Blue Paper

The Automotive Industry:

Building for the future in China

SpencerStuart

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> Automotive Parts Manufacturers: Tier One, Tier Two & Other Suppliers
> Automotive-Related Services
> OEMs: Car, Truck & Other Vehicle Makers
> Private Equity Funds Investing in Automotive

When we last surveyed automotive executives in 2006 for a study on trends in industry leadership, nearly three-quarters of respondents said that the industry's greatest challenge is the redistribution of resources to higher-growth, lower-cost regions, notably Asia. And within Asia, all eyes were on China. In light of this finding, we set out to learn more about automotive companies' operations in China, including their strategic priorities, the challenges they face — especially in recruiting, developing and retaining top talent, and the lessons they have learned along the way.

To that end, we surveyed more than 150 automotive leaders around the world, primarily executives of passenger vehicle original equipment manufacturers (OEMs) and Tier One suppliers with more than $5 billion in revenues. Nearly all of the companies in our survey already have a presence in China, and most have been there for some time: 42 percent for more than 10 years, 30 percent for five to 10 years, and 24 percent for less than five years. More than one-third of the survey respondents are based in China, and nearly 40 percent are general managers.

In addition to conducting the survey, we interviewed more than a dozen executives of major OEMs and suppliers, most of whom are based in China:

> **George Chang**, president of Autoliv China, a worldwide leader in automotive safety systems, with headquarters in Stockholm. Chang is based in Shanghai.

> **Michael Laske**, president of AVL China, a privately owned Austrian company that provides design of engine and powertrain systems, automation, software and advanced measuring technology and instrumentation to domestic and global automotive Tier One and OEM customers. Laske has lived for more than 19 years in China, AVL's third-largest market, and speaks fluent Mandarin.

> **Peter Theimer**, CEO of Bayerische Zugspitzbahn Bergbahn and formerly general manager of MAHLE Technologies Holding (China) Co. MAHLE produces innovative systems and components for combustion engines and peripherals. Theimer oversaw MAHLE's eight factories across China.

> **Christoph Stark**, CEO Beijing for BMW China, who is fluent in Chinese and a visiting professor at Tongji University. BMW's sales in Mainland China increased 42 percent in 2007, while BMW's sales in Greater China rose by 37 percent between 2007 and 2008.

> **Phil Murtaugh**, chief executive of Asia operations for the Chrysler Group LLC and formerly the executive vice president of SAIC Motor, one of China's top three auto companies.

> **Walter Schaff**, director of human resources Asia for Daimler AG.
> **Rodney O'Neal**, CEO and president of Delphi Corporation. Delphi has been in China for more than 20 years, and China is the global headquarters for the company's electronics and communications business. Delphi's Asia Pacific regional headquarters is located in Shanghai. Three global product business units — electronics and communications, fuel handling and connection systems — also are headquartered in China.
> **Dr. Frank Herr**, general manager, North Asia, Power Control and System Operations, Electrical Group for Eaton Corporation. Herr previously was China managing director for ArvinMeritor, a Michigan-based global supplier of integrated systems, modules and components.
> **Christer Palm**, recently retired CEO and president of Plastal Group AB, a leading supplier of engineered plastics to the automotive industry. Plastal's plant in Changchun, Jilin Province, serves FAW-VW, BMW Brilliance and other customers.
> **Choon Lim Tan**, chief operating officer of Siemens VDO China AG, now part of Continental Corporation of Germany. The company produces powertrain and vehicle acoustics/entertainment systems and sells 75 percent of its output in China.
> **Vincent Pairet**, former president of Europe and South America for Tower Automotive, one of the largest independent global suppliers of automotive metal structural components and assemblies. Tower is headquartered in Michigan and has two ventures in China, in Changchun and Wuhu.
> **Dr. Winfried Vahland**, president and CEO of Volkswagen Group China, the first foreign carmaker to come to China and still the market leader. As of 2008, China is VW's largest market in the world.
> **Leon Liu**, president of the Asia Pacific Business Unit for WABCO, a Brussels-based leader in commercial vehicle braking, stability, suspension and transmission control systems. Liu lives in Shanghai.

We are grateful to these executives for sharing their time and their insights, as well as to all who participated in the survey.

STRATEGIC PRIORITIES AND CHALLENGES

There's little doubt among automotive industry executives about the growing strategic importance of China for their companies. While nearly 80 percent of our survey respondents say that less than 10 percent of their annual revenues currently come from China, that share is clearly on the rise. More than 65 percent expect that, in five years, between 11 and 30 percent of annual revenues will come from China. For now, China remains most important as a manufacturing base: 75 percent say the primary nature of their operations is manufacturing, while 16 percent are focused on tapping into the country's fast-growing — and potentially massive — consumer marketplace.

Communicating China's strategic potential to headquarters, both as a production site and as a market, is a critical task for regional and country leaders. Says Dr. Frank Herr, a general manager for Eaton Corporation: "It was a challenge for headquarters to understand the opportunities in China. My goal was to convince the executive board that we should not only use China as a competitive manufacturing location for supplying global clients, but also capitalize on the size of the Chinese market. We're now bringing some of our best technologies to China."

George Chang, president of Autoliv China, faced a similar challenge. "Back in 1999, some of my colleagues outside China at headquarters questioned my vision. Today it's different; the company understands the importance of China and opportunities there. Our CEO visits China several times a year and I'm invited at least twice a year to headquarters to present my story," he says. Chang stresses the importance of both having a vision for operations in China and executing well — and, of course, making sure that executives at headquarters share the vision and the plan.

Managing growth and costs

Of all the strategic priorities for automotive companies in China, managing growth and costs stands out as the most important. Close to 70 percent of survey respondents cite building the organization to support growth as a very important priority, and 63 percent point to the need to maintain a variable cost structure in response to pricing and competitive pressures. Taking advantage of lower-cost labor remains very important for 58 percent of respondents.

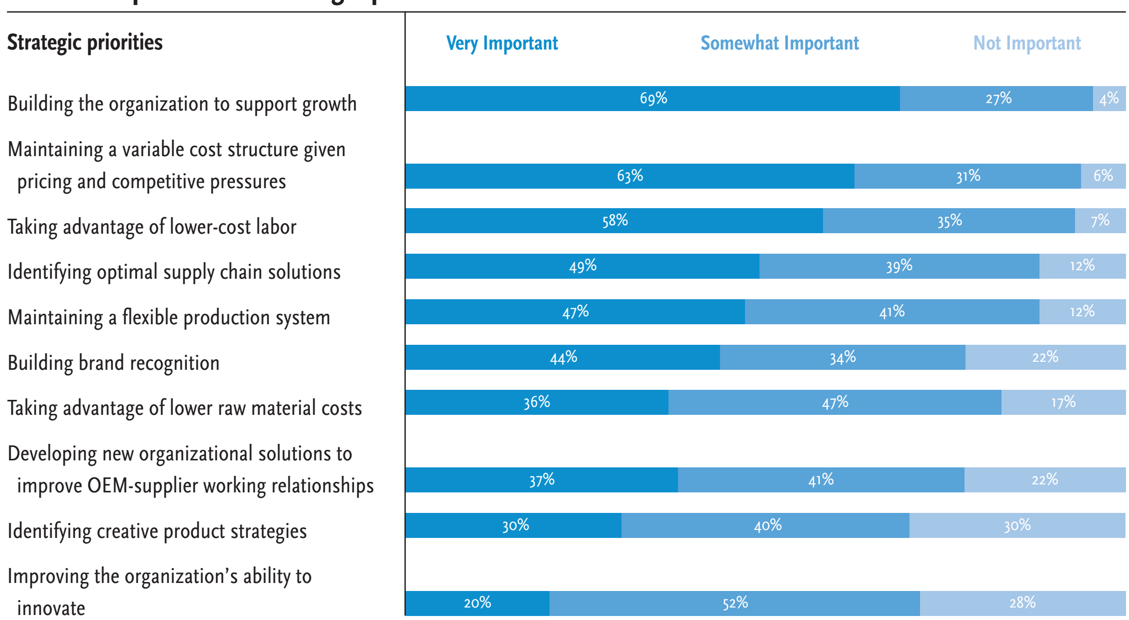
Many of the executives we interviewed report that their companies are experiencing heady growth rates — 30 to 50 percent a year, in some cases — and expect more to come. Christoph Stark, CEO Beijing of BMW Greater China, is one. "A big challenge for us has been managing 50 percent growth for the past two years," he says. "Growing the organization, getting the right people, training them and keeping the quality high are all key challenges."

Chang agrees that managing growth is a challenge: "We've expanded in China from 150 people in 1999 to more than 2,000 today. Meanwhile, revenues have grown from just $9 million to $320 million, and we're expecting to reach $400 million to $500 million in 2009."

BMW and Autoliv are not the only companies grappling with fast growth. Delphi Corporation, already a $1.5 billion producer in China today, expects to double its revenue there to $3 billion by 2011. And MAHLE Technologies, which has eight plants in China, has been growing 30 to 40 percent annually and is looking at expanding its holding company from 100 to 150 people, according to Peter Theimer, who until recently oversaw MAHLE's China operations.

Upon joining WABCO as president of the Asia Pacific business unit in 2005, Leon Liu's mission was to create an "Asian-capable structure." Liu, who succeeded a German expatriate who was based in Hong Kong, moved WABCO's regional headquarters to Shanghai to move decision making closer to the market and built a local management team. Now, the strategy is to grow quickly. Says Liu, "The market in China alone represents some 500,000 trucks a year, of which we now supply only a small share."

Relative importance of strategic priorities in China



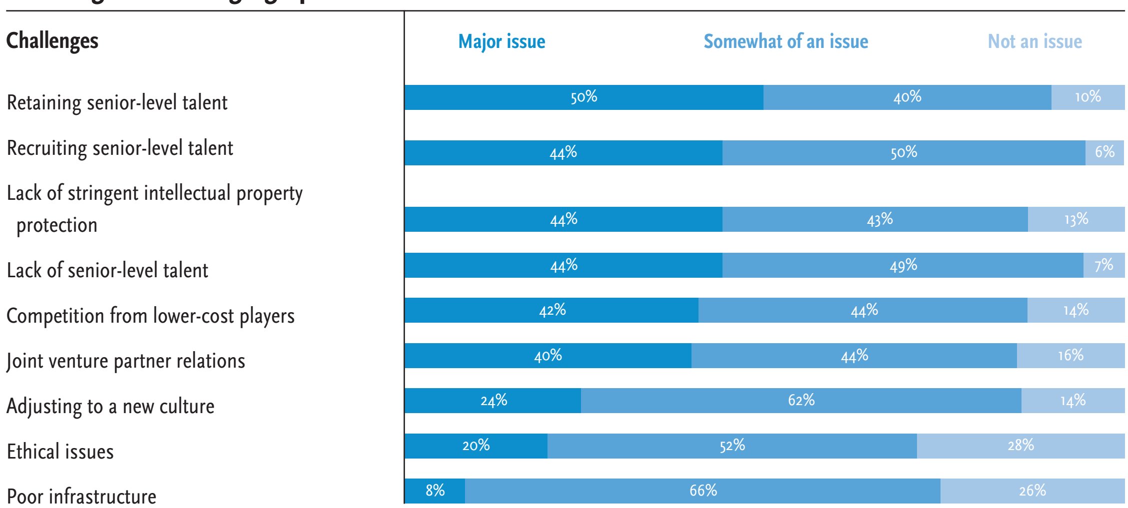
Talent tops the list of challenges

Along with China's rapid growth come many challenges. Recruiting and retaining senior-level talent — as well as the lack of talent in certain functional areas — lead the list of concerns for both survey respondents and interviewees. Rodney O'Neal, CEO and president of Delphi Corporation, describes China as "hypercompetitive for top talent," particularly in manufacturing, engineering and purchasing. Says O'Neal, "It's tough to grow executive talent and keep it. And brainpower costs as much in China as anywhere on the planet."

Phil Murtaugh, chief executive of Asia operations for Chrysler Group and formerly executive vice president of SAIC Motor, concurs: “Attracting talent has been the number-one challenge. It’s most difficult to fill critical engineering and marketing distribution positions. And filling middle-management positions has been very challenging, more so than at the senior levels.”

The torrid talent market obviously drives up costs, and China’s legacy of state ownership has left a lasting imprint on employees. Comments Theimer, “The hot market for talent makes it costly to recruit, and language skills and managerial attitudes pose challenges, as well. Most employees come from government-controlled businesses and are not used to performance indicators. We need to train people to understand the complexity of our group and to improve the communication flow between the center and the periphery.”

Challenges to managing operations in China



Intense competition is another concern

Competition ranks right after talent as a concern for leaders in China. Make no mistake about it, say executives: China is a highly competitive environment, and it’s getting worse as local companies ramp up their capabilities and start to compete globally. More than 41 percent of survey respondents cite competition from lower-cost players as a major issue, in one instance going so far as to describe the downward pressure on prices as “ugly.”

Some companies underestimated the level of competition. Volkswagen had a virtual monopoly in China between 1984, when the company entered the Chinese market, and 2001, when the automobile market started to take off. Still the market leader, Volkswagen now faces hundreds of competitors. While BMW may have fewer direct competitors, it still finds itself competing in a crowded marketplace. Stark believes that consolidation is inevitable: "In the future, we should expect a downturn; the question is not so much when but rather what size it will be. Much depends on how the economic authorities manage the pace of growth."

Liu says he is learning from China not to be too complacent. He cautions headquarters that "a tsunami is coming" and argues that companies need to prepare for tough global competition from Chinese players. "They are ambitious, driven and even ruthless in a sense. I see people laugh at the quality gaps of Chinese cars showcased in Detroit. Well, you can bet the CEO of that company will go back home with a better understanding of what he needs to do, and next year he will come back with something much better!"

Others, too, are worried about a downturn and local managers' ability to cope with the consequences. Notes Murtaugh: "Many talented senior leaders have never been through a downturn. And many engineers have never gone through a product recall."

Chang of Autoliv is equally concerned: "Managing growth is easier than managing in a downturn, and nobody in China has experienced that yet." Hence, Chang is preparing his staff to be more cost-conscious and is emphasizing resource sharing to avoid duplication of resources and optimize headcount. "Given that China is a vast market, one of the risks today lies in overbuilding the organizational structure, thus increasing costs. Consolidating resources has the added benefit of allowing us to create bigger roles with larger scope, so we can recruit and retain higher-quality people."

The need for speed

Not only is the competition growing, but the pace is picking up, as well. Dr. Winfried Vahland, president and CEO of Volkswagen Group China, sums it up succinctly: "China equals speed. Here you find all the competitive factors you have everywhere, but at a much higher speed. It takes tough leadership."

Michael Laske, president of AVL China, agrees, noting the implications for the product development processes: "Customers are demanding the right products and they want speed. As China becomes a significant player in the global automotive field, product development will have to consider China's interests and input." Laske says that AVL's global product development teams now include Chinese staff to add the local market perspective.

Illustrating the need for speed, Choon Lim Tan, chief operating officer of Siemens VDO China, offers this example: "In Europe, new products take 18 to 24 months for rollout, whereas in China

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— George Chang, president of Autoliv China

customers are pushing for suppliers to reduce that turnaround to 9 to 12 months. This is particularly true for Chinese OEMs, which are aggressive in developing new products."

Given the pressure to move quickly, Murtaugh stresses the importance of "keeping a pulse on the market and knowing what's coming down the road in two to three years' time. You've got to be faster than anyone else and make sure you're in the right place at the right time first."

Recognizing the country's potential and unique characteristics, BMW is starting to treat China as a testing ground for some new technologies. For instance, because of the difficult traffic and the large number of bicycles, the company is testing its night vision systems there, according to Stark. Citing another first, Stark says that BMW will launch a special 5-series for China, modified in China: "It means that headquarters is willing to pay more attention to China and to make some adjustments."

Protecting intellectual property

China's lack of stringent intellectual property protection is another major issue, according to 44 percent of our survey respondents. As a result, says one executive, "We don't go with leading-edge technology to China."

Lax intellectual property protection stands in the way of localization for some companies, including WABCO. Notes Leon Liu, "We need to localize more activities, like product development, but there are some obstacles — scale and intellectual property, for instance. You need to reach a certain scale in order to justify the investment; on the other hand, the protection of our intellectual property is still not guaranteed."

Managing relationships with partners

Managing relationships with joint venture and alliance partners continues to soak up a lot of time and energy for multinational executives, and 40 percent of our survey respondents consider this a major challenge.

For Vahland, creating a single integrated business with two joint venture partners is his biggest challenge. He coined the slogan, "One dream, one team, one voice," to illustrate his vision. Vahland believes it takes great negotiation and influence skills, as well as a healthy dose of diplomacy and persistence: "You deal often with leaders who are politicians too, and you always have to find a win-win solution. For example, we introduced a monthly meeting with the executive board of the joint venture to give one voice to our actions and created the 'Spirit of the Great Wall,' a sort of manifesto that defines roles and responsibilities. Given the cultural differences and distance, the only way I could manage to implement changes in the business was to establish a strong mutual trust between the Chinese CEO and myself, without intermediaries. It took us two years to get there."

"One of the challenges for China leaders is getting headquarters to understand the particular issues in China, to accept new ideas and embrace new concepts, and to organize resources at HQ to address China's special needs."

— Michael Laske, president of AVL China

Similarly, former Plastal Group CEO and President Christer Palm describes difficulties in the early years of managing relationships with the company's Chinese joint venture partner, including a situation in which payment terms were better for suppliers than customers. Plastal owns 51 percent of the joint venture and retained the former owner as CEO. Says Palm, "The way we were able to make changes in that business, given the cultural differences and distance from headquarters, was to establish a strong mutual trust between the Chinese CEO and me. The trust was established first and foremost in the negotiations phase. Then, we accepted that we would learn from each other. We taught them how to deal with clients, how to say 'no' and how to defend our profitability."

Talent Issues and Trends

As noted earlier, recruitment and retention top the list of issues for China executives. It is no wonder, then, that just 8 percent of our survey respondents say they are very comfortable that their company's recruitment strategy in China will be able to meet current senior-level needs. Of the remainder, 69 percent are somewhat comfortable while 23 percent are not at all comfortable.

Most pressing needs are in operations, manufacturing and quality

Among the senior-level executives most in need are heads of operations, manufacturing or quality; more than half of respondents indicate gaps in these areas. Next in demand are chief financial officers (44 percent) and general managers/presidents (43 percent).

When asked what kind of functional experience is most important for senior executives in China today, more than three-quarters of respondents again pointed to operations, manufacturing or quality. Consistent with the relationship issues described above, alliance and partnership management also is highly valued: 62 percent cite this skill as most important. And many companies put a premium on experience in sales (56 percent) and supply chain management (54 percent). Respondents expect that all of these functional capabilities will remain very important five years from now.

In terms of business experience, survey respondents look for senior leaders with a full quiver of skills, including operations excellence (69 percent), talent acquisition (67 percent), ability to drive growth (65 percent), people development and succession planning (64 percent), business development (63 percent), international experience and alignment with global headquarters (63 percent), customer relationship management (61 percent), and business integration (54 percent).

When we posed the same question to our interviewees, many of these same attributes were cited, along with a strong call for leadership and management skills — including the ability to articulate and pursue a vision, sound strategic thinking and decision making, and the need to navigate the waters between headquarters and China. A good deal of flexibility and cultural savvy also come in handy.

What it takes to be a leader in China

Being a successful leader in China, says Chang of Autoliv China, means "being able to lead a diverse team and meld them into a single team; it means seeing what most people don't see — being a visionary. You have to have the capacity to dream to be in this position; it is more than executing the job well." But dreaming is not enough. You must be able to drive execution, as well: "The main challenge is to formulate a vision and then to convince the team around you that you are not just a dreamer. To do that, you must be credible and bring results."

AVL's Laske also sees the need for strong, visionary leadership: "Among Chinese managers, there's an abundance of hard work and a willingness to take on tough challenges. What's missing, however, tends to be leadership and vision; and the ability to take this vision and implement it across the organization."

Risk aversion and years of toeing the party line are part of the problem. "We need people to be more decisive," says Phil Murtaugh. "They tend to wait for direction rather than applying their experience and judgment to make a decision at the risk of making a mistake." Laske agrees, noting that Chinese managers "still wait for instructions from above." Moreover, he says, "given their background and training, many Chinese managers tend to be siloed or single-minded in their viewpoints and considerations."

Balancing HQ and local interests

Several interviewees, including Laske, Tan of Siemens VDO China and Liu, commented on the importance of representing regional and local interests at headquarters. Says Laske, "Senior managers in China need to be able to communicate both with headquarters and with the China organization to gain trust on both sides. One of the challenges for China leaders is getting headquarters to understand the particular issues in China, to accept new ideas and embrace new concepts, and to organize resources at HQ to address China's special needs." For example, AVL's operations in China are now so significant that they require global skills and technical expertise to develop customized solutions for customers, at high speed. Yet, because of fears that jobs may be at risk in Europe, Laske sometimes faces resistance to building resources in China and transferring skills and knowledge there. However, while this is still a contentious issue, there has been a growing acceptance of the necessity of skills transfer to maximize return on capital employed and achieve better organizational efficiency.

For Tan, a strong leader is "strategic, has the ear of corporate, yet is open to listen to Asian and Chinese voices. It's someone who is driven by the interests of the region, not purely by headquarters."

Likewise, says Liu, "The leader must be brave. He or she must have the courage to communicate with and stand up to headquarters and to challenge the status quo and make changes. In addition, the leader must have perseverance in pursuing the strategy, because often people tend to give up and you need to prevent that."

Wanted: flexibility and good intercultural skills

Recognizing the cultural differences between China and Western markets, nearly all of our interviewees stress the need for flexibility and good intercultural skills, both of which are critical to developing trust and talent. Notes Theimer, "Multinational companies need leaders who understand how a big MNC works and yet also know how to communicate effectively with local staff. They also must understand the importance of training, motivating people, building consensus and developing a company culture."

Walter Schaff, director of human resources Asia, says that Daimler looks for "the ability to cope with different people and different cultures. We are lucky to be able to foster those Chinese potentials and talents, who proactively and critically reflect processes, strive for continuous improvement and openly transfer their know-how to others."

Also valuable is a willingness to embrace new ways of approaching problems and confronting old concepts. BMW's Stark wants people who can be open-minded and flexible in adjusting to the local culture: "You have to realize that China is one market where many people have failed, more

Sourcing senior-level talent for China-based roles

Among which of the following groups has your company been most successful in finding senior-level talent for positions based in China?

*Ethnic Chinese citizens of countries other than China

Note: Respondents could choose only one answer.

so than in other markets, because they tried to replicate the same things they've done elsewhere. Here in China you have to carefully listen to the market, and the market tells you what you need to do."

The rapid growth of the market also places unique demands on leaders, who must be able to adapt to the pace of change and the pressure to act quickly, O'Neal says. "A lot of leaders can't handle the demands of rapid growth. They are more steady-state kind of people. When you make these assignments, you have to be sure people are psychologically able to manage in China."

RECRUITING STRATEGIES AND TOOLS

The teams leading multinational operations in China these days are more diverse than they were a decade ago. More than half of survey respondents (54 percent) say the makeup of their management team in China is a combination of Chinese and Western expatriates and returning Chinese nationals. When recruiting senior-level talent, respondents indicate they have been most successful with Western European expatriates, followed by ethnic Chinese who are citizens of other countries and U.S. expats. More than 20 percent of respondents report success with hiring local Chinese (into senior roles or developed internally) and returning Chinese nationals.

Given the shortage of qualified managers in China, Liu says that WABCO's approach is to "find good people anywhere, without much distinction among expats, returnees and locals. It's not the cost factor that makes the difference; it's the level of competency that matters. And it's not so much language skills, but rather overall managerial skills."

BMW's Stark cited the difficulty of finding certain competencies locally; for example, his company recently transferred a head of technical services from Mexico to China. BMW tends to fill its top jobs internally, typically with local talent the company is developing into local senior managers, particularly in sales and marketing. However, he thinks it will take another five to 10 years before these people can grow into the most senior positions. That is the same timeframe in which MAHLE, among others in our interview group, is aiming to have a highly localized senior management team in China. Theimer believes that "locals can be stronger than returnees, who may have been out of the country too long."

Says O'Neal of Delphi, "My goal is to have the top leadership of this company possess global experience." To that end, Delphi tries to rotate talent across different regions. Noting the diversity of the China team, O'Neal says, "We have Mexicans in China. We have Koreans in China. We have Indians in China. I don't think we'll ever have an all-Chinese workforce in China because of the benefits of moving people around to other operations."

Both Stark and Vahland note that it's getting easier than in the past to recruit talented executives to China as more people are interested in getting experience there. It also helps that headquarters is starting to understand that China requires its best people. But Schaff disagrees that it is getting easier to convince people to relocate there: "China is so complex and Chinese executives are so professional in negotiating that you have to have the best people in place to guarantee long-term success. Unfortunately, many companies still do not send their best people over to China."

Not surprisingly, recruiting expats can be particularly difficult for companies operating in remote areas of China. This has been a challenge for MAHLE and Plastal, among others. Compensation can be another thorn, especially for companies recruiting a combination of local Chinese, returnees and Chinese expats.

So what are companies doing to grab a competitive edge in recruiting? A well-known brand goes a long way, observe several of our interviewees. According to Theimer, "To attract people, particularly top engineers, MAHLE emphasizes its global presence, very strong technology competency, and career development and training, including opportunities outside China."

Thanks to BMW's strong brand and reputation, Stark says the company faces less of a problem than other companies when recruiting locally. As for retaining the best people, however, brand and reputation are not enough; it takes training, people development programs and career opportunities. Stark notes that BMW is "not the top payer in the market; we monitor compensation levels closely, but don't position ourselves at the top in terms of fixed salaries."

According to Schaff, Daimler has started a program to coach qualified junior people into a career, using a structured tool that identifies four levers for recruiting, empowering and retaining people. The retention activities are mainly focused on the job, the company, the leader and the rewards. In this framework, Daimler analyzes employees' satisfaction in the four areas and, when there are gaps, identifies and implements the appropriate measures on an individual basis or for more general adjustments. Leaders are one of the most important factors for retaining key employees. By personally being committed to their employees' growth, giving them regular feedback and actively developing them, the leaders can earn the loyalty of their teams. This is especially true in today's Chinese business culture.

Tan believes Siemens VDO's competitive edge will lie in sales and R&D; the company has been expanding R&D capacity in China and expects to double R&D headcount to 1,500 in the next few years. However, R&D experts and leaders have been difficult to recruit, develop and retain. In the past, Siemens VDO brought expatriates to China to assist with training and development. Though skilled technically, the expats sometimes lacked leadership skills, and cultural differences hampered their ability to communicate and train effectively. Another problem, according to Tan, is expats' reluctance to repatriate after a stint in China and consequently their willingness to train and develop Chinese staff. More recently, Siemens VDO has been sending new recruits overseas for training on a short-term basis, typically two to three months. Another strategy has been to recruit young professionals from Asia for China-based roles: "Culturally and linguistically, these Asian expats tend to be stronger than their European counterparts," comments Tan.

TALENT DEVELOPMENT AND RETENTION

Both our survey respondents and interviewees express concern about retaining senior-level talent in China. Our survey suggests that turnover is a very real issue for many automotive companies in China. Nearly 90 percent of respondents say they are either very or somewhat concerned about turnover, and 56 percent of respondents report that the average annual turnover of their company's C-level executives in China is greater than 10 percent.

The functional area with the most significant turnover, according to 37 percent of respondents, is operations, manufacturing and quality. Other problem spots are general management, engineering, finance and sales.

To boost retention rates, companies are using a variety of strategies, described below.

Emphasizing career development programs and promotion from within

Nearly 56 percent of survey respondents rank career development programs as the single most effective practice for retaining senior-level talent in China. Next highest, at 40 percent, is promotion of locals to senior levels.

For Liu of WABCO, the key factor in retaining people is "creating hope for the future in the company; this is more important than money. People want to see a brilliant future and a continuous learning experience." Looking ahead a few years, Liu thinks that his company will need to become more creative in distinguishing itself from competitors. And, as WABCO relocates more products to Asia, operations management competence will become increasingly important.

Access to opportunities counts a lot. Murtaugh notes that SAIC tends to "move people around quite a bit, not necessarily upwards, but laterally to expose them to a lot of different functions or businesses. Then the cream naturally rises to the top." Likewise, Herr says ArvinMeritor, where he formerly was managing director for the company's China operations, is very supportive of sending local leaders to global training and high-potential programs, moving people to headquarters for stints, and promoting from within; for example, a Chinese woman is now a global HR leader. And Vincent Pairet tells a story about his efforts to retain a rising star in China, including investing heavily in training and mentoring and helping her make connections with Tower Automotive's leading female executives in the West.

Recognizing that culture, loyalty and the strength of the company can be more important than money

More than 20 percent of survey respondents consider sizable bonuses and deferred compensation as highly effective retention techniques. Yet several interviewees argue strongly that retention is not strictly about the money.

For Herr of Eaton, "money is just one factor, and not the most important in my view. Culture is extremely important, especially to the Chinese. If someone likes the team, the spirit of the company, they stay." Herr notes the importance of making sure people are taken care of and feel supported, treating staff as colleagues and personally recognizing people. He recommends programs and tactics to retain people, such as training, career paths, support for advanced studies, connecting people to the global network and sending them overseas for projects. Herr is looking forward to a future in which Chinese managers become leaders with global roles.

Chang's approach is to sell the strength of Autoliv and the importance of its mission: "It's not about the money, so we try to differentiate Autoliv as a company and position it as an employer of choice. We make products that save people's lives, which is a very powerful statement. And our ship will not sink even if we take on some water." He says it is also important that people feel they can learn. Chang is proud that Autoliv has a number of senior expats who are great mentors and that there is no glass ceiling for local people. Lastly, he notes, "We have to show career potential because young Chinese employees in particular are impatient and ambitious."

Pairet agrees: "The critical retention factor in China for senior leaders is not so much money but factors like investing in the individual, providing training, coaching, mentoring and new opportunities, and establishing an open and frank dialogue. One of the things I have learned is really to trust and empower our Chinese colleagues. You build trust by believing in people, providing them training and giving them opportunities to grow."

"You need to take care of people, support them. That's truer here in China than in other places because very often people have to do things in everyday operations that they've never done before and don't know how to do."

— Dr. Frank Herr, general manager, North Asia, Power Control and Systems Operations, Electrical Group for Eaton Corporation

Pride in the company and its commitment to China matter, as well, Pairet says. Tower made it a point to invest for the Chinese market instead of equipping Chinese operations with outdated technology. "Our product is made and developed locally, so our investment has been an investment in China, for China. Our leaders in China could see that we were giving the same level of importance to our business in China as we do any of our businesses around the world. We didn't hold back information. We didn't transfer old equipment from Europe or the U.S. into China. We bought all new equipment. We said this is an investment for the future and that the automotive industry in China is going to grow dramatically. Our leaders in China are proud that they are an important part of the company's future."

Above all, says Herr, loyalty to the leader is vital to retaining people: "You need to take care of people, support them. That's truer here in China than in other places because very often people have to do things in everyday operations that they've never done before and don't know how to do. If you as a leader realize that and can communicate with people and support them, then it makes the difference. Expats in my view cannot do this part, and it's not just the language barrier; it's the culture. Chinese people are generally introverted and they may not express openly their problems or their frustration; you need to read their minds to a certain extent."

Palm agrees: "Building a long-term relationship in business is even more important in China than in Europe. Chinese people get emotionally connected, and you must show trust from the first day."

Laske of AVL feels much the same way: “Caring for your people is critical. In China, the work unit or employer is still seen as an extension of the family, and the notion that the family should take care of its people still exists. Employees tend to associate loyalty with a caring environment.”

THE LESSON FOR HEADQUARTERS

More than almost any other place, China is hypercompetitive for senior-level talent. With no end in sight for China’s rapid expansion, the demand for experienced leaders will far outstrip the supply for the foreseeable future, placing a premium on effective talent management and development.

The good news for automotive companies competing in China is that they already know what to do. That is, all of the best practices for talent development apply in China. As Delphi’s Rodney O’Neal explains, “Just like anywhere else, talented executives are looking for competitive compensation and benefits, a good work environment, a career path, career growth and experience.”

While building the business in China is a long-term effort, automotive companies must attack talent development with a heightened sense of urgency. They must avoid mistakes and steep learning curves and, given the scarcity of resources, consider over-investing in talent development in the short term. Without this level of commitment, they may find themselves having to scramble to catch up in this critically important market.

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