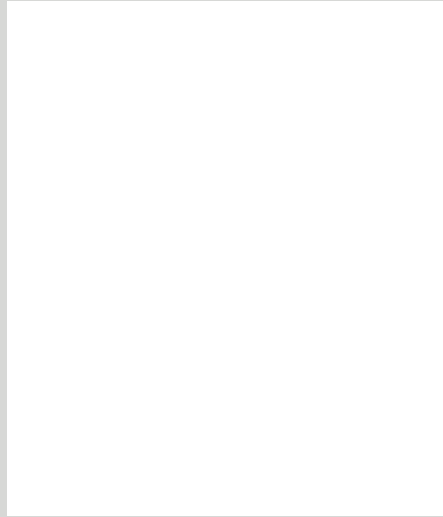
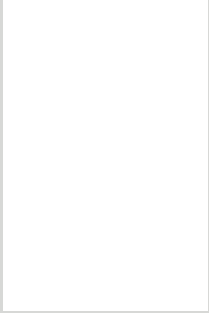
the *2014 Global Workforce Study*, and *2013/2014 Global Staying@Work Survey* and the *2015 Asia Pacific Benefit Trends Survey*.

The consultants included in the analysis are all located in a Willis Towers Watson Asia or Australasia office. They have worked with multiple Asian MNCs and provided insights on the local Asian market in which they operate. Some more general interviews covered specific industries (such as financial services or automotive), specific geographic markets, or areas of expertise (such as Asia Pacific M&A or Asia Pacific trends in talent and rewards). For the purposes of the study, we classified each interviewee's contribution by the country of origin of the MNC or market in which they had the most experience and expertise.

To find out more about the survey, please contact your local Willis Towers Watson consultant, or:

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## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 39,000 employees in more than 120 countries. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at [willistowerswatson.com](http://willistowerswatson.com).