Management & Talent Challenges In China

International Business School Shanghai Conference

Shane Tedjarati
President and CEO, China & India

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The World in 2015…Wealth in 2015*

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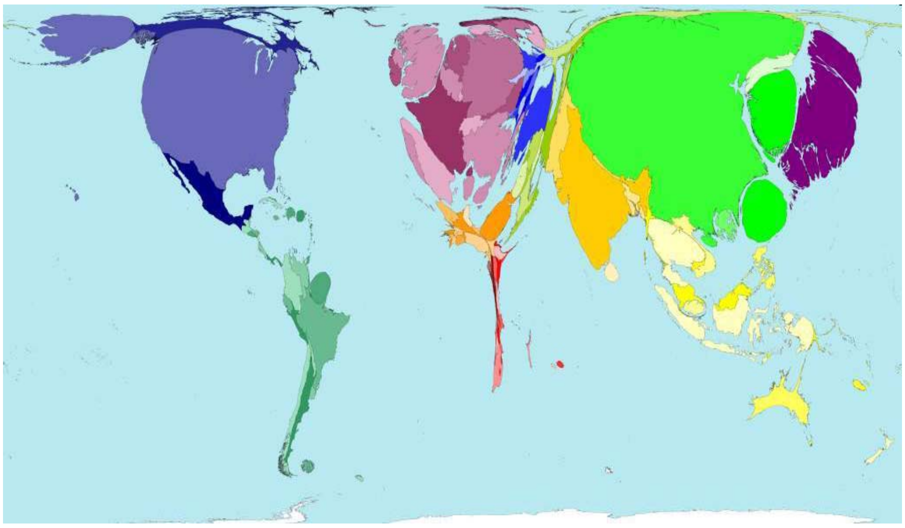

* *Proportion of worldwide GDP measured in US$ equalized for purchasing power parity to be produced by country in 2015*
Source: http://www.worldmapper.org/index.html

Contribution to World GDP Growth

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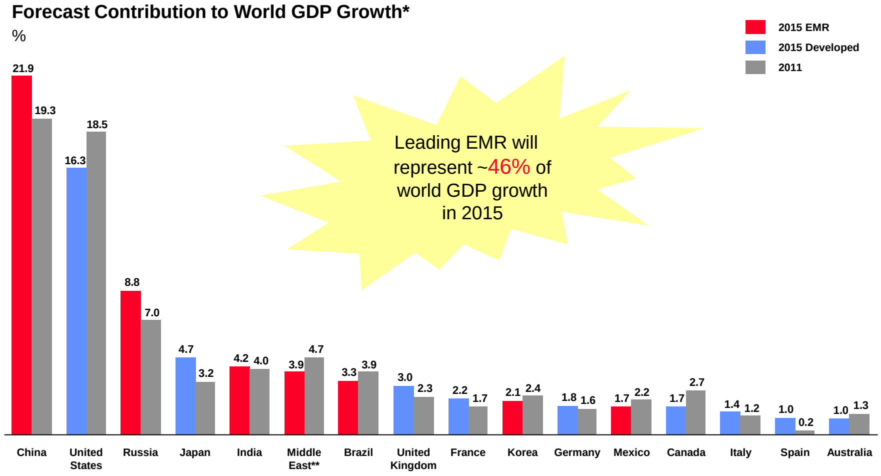
Forecast Contribution to World GDP Growth*

%



** Calculated as ratio of country GDP value change (from previous year) to world's (from previous year), all in current prices, USD Bn*
*** Middle East countries include: Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Syria, UAE, and Yemen*
Source: IMF World Economic Outlook Database

A Significant Engine for World Growth

Shifting Sands

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	Industries	Global Position	China / India Growth 2009	World Growth 2009	Highlights
China	Construction	#1 since 2008	18%	3%	• Boosted by infrastructure investment
China	Automotive	#1 since 2009 (by sales)	46%	-20%	• Car PARC: 42/1000 (U.S. ~800)
China	Commercial Aerospace	#2 since 2006 (passenger & cargo)	10%	-3%	• Best performer worldwide in 2009
China	Refrigerator	#1 since 2004 (by production)	>40%	<10%	• Driven by nation wide subsidy
China	Chemical	#4 since 2005 (by production)	25%	5%	• Became the largest paint producer
China	Semi-conductors	#1 since 2005 (by sales)	-11%	-20%	• Led global recovery
China	Power	#2 since1994 (by generation)	7%	-4%	• Driven by stimulus package
China	Retailing	#3 since 2004 (by value)	14%	-18%	• Expected to become #2 by 2012
China	Tourism	#4 since 2009 (money spent) #4 since 2007 (destination)	9%	-6%	• Expected to become #1 by 2015 (money spent & destination)
India	Automotive	# 4 Commercial vehicles # 2 Two Wheelers	26%	-20%	• Driven by consumer demand
India	Steel	# 5 (by production)	2.7%	- 8%	• Boosted by infrastructure investment and real estate
India	Pharma	# 3 (by production)	12%	5%	• Boosted by strong export and growing domestic demand
India	Cement	# 2 (by production)	12%	4.7%	• Boosted by infrastructure investment and real estate

Shift of "Center Of Gravity" to China & India Accelerated by Crisis

Chinese Players in China

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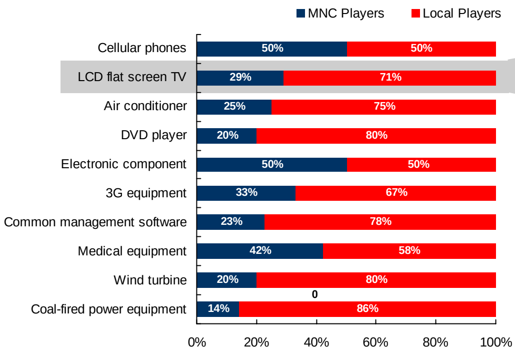
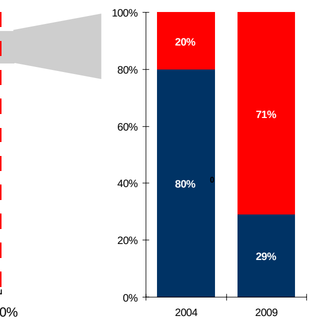
- Local players have gained significant SOD against MNCs in many industries

2009 SOD of Selected Sectors



Change in LCD Flat Screen TV SOD



Source: BCG Study

Locals Becoming Leaders in Many Sectors Led Only Recently by MNCs

Global Impact of Chinese Competitors

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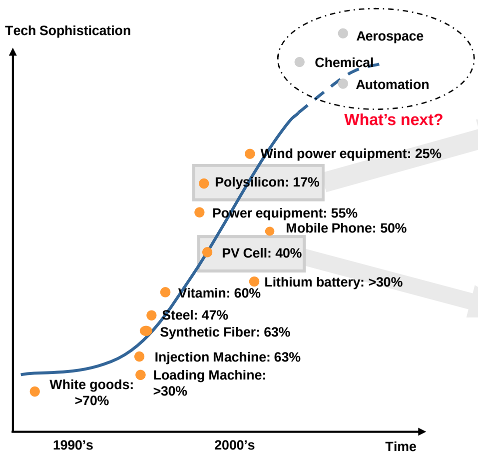
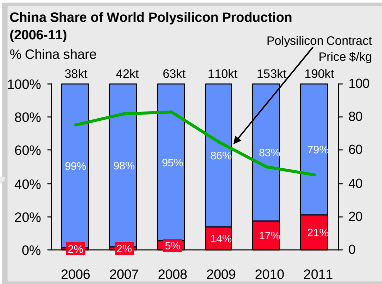
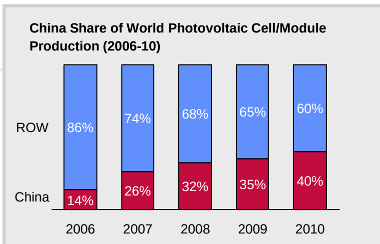
China-Led Sectors & Share of Global Output







Fast & Successful Growth Changing Competitive Landscape

Unprecendented challenges intensifies China management demands

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- Aggressive growth
- Inventory control
- Entrepreneurial
- Emphasis on top quality & technology
- Moving boldly and decisively
- Living with the customer

VS.

- Shareholder value
- Improving profits
- Managing risk
- Quick to market
- Influencing/building consensus
- Aligning/leveraging internal resources

Greater challenge for China managers to balance equally important contradictions

Current challenges require exceptional skills & talent across the board

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	"On the Ground"	"Localized MNC"	"Local Competitor" (*Current focus/ skills required*)	"Global Challenger"
Strategy Focus	*Integrated Complete Local Functions*	*Manufacturing Footprint*	*Mid-Segment Master*	*Glocal*
ISC Local -ization	• Local sourcing	• Local manufacturing • Local supply base	• Locally competitive operations • Fully developed local supply base	• World-class operation • Global standards
R&D	• Local tech support, QA & testing	• Customization & application development	• Core local COEs • Full product ownership • Design-to-cost	• Full scale R&D – global COE • High velocity
Channel	• Local sales force in Tier 1 & key a/c's • Rely on distributors	• Build direct channel • Tier 2/3 cities • Deepen customer relationships	• Fully deployed nation-wide network • Local partnership • Multi-brand	• Take advantage of global channels
Customer Segment	• High-end	• Tailored mid-segment offerings	• Significant play in mid-segment • Selective low-end	• Mid-segment offerings for the world
Marketing	• Global driven, local support	• Full local marketing capability & intelligence	• "Live with the customer"	• Take advantage of global relationships

Full range of integrated talent & capability is minimum to play

China facing critical points in leadership development

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- Fully adapted global biz
- Pdt /mkt innovation
- Strong political dimension
- Self funded commercial investment

- Local mkt dominance
- Globally linked business
- Unified/Cohesive app
- US$500m – US$10b

- Multi-site JV/WOFE
- Fragment invest./ mgt
- US$50m – US$500m
- Holding co. structure

- Single site JV
- Small scale investment
- US$0 – 50m

- Representative Office
- Market Research

3rd Generation

B Transnational Presence

2nd Generation

A Major Market Player

- Globally localized leadership
- CEO Inner Circle
- Major political dimension (IPR)
- Scale US$1 – 10 billion (+)
- Fully adapted business

1st Generation

Strategic Investor

- Market specific leadership
- Stand-alone business
- China 'hedge' strategy
- Old technology, deployment
- "Cookie Cutter' mindset

Market Entry

Critical leadership skills transition points

Provincial	Country	Regional	International / Transnational
1978 - 1990	1991 - 2005	2006 - 2015	2016 - 2030

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Ongoing severe talent shortage in China

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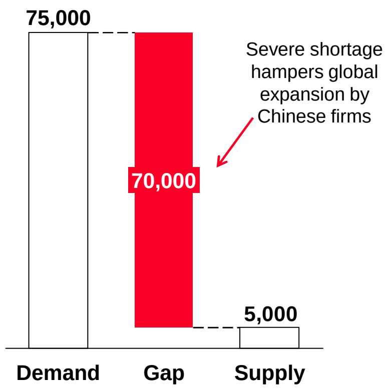
80% Fortune500 are in China...

Source: Businessweek Nov 2005

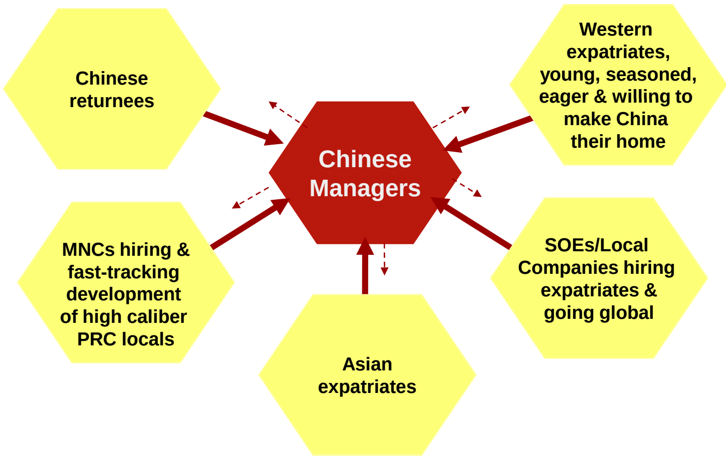
...and there is a critical talent shortage

State of globally capable Chinese executives



Gap needs to be filled quickly from varied sources

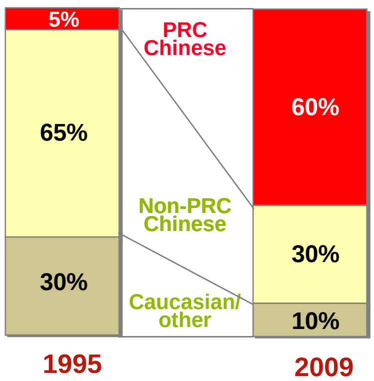
"China Manager" has various aspects



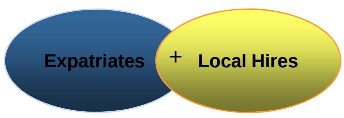
A melting pot of influences

China's executive landscape has evolved quickly

Origins of management (%) shifting…



…but diverse top-level talent more critical than ever



- Familiarity with the business, its operations (local and global) and overall strategy
- In-depth industry knowledge
- Strong in-company network back home; ability to mobilize global resources for local
- Instill key qualities/values in local staff

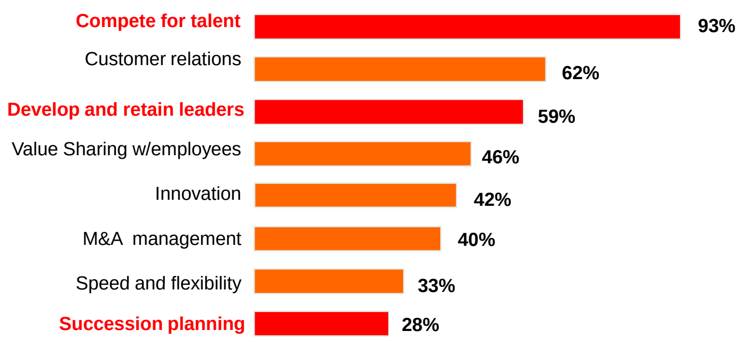
- Significant understanding of local industry and customers
- Local language skills & culture awareness
- Local business network

Seeking out the absolute best talent to lead growth based on a businesses' particular circumstances, needs, maturity etc. without consideration for whether they are local or expat, cost, etc.

From "Best Available" to "Best"

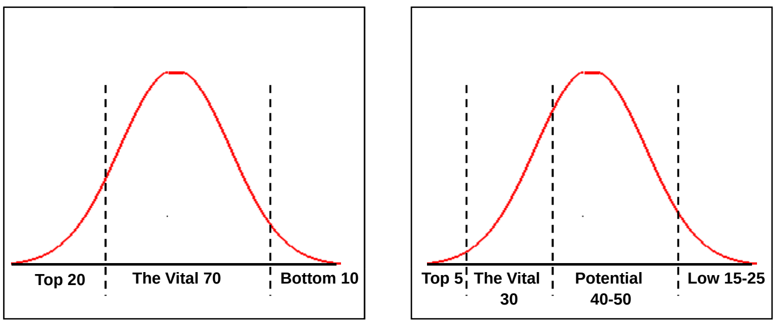
Competition for leaders in China spells success/failure

Critical success factors in China



Source: CEO Challenge Survey - HSI / Conference Board, 2004. Based on a study conducted on 430 senior executives in China

Talent Vitality Curve for skilled resources



Source: "Straight from the Guts" by Jack Welch; HON analysis

China defies the talent vitality curve definition

Implications for leadership competences

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	Details
Scale	Scale up of management capabilities, capable of driving performance, introducing structure and processes, and building teams in a high growth environment.
Experience with growth	A different mix of management experience compared with previously, reflecting China expanding business platform.
Stakeholder relations	Sophisticated, experienced leadership capabilities, who can skillfully deal with multiple stakeholders, to successfully manage a more complex business, with alliances, agreements and partnerships which form the basis for successful implementation of a company's China strategy
"Bench strength"	Sufficient 'bench strength' to cope with rapidly expanding geographic footprint.

Global Average: CEO Age

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Index	Average
Shanghai	43
FTSE 100	52
S & P 500	57
Nikkei	62
S & P ASX	51

New Economy: Incubating Global Leadership

 Source: CASS Business School

EMR – Proving ground

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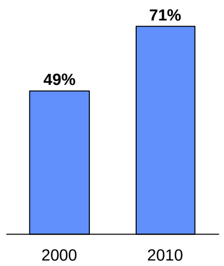
% of Fortune 100 "C-suite" Executives With Oversea Experience*



* Note: at least two years working in a senior position overseas
Source: Healthy Companies International

CEO & Chairman - Jean-Pascal Tricoire

- From 1993 to 1999, held operating positions at Schneider Electric SA in China (five years) and South Africa (one year)

CEO & Chairman - David Farr

- Served for four years as Hong Kong-based President of Emerson Electric Asia-Pacific

Mindset Shift

- China/India are becoming "proving grounds" with some of the most competitive and challenging operating environments
  - Hyper-growth (leading EMR will represent ~46% of world GDP growth by 2015)
  - Already the biggest opportunity for many sectors
  - The most competitive battlefield, e.g. # of competitors etc
  - Complicated policies, lacking standards…
- Leaders with experience in these countries will be invaluable for helping to steer the future of a truly globalized company

EMR – Proving Ground for Tomorrow's Leaders

Educating tomorrow's talent

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- **Applying E4E/E2W mindset to curriculum;**
  - **EMR is 40% - 50% of future global growth – are programs giving it commensurate attention?**
  - **Tailored programs incorporating latest global best practices from diverse experts and faculty with relevant experience**
  - **Significantly increase in EMR case studies of not just top EMR champions but also remarkable companies that have emerged in just last few years**
  - **Accentuate importance through relevant "major", e.g. "EMR/Global management"**
- **Set up/enhance parallel MBA programs – of at least equal rigor/quality – in key emerging regions locales**
- **Encourage/require study abroad or internships in EMR countries**
- **Plan regular "immersive" company visits to successful companies operating in EMR**