Multinationals need a way to assess their human resources readiness on a country-by-country basis. A repeatable, integrated approach helps them achieve ambitious expansion plans or turn around performance.

HR readiness: A growing pain for consumer products multinationals in emerging markets

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Consumer products makers know all too well the critical role that a strong talent pool and well-defined organization play in executing their business strategies. But companies often don't have a clear view of their talent and organization, or human resources readiness. They can pinpoint specific areas where they lack management bench depth, areas with dangerously low employee retention and where incomplete succession plans threaten smooth operations. But they often fail to know what to do to remedy the gaps they identify. The problem is companies can't get their arms around the root causes, which is the first step to fixing it.

For consumer products makers, HR readiness is a significant challenge in mature markets like the US, Japan and France. But the problem takes on even greater importance and becomes that much more difficult in rapidly growing developing economies like China, India, Russia, Turkey and Mexico. Companies that lack the ability to assess and fill talent gaps and fix organizational shortcomings can end up ceding growth to a competitor.

The difficulty in overcoming this hurdle may be the reason multinationals routinely rank HR readiness as a top challenge in China, according to annual surveys by the American Chamber of Commerce in China. Not surprisingly, the survey results have been similar over the past five years. Participating executives described high turnover rates across the board in their Chinese operations and reported global HR processes couldn't keep pace with the relentless needs in China, where demand for talent continues to outstrip supply. As one frustrated executive explained, "If you want to grow at 25 percent a year and your turnover is 25 percent a year, you basically need to boost resources by 50 percent annually."

What multinationals increasingly need is an integrated plan linked to their business strategy, one that gives them the ability to assess their HR readiness state on a country-by-country basis. A repeatable, integrated approach tees up results on three fronts: it helps business units achieve ambitious expansion targets by identifying what's required locally; it helps turn around underperforming companies and galvanizes the management team; and it serves as a powerful change engine within the organization. With a comprehensive readiness plan, the workforce is prepared to successfully deliver the business strategy they've put together.

By taking a holistic approach to recruiting, developing and retaining talent linked to their business strategy, multinationals can break a vicious cycle. Companies with a weak talent pipeline lack the solid professional skills and internal processes needed to be a top performer in fast-growth emerging markets. As a result, the company lacks a confident, motivated culture in critical markets; employees have limited career opportunities and low job security as well as concerns about their compensation. In contrast, organizations that know how to attract and hold onto top talent perpetuate success. They cultivate the leading-edge skills required to focus on customer priorities and act quickly and effectively.

In our experience, HR readiness requires addressing four key areas (see Figure 1). Companies need:

- **A talent pipeline** plan that is aligned with delivering the business strategy.
- The right mix of **skills** in everything from sales to supply chain.
- A decision-driven **organization**.
- A performance-based **culture** in sync with the company's expansion target.

The best route to success starts by first conducting an HR readiness assessment that looks at overall talent needs. Such a diagnostic evaluates talent preparedness in each of the four key areas, country by country. It looks at multiple factors to expose gaps and find opportunities for improvement.

Here's how leading international fast-moving consumer goods (FMCG) companies tackle the challenge in each of the four key areas.

Building a talent pipeline

To achieve their business goals, companies need to correctly gauge what kind of talent recruitment is required to meet future talent demand (see Figure 2). Typically, organizations underestimate recruitment efforts, even when multinationals have low or moderate growth targets. Farsighted companies avoid this mistake. They start by looking ahead at the strategies required to deliver their business targets. If they make reasonable assumptions about how management productivity will change, they will successfully anticipate the organization's future talent demand.

Figure 1: Full set of tools used to assess HR readiness across FMCG companies

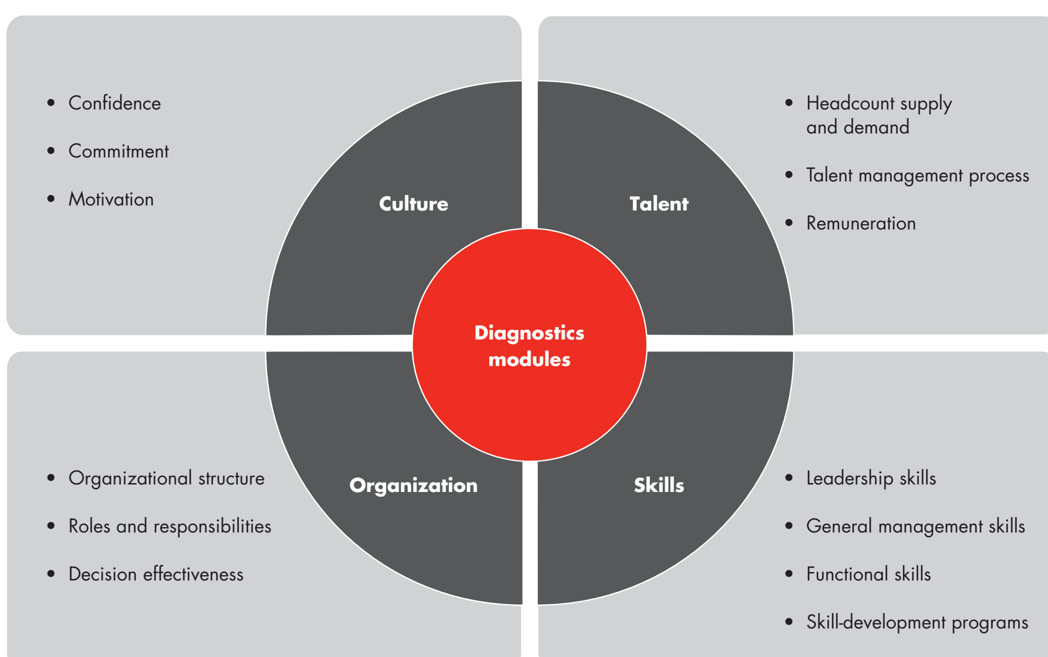
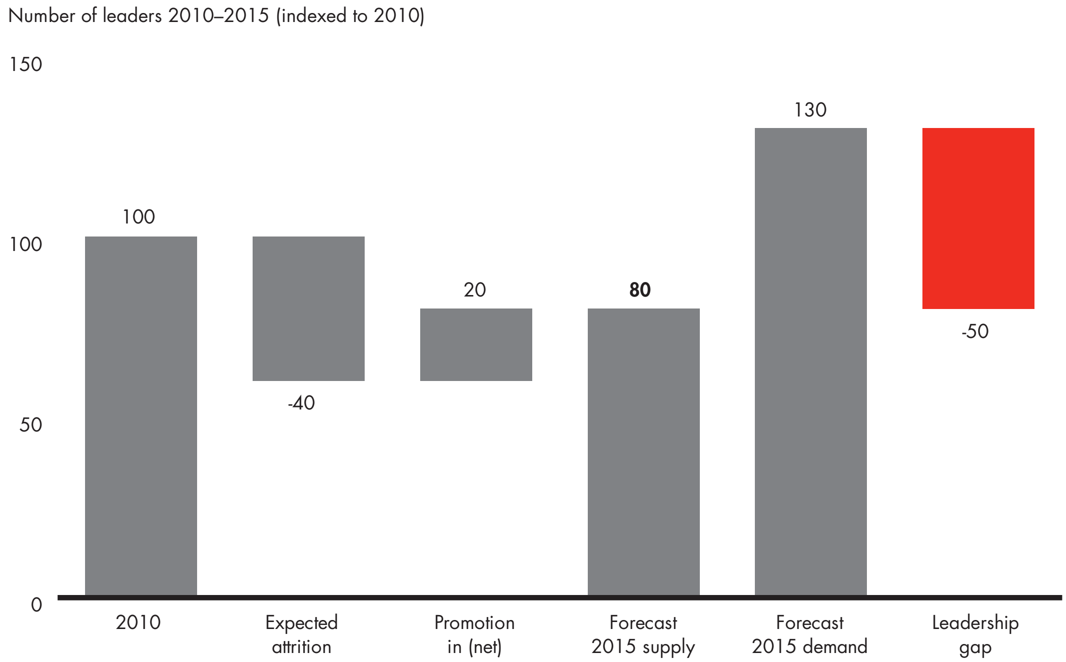


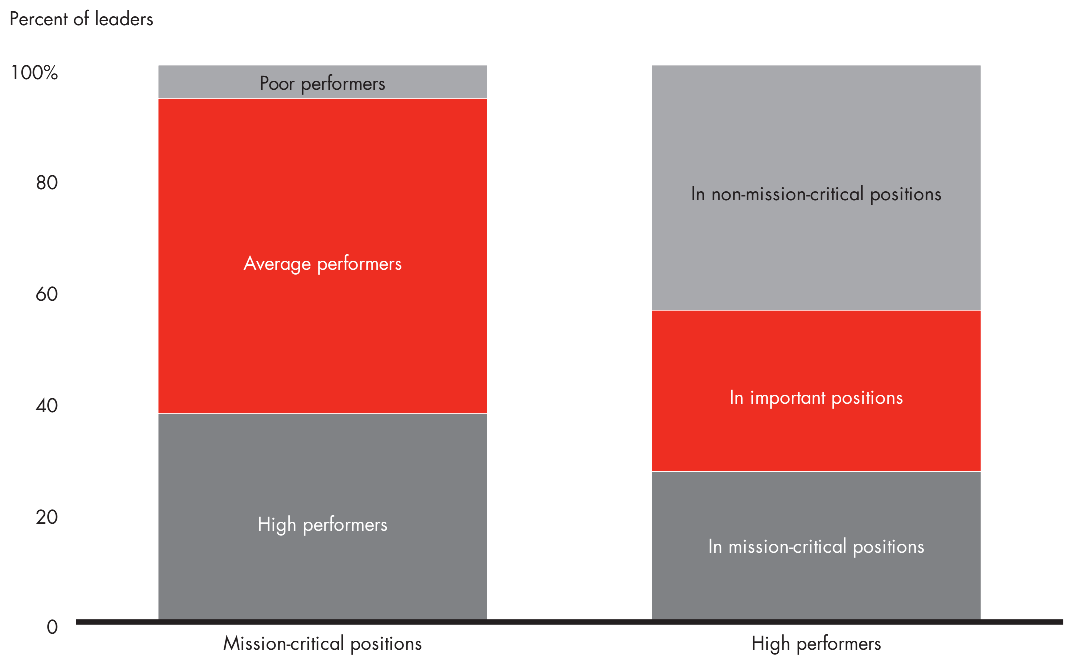
Figure 2: Demand for leaders will greatly exceed supply



Once they've estimated demand, growth leaders then assess the company's future talent supply. They project how the talent pool will evolve by considering all the factors that could reduce the pool's size over time (see Figure 3). These include likely attrition rates, promotions, transfers and retirements. By comparing demand with supply, they discover the answer: the talent gap that must be filled to hit their business objectives. Once they understand the talent gap, leaders can develop a plan to plug it. They build their talent pipeline with whatever combination of tools is best suited to their specific situation, including a larger initial recruiting drive, improving employee retention, hiring away talent working in similar positions in other companies and initiating internal transfers.

For example, Procter & Gamble (P&G) in China has found that its most reliable source of future leadership talent is its well-known management trainee (MT) program. More than 90 percent of P&G's China leadership team started as a management trainee and each year the company increases the number of MT recruits. P&G has built a sterling reputation on the campuses of China's leading universities, making it a sought-after employer. The MT program is planned and managed as carefully as any sales campaign. Recruiters use standardized screening criteria to evaluate candidates. Once hired, after three to six months of training rotations, the MTs are quickly assigned to real jobs. From day one, their performance is evaluated using the same framework as everyone else in the company. One important ingredient in the program's success is the role that senior managers play. They are involved from the start, conduct the final campus interviews and are accountable for their mentees' long-term success.

Figure 3: Many vital roles are not filled with top talent



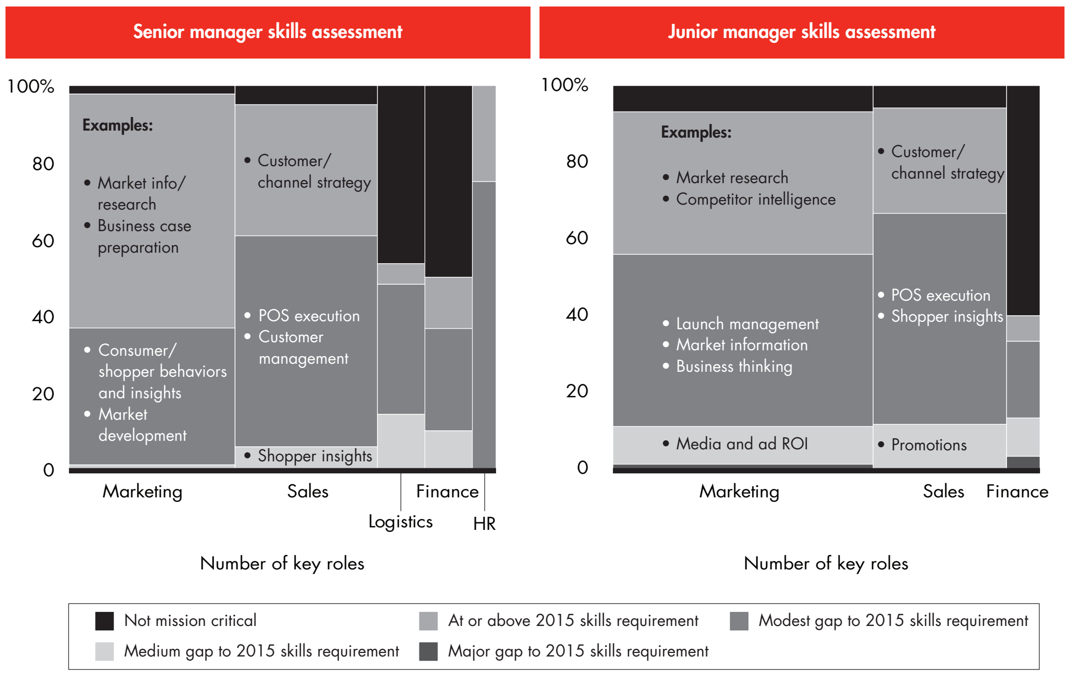
Wal-Mart in China also has a management trainee program that serves as its primary pipeline for future district managers and directors. One of the world's largest employers, the retailer has a clear understanding of the size of its Chinese talent challenge. In an effort to address it, Wal-Mart has begun recruiting lateral hires into its MT program. The company attempts to woo away promising individuals with two or three years of work experience at other organizations. In addition to nurturing management trainees, Wal-Mart China maintains a sophisticated set of processes to develop the small army of general associates hired each year and maximize talent. They include semi-annual talent and "flight risk" reviews; setting a goal of having three potential successors for all major positions; a performance measurement system that actively rewards developing strong talent; and customized development plans for all line managers.

It's no surprise that both P&G and Wal-Mart have been named best employers by publications and HR organizations alike.

Developing the right skills

Winning consumer products makers also perform an end-to-end skill assessment. It begins by identifying mission-critical roles for achieving their growth strategies and then reviewing the skill sets of managers in these roles to reveal gaps (see Figure 4). The outcome helps focus training efforts to improve key capabilities—everything from developing insights on shopping behaviors to boosting sales managers' modern trade negotiations skills. The skill-set assessment also could result in overhauling the transfer of knowledge by building in time to hand over information between critical roles.

Figure 4: Upgraded skills required by 2015; better training and sharing best practices



The first step is to define the mission-critical positions. In a developing market, an FMCG company in the $1 billion to $2 billion range usually has between 20 and 30 key positions across all major functions including marketing, supply chain, sales, human resources and finance. These functions, are critical to the success of the company's strategic mission. It's important to note that these mission-critical jobs don't always include the most senior positions.

The second step is to deploy the best talent available in those mission-critical positions. That is not always easy to do in rapidly growing emerging markets with a scarcity of talent. Companies overcome this by focusing on determining what skills are needed for these crucial jobs and then cultivating that skill set. For example, Unilever, a world leader in household, personal care and food products, has developed internal "academies" that define and regularly update the job definitions and skill set required for each mission-critical job. A major marketing role at Unilever requires 30 skills, not all of equal importance, covering both technical skills such as market research, category management and media planning and general management skills like interpersonal and team-management abilities. With clearly defined roles and skill sets, senior managers for a region or a product category can evaluate their teams against these requirements and find the gaps.

The last step: develop and implement initiatives that improve skills in targeted areas and close the gaps. They often include global or local training programs and short-term or long-term transfers of group experts. Companies also close gaps by hiring outside the company if the skills don't exist internally and developing IT and Internet-based tools to capture and disseminate knowledge and best practices throughout an entire organization.

Building a decision-driven organization

The ability to make and execute strong decisions is critical for winning in today's global markets and one requirement of good decisions is clarity of roles. Whatever a company's structure, decision roles need to be unambiguous. Unless people know who's responsible for making and executing critical decisions, the stress on the organization will only increase. A tool we call RAPID® clarifies accountabilities for each part of these decisions.

RAPID is a loose acronym for the key roles in any major decision. The individual or team responsible for a *recommendation* gathers relevant information and comes up with a proposed course of action. People with *input* responsibilities are consulted about the recommendation. An executive who must *agree* is anyone who needs to sign off on the proposal. Eventually, one person will *decide*. We say that person "has the D." Assigning the D to one individual ensures single-point accountability. The final role in the process involves the people who will *perform* or execute the decision.

To see how the process works, consider the recent situation of a beverage company in an emerging market in Latin America. The company had grown significantly, both organically and through acquisitions. But executives were still making decisions as if they were in a small company.

The company's decision making was too centralized and not flexible enough. If there was a local price war in a particular market, the decision to lower prices on a beverage went all the way up to the CEO. As the company grew, he was being asked to make decisions on as many as 500 price changes in a single year. By implementing a RAPID program, the company could make it clear which decisions he had to make and which could be delegated to local managers. Previously, decision-making responsibilities in a range of areas were undefined at the local level. The process of waiting for an answer from headquarters kept the beverage company from making the quick moves the market demanded.

The company designed and implemented RAPID for seven key decisions involving pricing, innovation and product promotions. For example, if the company wanted to change a price on a particular SKU, everybody was clear about who was responsible for everything from recommending the right course of action to providing input to making and implementing the decision. Previously, the company suffered from requiring too many approvals; as part of its over-centralized structure, and an army of managers needed to agree on all decisions. With RAPID in place, the company was able to reduce the average number of approvals for decisions from six down to two and one-half. In the end, the company found that 42 percent of new product launch decisions, 63 percent of pricing decisions, and 100 percent of local promotions and price promotion decisions could be made below the CEO level.

Fostering a high-performance culture

Unilever in Indonesia is a star organization across many dimensions. It's the most sought-after company for every young graduate who wants to work in the fast-moving consumer goods industry. And Unilever Indonesia has one of the lowest turnover rates for managers and senior executives—even though headhunters working for other FMCGs in the country routinely target Unilever for recruits. One of the major ingredients contributing to its success is the incredibly strong culture that Unilever has built over many years, giving it a major advantage in Indonesia's highly competitive market.

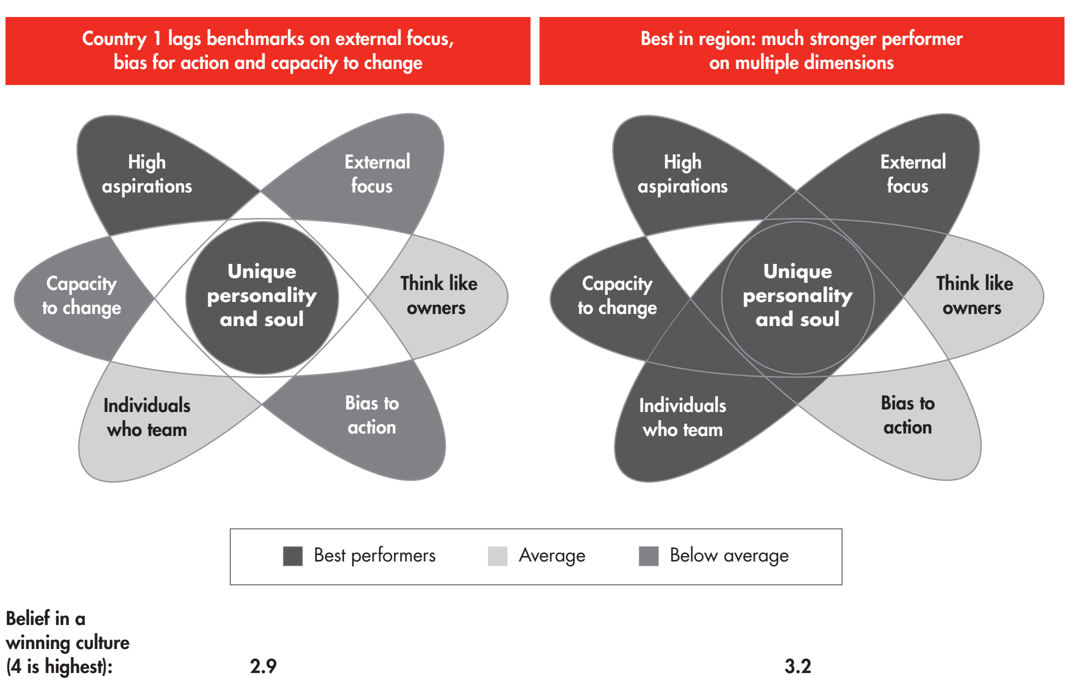
What do we mean by culture? We define it as a system of shared values and beliefs within an organization, determining how things are done and how people behave. A culture usually has two main components: a unique soul based on the company's heritage or the personality of its founders, which has been translated into rituals, heroes and specific ways of working; and high-performance values and behaviors that are often strikingly similar across winning companies. They might include a bias toward action, a strong customer focus and a corporate-wide belief that employees should "think like owners" (see Figure 5).

In a recent Bain survey of 1,230 global executives, 89 percent agreed with the statement "Culture is as important as strategy for business success." The critical role strategy plays in company performance was emphasized by former IBM CEO Lou Gerstner, who said, "I came to realize, in my time at IBM, that culture isn't just one aspect of the game, it is the game."

To build a high-performance culture, winning companies first decide on core values that will define the behaviors of their managers and employees. Unilever Indonesia has six values that it constantly reinforces through specific initiatives. They are integrity; excellence; customer, consumer and community focus; making things happen; teamwork; and sharing. Every year, the leadership team selects one of these six values as the cultural focus for the following 12 months.

Once it has defined its core values, high performers then must make sure that their leadership teams are aligned with the firm's values and business goals, prompting the desired behaviors. For example, at Unilever Indonesia, the leadership team takes several steps to reinforce its culture:

Figure 5: Country trails the best in region across a number of parameters



- The six values are ingrained in the leaders' daily work habits.
- To raise awareness, the leadership team annually rewards an employee who exemplifies one of the core values. It's a reminder to everyone that they are living in a glass house where their cultural contributions are observed.
- Twice a year, the team has an offsite day that is dedicated to discussing Unilever's culture. The event includes a "sharing" program that includes spouses.
- The leadership team meets every other week and the last item on the agenda is the "brutal fact." It's an opportunity for a leader to raise a sensitive issue involving other team members.
- From time to time, each member of the leadership team spends a day with another leader, giving them an opportunity to experience and learn from their daily activities.

Fostering a performance-based culture requires accountability, and accountability is best achieved by focusing on the things that motivate people, then celebrating their victories. Performance leaders find that reinforcing positive behavior is much more effective than investing in a formal cultural-change program. Performance leaders inspire their employees with initiatives that include offering rewards and incentives, streamlining the organization and processes and establishing a comprehensive performance-management system. High performers understand this fundamental tenet: culture is a means to an end, not an end to itself.

But critical as it is for success, a winning culture is just one of four key areas FMCG companies need to address on a country-by-country basis in a holistic approach to HR readiness. To reach their strategic goals for growth, particularly in the emerging markets where so much of the growth is taking place, companies also need to develop a repeatable plan for building a talent pipeline that can deliver the business strategy. They need to systematically create the right mix of mission-critical skills. And they need to ensure their organizations are capable of routinely identifying and quickly making the decisions that matter the most. Only then can consumer products companies make the most of the huge potential for profitable growth.

Never before has there been as much opportunity as there is today, but only for companies that know how to get ready for it. As one executive said, "In developed markets, there are more capabilities than there are business opportunities, so we need to work hard at finding new opportunities. In developing markets, it is the other way around. There are more business opportunities than there are capabilities, so we need to focus on developing the capabilities if we want to seize the opportunities that exist."

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