

THE AUTOMOTIVE INDUSTRY IN CHINA: MANAGING TODAY'S BUSINESS AND TALENT CHALLENGES

A summary of roundtable discussions in Detroit and Shanghai

Spencer Stuart recently hosted roundtable discussions in Detroit and Shanghai focusing on the business and leadership challenges facing the automotive industry in China. These gatherings were an outgrowth of a study conducted by the firm's Automotive Practice that explored the skills and leadership qualities essential for leading effectively in China and companies' strategies for attracting, retaining and developing top talent there. The study incorporated the viewpoints of top automotive executives globally, gathered through one-on-one interviews and a survey of more than 150 automotive executives around the world.

The panel discussions — one in Detroit in late 2008 and a second in Shanghai at the end of March of 2009 — built on the study's themes and looked at the new challenges to the industry in light of the economic environment, which had changed dramatically since the study was published in mid-2008. Even between the two gatherings, economic conditions worsened, creating an even more difficult environment for the industry globally.

The industry in China, of course, continues to grow, albeit at a more moderate pace than past years. As a result, it remains one of the industry's few bright spots. Both panels discussed the opportunities in China for the industry and shared their insights into the talent issues in the region. Automotive leaders participating in the Shanghai event also examined China's place in the industry's recovery and the talent opportunities they see in the current environment.

The Detroit event featured the following panelists:

- > **Steven M. Chapman**, group vice president and president of emerging markets and businesses for Cummins
- > **Xavier Mosquet**, senior partner and managing director of The Boston Consulting Group
- > **Hari Nair**, executive vice president and president of international for Tenneco

The Shanghai event featured the following panelists:

- > **George Chang**, president of Autoliv China
- > **Philip F. Murtaugh**, former chief executive of Asia Operations for Chrysler Group
- > **Douglas Schenk**, chairman and chief executive officer of Fiat (China) Group
- > **Enki Tan**, executive chairman, Giti Tire (China) Co. Ltd.

Below is a summary of the main themes and highlights from the discussions.

THE GLOBAL ECONOMIC SLOWDOWN'S IMPACT ON CHINA

Panelists at both events agreed that the industry's prospects for long-term growth in China remain strong, but automotive companies are adjusting to slower growth at the moment, presenting new challenges to organizations and their supply chains. China's economic growth has slowed from its pace in recent years, panelists agreed, but its economy will continue to grow at a significantly higher rate than Europe or North America, accentuating the importance of the Chinese market in the short and long terms. For this reason, it is important that automotive companies continue investing in the Chinese market and ensure that their businesses there perform well. As one executive attending the Shanghai roundtable said, "China will be an exciting market to be in at this point in time when you see gloom all around the world."

The global recession and the anticipation of slower growth in China's automotive market represent new leadership challenges for automotive executives, who have spent the past several years building capacity in response to annual growth rates ranging between 15 percent and 25 percent.

Many automotive companies are using the down cycle to streamline their operations in China, for example, identifying synergies across joint ventures and finding ways to reduce distribution costs. In the

current environment, companies also may be able to take advantage of the increase in available supplier capacity to build more flexibility into their cost structures. “One thing we’re learning is there can be cycles even in China, and it’s not a perpetual, permanent growth trajectory. One has to be a little more nimble perhaps than originally planned,” said one Detroit panelist.

With the competitive landscape likely to change, as weaker players go out of business or merge, companies that are prepared for the downturn — or are able to more quickly adapt — have the opportunity to seize market share. As one executive remarked, “It is a very difficult trading environment, but we have to see it as an opportunity. We have to make ourselves stronger during this recession and be one of the survivors.”

“By identifying and investing in the strongest performers today, companies will have the teams they need to be better positioned to grow when conditions improve.”

It has yet to be seen whether China will be able to lead the world out of the industry’s slump, as some observers hope, but there is no question the country’s automotive market will continue to reshape the global industry. Already, automotive companies are premiering new vehicle models in China, and the needs and preferences of China’s automotive consumers are being incorporated into the design processes of new cars; rather than cars being modified for the Chinese market, new models are being designed as much for the Chinese consumer as for the European or Latin American consumer. Some in the industry also expect China to be a leader in the alternative energy vehicle space because of the government’s willingness to invest in the necessary infrastructure.

FINDING AND DEVELOPING THE CHINESE LEADERSHIP TEAM

As China and the world emerge from the economic downturn, the industry is likely to look very different than it did before the downturn began. To position themselves for growth and the new opportunities presented by the industry’s next phase, automotive leaders should make talent a top priority today. Companies can do this by refining the team, selectively recruiting and focusing on the retention of key players, panelists said.

Refine the team

While reducing staff is challenging to an organization, targeted reductions in force allow companies to release people who may have been elevated beyond their talents during a period of rapid growth. “The unfortunate part about the cutbacks is you’ve got to let go of people. The advantage of the cutbacks is you get to let go of people. We have had a 14 percent reduction so far, mainly through attrition and

eliminating people who, quite frankly, we might have eliminated before if we hadn't been in such a growth mode. We're also sending many expats home and this may turn out to be a benefit as we replace expats with local talent," one panelist explained.

Operating in a challenging environment also tends to reveal the truly high-performing leaders, in contrast to those who have benefited from the industry's good times. By identifying and investing in the strongest performers today, companies will have the teams they need to be better positioned to grow when conditions improve.

"We are taking this opportunity to refine our team, so that we can have a stronger, higher-performing team. Our goal is to be well-positioned to grow and run as fast as we can once the storm is over," said one automotive leader during the Shanghai event.

Further, refining the team needs to be an ongoing priority. An organization's China operation will continue to grow and its priorities will evolve. Over time, the organization requires increasingly sophisticated leadership, organizational structure, succession planning and strategic planning to improve the sustainability of the business. In some cases, the executives who shepherded the organization during its smaller, more entrepreneurial phase may not have the experience or leadership qualities necessary for the company's next phase, executives said.

When they start, operations in China tend to be entrepreneurial with little process, control systems or discipline in operations, and leaders need to have a "get-things-done" orientation. As operations grow, they require more structure and process, and this transition can be painful. One executive participating in the Detroit panel explained the challenge this way: "The leader who made us extremely successful in China the first five years turned out to be the wrong guy for the next five years. The needs of the organization outgrew the individual."

Recruit selectively

With many automotive companies undergoing significant layoffs or going out of business, large numbers of experienced automotive executives and professionals across functions suddenly are entering the talent marketplace. Companies have the opportunity to bring experienced leaders into their operations in China through selective recruitment. For example, executives who have experience managing during a recession could be especially valuable now.

While these leaders can add valuable expertise to the organization, it can be very difficult to integrate teams from different backgrounds and different capability levels. Companies will have to be careful to acquire talent that fits well with their culture and chemistry, especially when hiring people who have

not worked in China in the past. Companies also will have to set the expectation that incoming leaders will train, coach and mentor local teams.

“Strong leadership is the most important requirement for successfully integrating diverse teams. The leadership of the organization has to build a platform which will allow people to work, encourage learning by the less-experienced team and empower the more-experienced to do their work,” observed one panelist.

Retain key leaders

Retention continues to be a concern for companies operating in China. While automotive executives say turnover has moderated in the current environment, many remain concerned about the pattern of training and developing people only to see them leave for another company after a short time.

What are the most effective methods for retaining key people? While compensation needs to be competitive, Chinese executives and professionals are looking for roles that are meaningful and challenging and provide the flexibility to do the job effectively. Like everywhere else, Chinese executives and professionals want to work for organizations that provide them with many developmental opportunities — both vertical and lateral movements that expose them to a variety of businesses and functions. One executive described his philosophy like this, “If you create an environment where people feel that they can use their talents and make a difference and pay them fairly, they’re less inclined to leave.”

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Global training, support for advanced studies and high-potential programs that send local people to headquarters also win loyalty. Local Chinese want to be confident that there is a future for them at the company.

A supportive boss and a healthy culture also are important. As one China-based automotive leader explained, “If someone likes the team and the spirit of the company, they stay.”

Panelists in Detroit discussed the need to establish the right balance between the corporate culture and norms and the local Chinese culture within their operations and joint ventures in China. The balance can be challenging to achieve for multinationals, which have well-established processes and explicit reporting requirements, yet need to accommodate local cultural differences.

As in any other region, leaders in China must actively shape the culture through the company's vision, mission and core values, while still recognizing and respecting the unique local culture and the needs of local customers, suppliers and employees. According to one executive, "The balance between entrepreneurship and corporate processes is one of the most difficult to achieve, because there's no good balance. You frustrate the Chinese very quickly if you try to apply too much of the corporate culture. And at the same time, if you want to grow the company, you have to put processes in place."

Find the right roles for expats

The decline in the global economy is encouraging automotive companies to review how to use expatriates in their Chinese organizations. At many companies, expats are being called back to their home countries. Several panelists saw these moves as potentially beneficial to organizations, if they make room for qualified local staff to move into key roles.

However, panelists said that expats continue to be necessary in some positions, especially in certain technical and finance roles, where it is helpful to have a culturally disciplined, process-oriented expatriate to install and ingrain the processes into the organization, especially in joint ventures. And, ironically, the economic crisis is increasing the value of expats in the eyes of some automotive leaders. "There are no Chinese managers alive today who have managed in a recession. Middle managers are having to deal with a situation where there is no revenue coming in. Meanwhile, companies are pushing to eliminate expatriates in China. Companies are losing a good opportunity to have people who have managed through a downturn before teach the managers who have never experienced it," one panelist observed.

Panelists emphasized the importance of having the right leadership team in place — a high-performance, diverse mix of people with cross-cultural capability, including local Chinese and expatriates who are fluent in the language. While the automotive executives participating in our panels said expats can help maintain a strong link between operations in China and headquarters, having too many Westerners can cause the local organization to feel the company lacks commitment to them.

One way that Western companies undermine the loyalty of their Chinese employees is by continually filling senior roles with expatriates, leaving the impression that there is no future for local leaders. A tactic some companies find effective is to assign expatriates to roles only when they have specific skill-sets that cannot be acquired locally and requiring them to train their local team with an eye to developing a Chinese successor. Further, mixing up reporting relationships sends a clear message that there are opportunities for all staff, whether they are expatriates or local Chinese.

ABOUT SPENCER STUART

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