Are Multi-National Companies Taking The Most Intelligent Approach In Asia?

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Are MNCs taking the most intelligent approach in Asia?

Mark Braithwaite reports

Economic indicators point to a great future for Multi-National Companies (MNCs) in Asia. But for most global companies, the promise of Asia and what is being delivered are not the same. Today, as a region, Asia is a third of the global economy and home to half of the world's population. For MNCs, Asia represents an average of 23% of global revenue and in four years from now, most MNCs plan for this to reach 33%.

Asia is a big and fast growing market, but execution is the big challenge for MNCs, not economics.

■ **According to the most recent IMF World Economic Outlook update:**

"Asia is well positioned to meet the challenges ahead provided it stays the course on reforms.

The region has strengthened its resilience to global risks and will continue as a source of global economic dynamism.

Growth in Asia is projected to remain steady at 5.4% in 2014 and 5.5% in 2015.

External demand is set to pick up alongside the recovery in advanced economies, and domestic demand should remain solid across the region."

We recently met face-to-face, for off-the-record interviews with Asia based executives from 63 large European and US owned multi-nationals, spanning the Life Sciences, Consumer, Technology and Industrial sectors.

■ **We asked questions about how their businesses are performing in Asia** against expectations and what they see as their major challenges.

Five common themes emerged- cutting across all sectors. These five themes form the main roadblocks to success in Asia for MNCs:

1. **Communication, Culture & Understanding**
2. **Talent**
3. **Competition, Expectations & Economic Realities**
4. **Strategy & Structure**
5. **Corruption & Compliance**

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THEME 1 :: Communication, Culture & Understanding

If you don't think this is a big issue, then you don't understand the problem. The interviewed executives had a lot to say on this topic.

- **It seems that a lack of two way understanding between Asia regional leaders and HQ is very common:**

"Our executive leadership team does not understand the region, they use the US domestic market as their frame of reference."

"Our economic model that works elsewhere does not necessarily work in Asia. They don't get it."

"We spend a lot of time educating people at HQ. There is not just one economy in the world, even if 80% of our revenue comes from the US."

"My boss in the US does not travel. He understands Asia through phone calls. It's the same issue for my colleagues in the other growth markets."

"They understand the region from the context of the numbers, but they can't understand the nuances of culture. Doing a deal in Asia is more complex than in the US."

"The Asia/US education process does not work because people keep changing jobs at both ends. The person running the US will get a promotion to run international and they have never done anything in Asia. They are highly experienced and talented, but not in this region."

"There is a general lack of ability to understand the differences between the home market and the Asian markets. Every country in this region is different in terms of development status, infrastructure, levels of transparency, law, culture and language."

"It takes a lot to appreciate and understand another culture. You need humility to win in Asia...."

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"The company is 60 years old, while in Asia we are six years old. HQ does not always understand our challenge. There is a disconnect between investment and the revenue expectation. Also, people who have been with a company for a long time can become quite arrogant about how people should behave. People have more choices here. There is no room for arrogance in Asia."

"I really struggle with this. There cannot be one policy or strategy that works across Asia. There is not even a single common language. We make progress, then there is a new exec at HQ and we start again."

"I am always explaining the limitations of talent and volatility."

"Our HQ culture is disagree first and then discuss. Try that in Japan!"

And their thoughts about how to address these problems:

"Our growth will come from APAC. To get this right, HQ needs to adopt a better APAC understanding. Maybe we need some HQ positions to move to Asia."

"You can read as many books as you like about Japanese or Chinese culture, but this cannot replace time on the ground."

"I see a trend of power moving back to the region as matrix structures fail to deliver. It seemed like a good idea at the time."

"I can't think of a company that is cycling a senior US executive through Asia for experience. With the rise of quality local executives, there is less education about Asia going back to HQ. There needs to be a walk-in-the-shoes strategy."

Doing business in Asia is different on the level of dealing with individual customers:

"The emotional attachment to the transaction is greater here. People want to deal with people who understand their way. If you are accepted, then you can do business easily."

"Asian people often find it easier to deal with other Asian people."

The way managers and staff interact in some Asian countries may not fit your culture. This is not just about individual style, but about the way people in other cultures perceive hierarchy:

"In emerging markets, managers are usually very hierarchical. There is a directive leadership culture as opposed to the nurturing and empowerment culture we have in the developed world."

"In Singapore, we have been influenced by the west and what we say is what we mean. In China it is different. Even though I am Chinese, I am not from China and it is different."

"As regional leader, my role has become the cultural interface between this region and HQ. Intercultural translator. When I say that this region is all about people, it is not just the market. It is all about internal communication and relationships too."

Not all companies misunderstand these issues, but interestingly, those without problems were closer to their market through structure. B2C companies seem to be further ahead than B2B companies on this front:

"For us, our senior leadership team knows Asia Pacific pretty well. The CEO used to be head of Asia Pacific and the whole executive team has international experience."

"Because we have our global HQ in Asia and all of our top executives here, we have an advantage in understanding the region and a pathway to successful growth."

"APAC is more than US$10bn for us, of course we have the ear of the US."

"We don't have this problem. Our execs travel a lot."

One of the interviewed executives summarised understanding Asia:

"It takes a lot to appreciate and understand another culture. You need humility to win in Asia."

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THEME 2 :: Talent

Of the five common themes, every single executive interviewed sees talent as the biggest issue that stands in the way of their progress is Asia. There is no quick fix for this, but a better understanding is the place to start:

"It is challenging to bring understanding of Asia to HQ. In mature markets, finding staff that know our business is easy. In many Asian countries, it is not."

"The difference of Asia is all about people. It's about finding people so we can deliver business."

There has always been a critical talent shortage in Asia and most executives see this continuing. In some countries, MNCs aren't always as attractive as we'd imagine compared to local companies. The brand pull you have in developed markets, does not always translate:

"We did a survey in China and found that up to three years ago, MNCs were more attractive as an employer. Three years ago local companies were equal. Now, local is preferred at all levels. Graduate to Executive. Chinese companies pay at least the same, but with additional benefits."

"Global executives don't seem to understand why someone would join a local company in Asia as opposed to an MNC. Local companies provide more secure employment. MNCs are seen as too risky as they retrench people. Also, if you don't join an MNC, your English language skills are not important. Japan has a very long memory."

"Indians want to work for MNCs and Chinese want to work for Chinese companies."

Most MNCs understand the benefits of hiring local leadership, but making this happen is difficult:

"We have 80% expats as our country heads. We know we need to localise, but are struggling to get this done."

"In China, we are creating a market but the people that we need are just not there."

"The difference of Asia is all about people. It's about finding people so we can deliver business."

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Rising salary costs are an issue in China and Singapore:

"Salaries in China and Singapore are now higher than the US."

"In China, people want 30-50% uplift on their salary to move. Try getting this through HQ. We are the number one brand in our home market, yet people don't know us here. HQ can't see this."

Attrition is high for all MNCs in Asia. At management level, there are so many opportunities that employees move often. It is driven by career progression and salary increases:

"We need to factor in the cost of high staff turnover."

The chronic shortage of management talent and the high attrition creates a challenge to maintaining a common set of values and culture across many companies.

"We have hired the best talent from other companies. They are all driven to achieve for themselves. Added to this, with all of the acquisitions we have made, we need a commitment to a culture and a set of values."

Amongst all of these issues, MNCs still do well in Asia. Executives with years of on the ground experience in Asia are taking a pragmatic view on how to operate effectively for the long-term in this talent tight environment:

"It is part of the plan that we move people all over the world. At any one time we have 700 people in Asia working in countries that are not their home. Right now, we have almost 300 Asian people that we have sent to work outside the region."

"In emerging markets, you cannot always hire the management talent you want. We now hire on potential. Hire someone who is 60% now with the potential to be 200%."

"When you can't hire the experience, you need to be good at hiring the raw talent. IQ, EQ, DNA."

"We need to focus on building our employment brand in the region. Talent attracts talent."

"Find competent people and put them in charge, listen to them, trust them and don't try to manage from a distance."

"The only scalable formula is to invest in young local talent and be very hands-on managing them."

MNCs build shared knowledge, culture and management career progression by helping employees become "global". They do this by moving them. Asia presents a unique challenge in this regard.

"Indians will move because they are better off if they move out of India. The Chinese earn more in China than the US, generally, they are less mobile."

"In the main, people in China don't want to be mobile in their career. This limits the possibilities for their career and in turn keeps attrition high."

"We have struggled to transfer people to Asia from the west. They like the idea, but then pull out. So we hire locally and transfer these people to Europe to get the knowledge transfer this way."

The good news is that there seems to be a generational change coming through:

"I have a lot more confidence in the younger generation in Asia. They have grown up in a global economy. This bodes well for the future."

"I am seeing a new breed of Asian executive. They are doing things differently and replacing the expats. They are international in their experience and outlook."

And the last word on talent:

"My CFO asked, what if we invest in these people and they leave? The CEO said, what if we don't and they stay?"

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THEME 3 ::

Competition, Expectations & Economic Realities

Since 2008, global companies have brought greater focus onto emerging markets to provide growth. This in turn has fuelled greater competition with other MNCs in these markets and often created a market for rising local companies. The opportunity is growing, but so is the competition.

The 2014 Asia Business Outlook Survey, published by The Economist, reports:

"In the past, when many of these firms entered the region, they enjoyed relatively uncluttered markets, with low levels of competition. Today, however, local Asian firms are rising rapidly, and many of them are enjoying domestic advantages, possibly through better cultural understanding, more appropriate business models, better relationships with government, entrenched protectionism, or perhaps less restrictions around how they win new business."

A lot of data about Asia is misleading and this does not help global executives in supporting critical decisions. The region has unique complexities. Consider the comments from our regional executives.

"South East Asia alone has six languages, cultures, histories and labour laws. The difference between Thailand and Indonesia is as great as the difference between the US and Japan."

"Whatever you say about Asia does not apply to all of Asia. I did not understand this until I moved here."

"HQ has high expectations, but they underestimate the volatility of emerging markets. Political uncertainty and policy change arise overnight and we cannot predict this like we can in the west. The landscape and environment we operate in changes quickly. Every year, I have a US$100m problem in one of my markets that I can't see at the beginning of the year."

Let's take a tour of the region and see what is front of mind for our Asia leaders in regard to market conditions:

> "Everyone in the west is an expert on China! After 10 years on the ground in the region, I am still learning..."

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CHINA

China is now 13% of the global economy and will overtake the US as the world's largest economy in seven years.

"Everyone in the west is an expert on China! After 10 years on the ground in the region, I am still learning. There are very few people who really understand China."

Some of the executives we interviewed say they are doing well in China. But for many, the results have been elusive over the last two years. Some blame the market.

"Margins are eroding very fast because of local competition in China."

"China is still a great opportunity, but it has been a tough market for us over the last two years. It needs patience and a steady nerve."

While others are quite openly critical about their ability to execute:

"Every MNC in our sector goes through the process of firing and replacing their China management team."

"After 15 years, we have still not cracked the code on how to win in China."

INDIA

According to Asia economist Richard Martin of IMA Asia:

"Asia's biggest political event this year is the landslide win for PM Modi in India on a promise to restore growth, as it has the potential to bring one of the world's two mega-population markets back onto the corporate priority list."

Most companies have found India very tough over the last two years. At the one end of the spectrum:

"India only hit 20% of target revenue for us last year."

And at the other end:

"India is providing strong double digit growth. Lots of spending in Finance and Government."

Most see the upside potential, but there are caveats to their optimism:

"We could grow at 100% p.a. in India but cash collection is a big issue, so we have put the brakes on."

"India is the most challenging country in the region. The customers are highly educated and demanding. They also expect to get everything for nothing."

"I have run four different companies across APAC but India has always been the hardest to get to work."

"Since the election, we have started to see an uptick in the market, but I expect it will be 6 to 12 months before we see the kind of growth we had before."

Our recent paper MODIfying India offers an in-depth analysis of this market. You can down load it HERE.

JAPAN

Japan seems to have turned the corner. Even through the GDP growth rates are low, most MNCs we spoke with are pleased with performance.

"Japan is good for us, but we need to get better at execution. The companies we partner with in Japan have become much more open and these relationships are really working now. This is a major shift."

"I have run four different companies across APAC but India has always been the hardest to get to work..."

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> "When people in Europe think of Asia, they think of China...."

"Our business in Japan is good. I think Japan sees itself as having bottomed out and is now on the upswing at last."

While for some, Japan is still very challenging:

"We have been in Asia for 10 years. We have 40% market share in Singapore, but only 1% in Japan."

SOUTH EAST ASIA

Most MNCs manage SEA as a cluster. Indonesia is widely expected to be the next China, but gaining traction there is elusive. Finding leadership talent is the number one issue:

"We want to grow fast in Indonesia and we are not patient enough to grow people. All MNCs are the same, they want fast results and they are competing for a very small pool of management talent. Vietnam is similar."

"We have been expecting growth in Indonesia, but this has not taken off."

Singapore is a reliable and steady market, but it is now the most expensive city in the world and cost issues are a problem. The Singapore economy itself is small, but it is the regional hub for more MNCs than any other Asian city:

"I see a talent crunch coming in Singapore. Retention is tough because it has become highly competitive. The pull factor that others create is too much and retaining people for more than a year is challenging."

"We are going gangbusters in all of South East Asia. We have not put a foot wrong in the last two years."

"The potential instability in Thailand had an impact, but this is better now."

The Philippines could be the next Indonesia, but with a stronger talent pool that speaks English.

AUSTRALIA

For many MNCs, Australia was the first landing point in the Asia region. As such, it is often the most developed market for them. It is reliable and steady:

"Australia is our largest operation in the region and is a steady and predictable market."

"When people in Europe think of Asia, they think of China. The profit for us is in Japan and Australia."

Many global companies have expectations of Asia that link to the economic indicators, but are not aligned with their own operating models, investment and timelines. This is a symptom of evolution in companies as they react to markets. Some are further along this journey than others:

"There is a big expectation of growth. The speed of development in the company is not keeping up with the market. What other markets take for granted, we are still building on."

"When the EU and US were not doing well, there was a lot of focus on Asia, but now this is more balanced."

"The hype that says you should have 25% of your global revenue from Asia has gone. It's not that simple. There is a more mature view and experience, such that it has become just another major market."

This leads us into the next theme. . .

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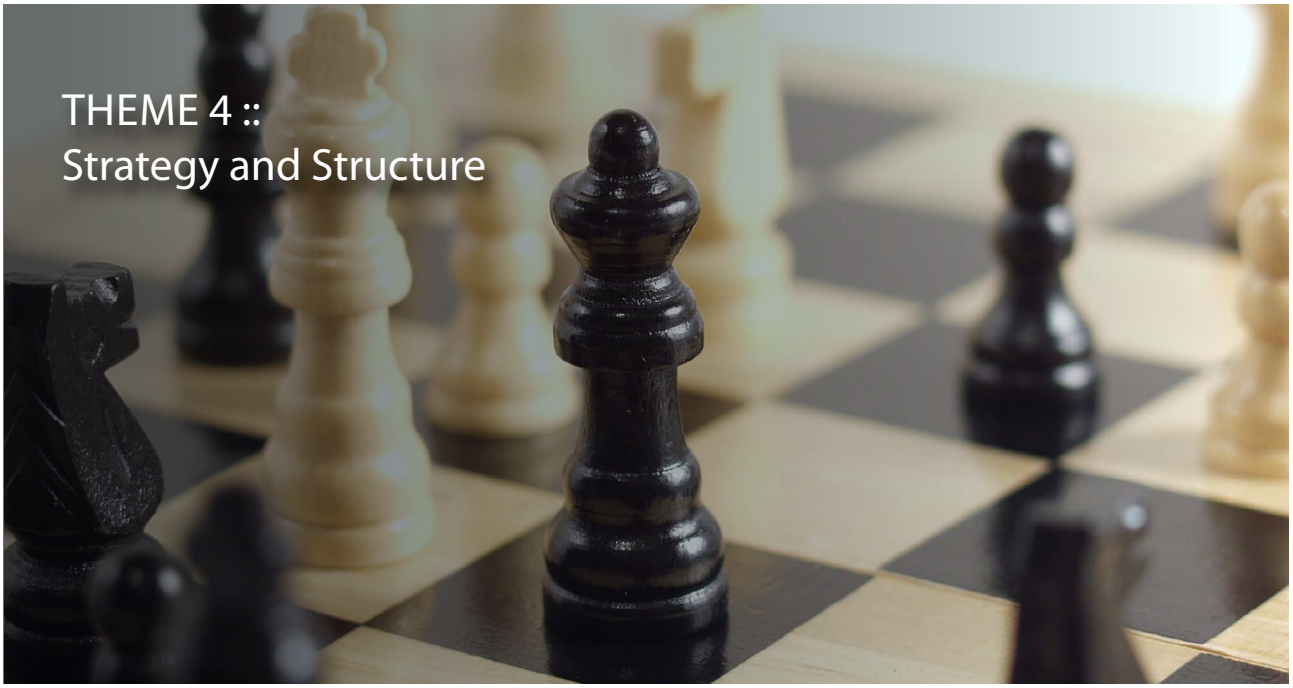

THEME 4 :: Strategy and Structure

Many global companies look at the world through the lens of their home country. A successful strategy in Europe or the US may not translate well in Asia.

According to a report titled "Global Growth", published by Bain & Company in 2012:

"Most multi-nationals in developing countries find themselves operating on the far edge of their supply chain and talent pools. Many find it hard to adapt to unfamiliar business practices and customer expectations.

They also find themselves up against a new kind of competitor – nimble, focussed, entrepreneurial enterprises, deeply embedded in their home markets, with significant cost advantages, ready to access local talent and often a hard driving founder."

These remote markets are different and need a new go-to-market strategy if the current one is not working. This comment from one of our regional leaders was echoed by all.

"There is no such thing as Asia. The go-to-market model in China, India, and Indonesia are all completely different. There is no uniformity of market rules. These countries are all evolving their regulatory environment."

There are various models deployed by MNCs, but the three global theatre model is still the most common- Americas, EMEA and APAC. More than 75% of companies include India and China as part of a single Asia Pacific region.

"Big companies seem to think that their way is the right way. This is a constraint to growth in Asia. If you keep doing the same things you will get the same results."

"Each country has a different dynamic, so the go-to-market model needs to be different. The complexity is invigorating."

"The matrix model where divisions report to HQ causes decision problems. This does not help."

> "There is no such thing as Asia. The go-to-market model in China, India, and Indonesia are all completely different..."

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Interestingly, the leaders of companies that have moved away from the three global theatre model, claim better results:

"Western companies are looking at Asia in a much more granular way than we used to. We have been de-constructing the matrix. The route to market is now more complex and there needs to be a single point of accountability that is local and close to the customer."

"I report to a President of Growth Markets, based in HQ. He is a growth market specialist and fully understands my issues in APAC. Every month, every P&L owner meets for a day at HQ and the meeting is run by the CEO. This meeting is not optional and I go with a shopping list in hand from my team. This meeting keeps common purpose, vision and understanding in line. It works."

The COO of a multi-billion dollar global company we met with, has moved his office to Singapore. He said. . .

"Our market is growing at 8%, yet we are growing at 40%. Our competitors are failing because they try to be a global company from the US. It does not work."

There seems to be a tipping point around the ratio of Asia revenue in relation to global revenue. At this point, MNCs abandon trying to force a one size fits all strategy and take on a different approach.

"The voice that you have is directly linked to revenue contribution. 40% of our revenue is now from China, so our execs in Europe bring us into all decision processes. They also spend a lot of time here. Companies chase the money."

"If we are to get to our target global revenue, we need to start moving some global roles into the region. At this stage, HQ is not even inviting Asian managers onto project teams. Our leaders are frustrated and leaving."

Another area that is consistently debated is the local versus expat managers:

"Hiring local managers ingrains the business into the local economy. We see this as a responsibility when we invest. We need to contribute to the local economy too."

"Expats often make decisions for the short-term, because that is the timeframe they are here for and are rewarded for. We then inherit the long-term consequences."

And then for some companies, successful products in the home market don't always translate well in Asia:

"Creating brand consistency across Asia is complex. Many of our products are not relevant simply because the size of the product does not fit the smaller hand sizes of Asian people."

"Our European designs and specs are too expensive for this region. We are killed on price by local product. We need to get better at producing what the market wants, not what we want to design."

The Asian leader of one of the world's most iconic brands summed up his view of their market commitment:

"We are running a 30 year strategy in Asia."

Most MNCs speak about a three to five year strategy, then align most KPIs to drive quarterly performance!

"There are various models deployed by MNCs, but the three global theatre model is still the most common..."

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THEME 5 :: Corruption & Compliance

"By far the biggest challenge for MNCs in the next year will be working out whether China has taken away the welcome mat for foreign firms or simply launched a major tightening up of the regulatory environment.

Both require significant but quite different changes to operations, if not strategic alignment. If it's just a regulatory issue, then foreign firms must scramble to be squeaky clean on governance. Most are now well aware that while the rules might be similar to those in home markets, implementation is completely different.

If China has decided to limit the opportunities for foreign firms, then other options need to be considered, such as the value and role of local partners and brands.

Unfortunately it seems to be a bit of both, which will impose extra work and costs on your China team in 2015." (IMA Asia, July 2014)

■ **It's not just the economists who are cynical though. In a recent NYT article:**

"In April, the US Chamber of Commerce sent a letter to Secretary of State John Kerry and Treasury Secretary Jacob J.Lew expressing concern that Chinese authorities were using their anti-monopoly law 'to advance industrial policies that nurture domestic enterprises, rather than the internationally accepted norm of using competition law to protect consumer welfare and competition'."

The Glaxo corruption investigation in China that resulted in the jailing of two consultants and a US$500m fine, has shaken many MNC executives.

According to the Asia President of one of the world's largest technology companies:

"There is a more nationalistic approach from our customers. There is some anti-American sentiment and we have been removed from the supplier lists of some State Owned Enterprises."

"Local training and compliance management are crucial..."

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In principle though, the anti-corruption drive is good news for MNCs as this moves markets towards a level playing field:

"China and India have a massive focus on driving out corruption. If this gets done, it will be very good for MNCs."

"Compliance is a big issue. It is not a level playing field for MNCs. We cannot compromise on standards of governance and in one case, this meant that our licence to trade in one country was not renewed and we were locked out for a year."

"Anti-corruption campaigns and a geo-political push against US firms have become part of the process. For foreign firms, it has brought an entirely new element to corporate strategy in China."

China is the focus of the media in regard to anti-corruption reform, but reform is taking place across the region and this is a good thing.

Of the five themes though, this is the one most executives running a clean business from HQ, think least about. The exposure comes by independent actions on the ground that may backfire.

Local training and compliance management are crucial or you might unknowingly become the next Glaxo.

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Conclusion

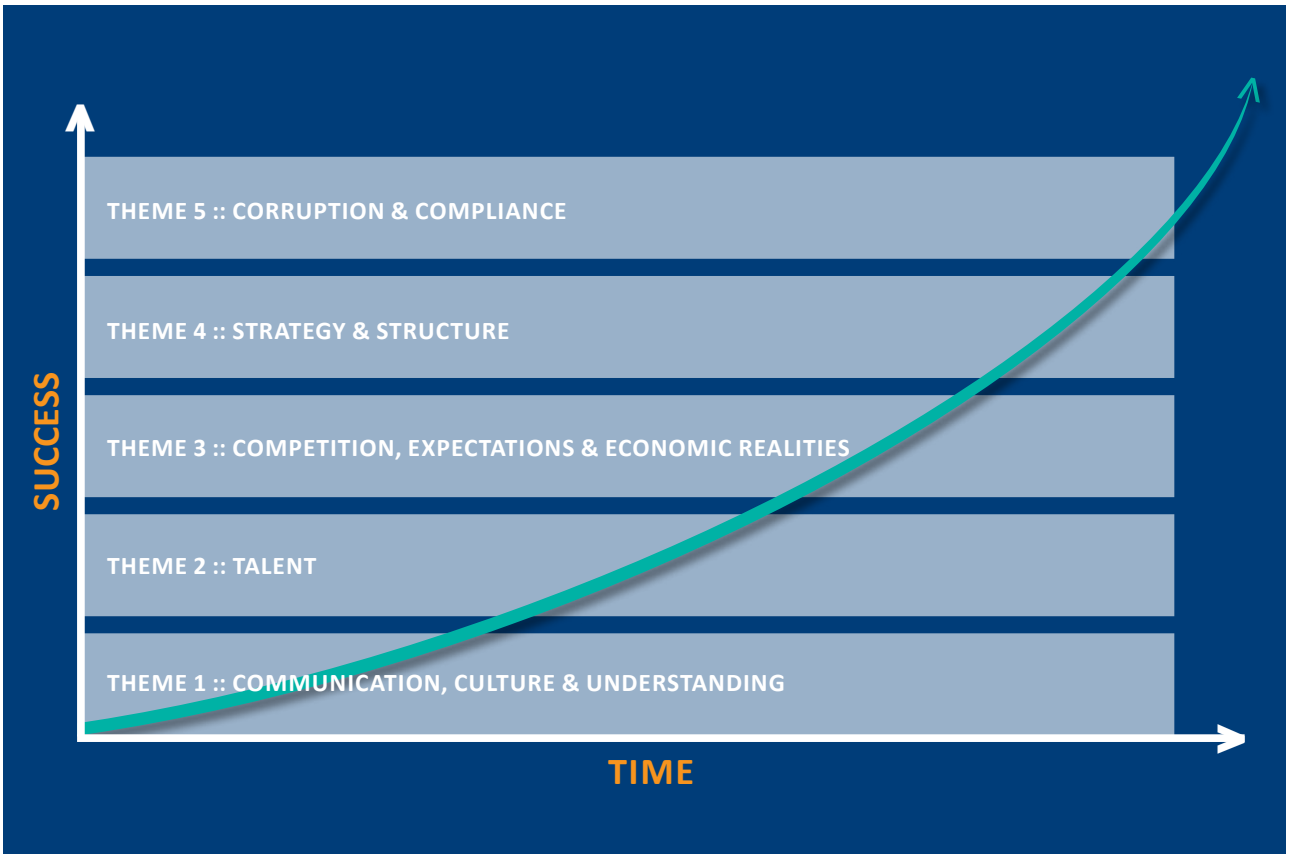
The message from our 63 Asia based executives is direct and consistent. At a global level, many MNCs are not taking the most intelligent approach to doing business in Asia.

These five themes point the way for MNCs to start questioning the way they plan, communicate and execute. There is no simple formula, but understanding is the first step to making good decisions. An executive from an iconic global consumer brand, thinks they have got it right:

"We are a true MNC. We are global in our team and outlook. Our culture is non-negotiable. We are good at strategy. What will stop us from succeeding is execution and this simply comes down to talent."

He did not say it was easy!

Success in Asia for MNCs



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About the Author

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Mark is a specialist in working with MNCs as they navigate change and growth.

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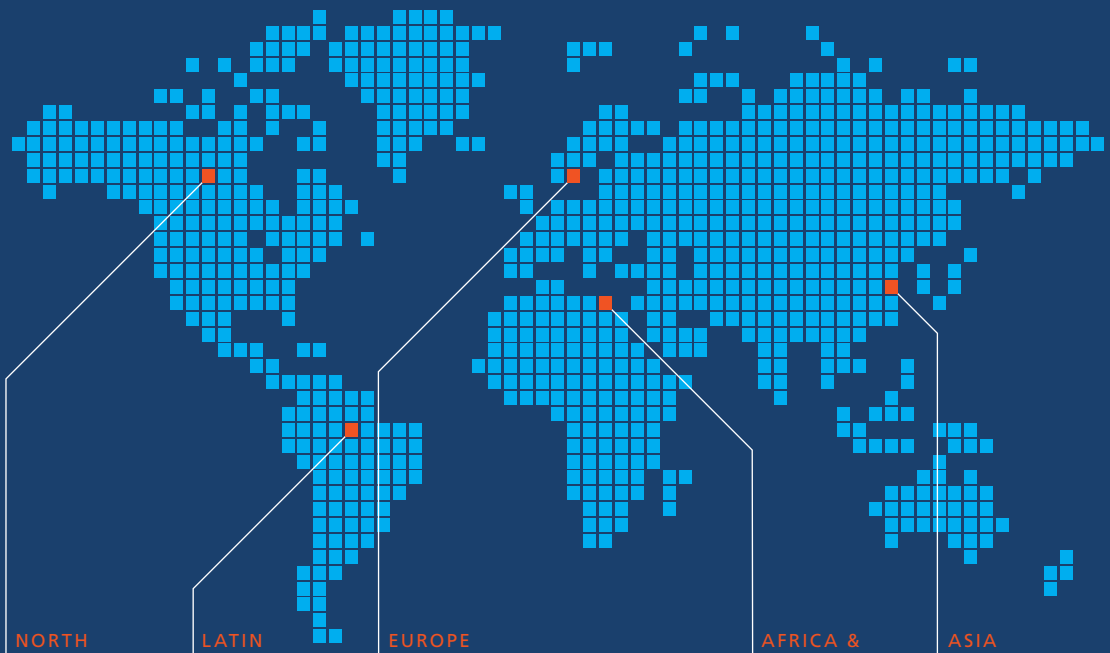

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