

Leadership Development in China: (part 1 of 2) Challenges & Solutions *By Meridian Resources*

Developing local leadership is critical to success in China. Only by transferring responsibility to local employees can a company lower the cost of expatriate packages and fully leverage the insights of Chinese personnel into markets, competitors and the best operating strategies.

But developing future leaders tends to be very difficult in China today for several reasons. These include:

1. Lack of experience
2. Rapid turnover
3. Impatience
4. "SOE" mentality (state-owned enterprise)
5. Overestimation of abilities
6. Lack of teamwork
7. "Silo" mentality

In this issue we will look at the first three of these factors and describe some strategies for minimizing their impact. In our next issue, we will take a look at the remaining four.

1. Lack of experience

Many of the managers currently working for Western multinational companies in China are young: most are in their 30s. Although they are typically very bright and hard working, many have not had a lot of experience. As a result, before companies can even think about cultivating future leaders, they probably need to start by instituting a basic management development process that includes accurate reporting, time management, and employee evaluation. This is true even if managers have worked for foreign multinationals before. Prior work experience is no guarantee that managers in China have had any systematic management training.

Suggestions: Don't overlook the importance of training basic management skills, and don't accept a young manager's confidence in his or her skills at face value. Some managers may object if they are asked to take part in a basic management skills program: they may feel that doing so will be a loss of face. Instead of spending a lot of time trying to "sell" the merits of the program, it is better simply to ask a manager to participate in the program on a trial basis and review what he learned afterwards. Eager learners will readily agree; overconfident managers will typically be surprised at how much they didn't know and will be much more willing to participate in future programs. The trick is not to engage in an abstract debate about the program, but instead have the person experience it directly in order to appreciate its real value.

2. Rapid turnover

In most parts of China where western multinationals have a substantial presence, companies are struggling with very high turnover. A good example is the Suzhou Industrial Park, in the city of Suzhou to the west of Shanghai. Many western firms operating there are struggling with annual turnover rates of their local managers of 20% or more. And this high turnover is unlikely to abate soon. Since demand for people who have strong leadership potential far exceeds supply, they are tempted with daily offers to leave their current position for higher pay and a bigger title. High turnover makes planned, consistent leadership development extremely difficult.

Suggestions: The following strategies can minimize high turnover:

1. Ensure that senior executives set a clear, attainable goal for the organization against which ambitious managers can gauge their progress - lack of direction will lead to lack of confidence in leadership and higher turnover.
2. Keep high potential individuals busy with fresh challenges. Some managers working for foreign firms do not feel that their tasks provide enough opportunities to stretch and learn new skills, which leads to an "itch" to change jobs.
3. Make sure every high potential manager has a clear career development plan and commit resources to support its implementation. They will want to know if they can continue to grow on the job.
4. "Absentee" bosses are a big risk factor in the turnover of key personnel. Senior expatriate leaders should schedule regular meetings with their local management reports, allowing sufficient time to review career development possibilities and employee concerns; a good rule of thumb is a 90-minute meeting every two weeks.

3. Impatience

China's economy has been growing at an annual rate of 8% or more per year for the past decade; such rapid growth creates opportunities for extremely fast promotions into leadership roles with major responsibilities. This in turn gives rise to a professional culture in which young managers are constantly comparing themselves to others. Thus, instead of being happy with career growth far faster than the norm in Europe, the U.S., or Japan, local managers worry that they are not moving fast enough. They may thus perceive the time required for systematic management skills or leadership development training as a drag on their careers; many would rather job hop to keep pace with their peers than steadily invest in the tools they will need for long-term success.

Suggestions: The following strategies can help to retain talented but impatient local managers in China:

1. Institute a system of internal management grades by which local employees can track their rise in the organization; for example, all managers in a functional division might have a grade ranging from 12 (lowest grade) to 1 (top grade).
2. Widen the range of external titles, allowing individuals to show their rising status in the organization publicly. For example, in a manufacturing organization a person might start as head of a production group with the title *zuzhang*, or "team lead." This might be followed with responsibility for multiple teams with the title *banzhang*, or "group chief." At the top of a function might be *jingli*, or "manager"; below him might be *fujingli*, or "assistant manager." The wider the range, the more opportunities for frequent promotion, and the more likely you will keep good people.
3. Use modifiers in front of titles to further differentiate status in the organization. For example, *gaoji*, or "senior," can be added to any management title to signify accomplishment or seniority. Likewise, *teyou*, or "distinguished," can signify a special contribution or standing.
4. Link compensation to increased rank: use increased salary raises, annual bonuses, and stock grants or options as incentives. Remember that impatient managers are comparing not only status, but financial compensation as well. Status without financial reward will not be effective as a retention strategy.
5. For local personnel with experience and the ambition to take on greater leadership responsibilities, consider offering them the opportunity to start their own subsidiary, with financing from the head company. This is a powerful retention tool for top entrepreneurial talent.

Continued in the February, 2005 issue.

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