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Developing global leaders

Companies must cultivate leaders for global markets. Dispelling five common myths about globalization is a good place to start.

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As firms reach across borders, global-leadership capacity is surfacing more and more often as a binding constraint. According to one survey of senior executives, 76 percent believe their organizations need to develop global-leadership capabilities, but only 7 percent think they are currently doing so very effectively.[1] And some 30 percent of US companies admit that they have failed to exploit fully their international business opportunities because of insufficient internationally competent personnel.[2]

Most of the prevailing ideas in business and academia about global leadership reflect efforts by leadership experts to adapt the insights of their field to the global arena. I come at this topic from the opposite perspective, having focused for nearly two decades on studying globalization and thinking through its implications for business and public policy.

[1] *Developing the Global Leader of Tomorrow*, a joint project of Ashridge Business School as part of the European Academy of Business in Society (EABIS) and the United Nations Global Compact Principles for Responsible Management Education (PRME), based on a survey conducted in 2008.

[2] Shirley Daniel and Ben L. Kedia, *US Business Needs for Employees with International Expertise*, Conference on Global Challenges and US Higher Education at Duke University, Durham, NC, January 23–25, 2003.

At the core of my work lies the reality that, while globalization is indeed a powerful force, the extent of international integration varies widely across countries and companies and generally remains more limited than is commonly supposed. To be sure, rapid growth in emerging markets, combined with a long-term outlook of lower growth in most developed economies, is pushing companies to globalize faster. But metrics on the globalization of markets indicate that only 10 to 25 percent of trade, capital, information, and people flows actually cross national borders. And international flows are generally dampened significantly by geographic distance as well as cross-country differences. US trade with Chile, for example, is only 6 percent of its likely extent if Chile were as close to the United States as Canada is. Furthermore, if two countries don't share a common language, that alone slashes the trade volume between them by 30 percent.

An appreciation of how distances and differences influence international ties helps explain some of the organizational and other stresses that established multinationals are encountering as they accelerate their expansion to emerging markets (for more, see "Parsing the growth advantage of emerging-market companies," on mckinseyquarterly.com). Emerging Asia is farther away—and more different, along multiple dimensions—than more familiar markets in Europe and North America. Japanese multinationals face a distinctive set of cultural, political, and economic issues that complicate their efforts to expand abroad.

Exaggerated notions of what globalization means—what I call "globaloney"—are also apparent in prevailing ideas about global leadership. Some training centers aim to develop "transcultural" leaders who can manage effectively anywhere in the world as soon as they step off the plane. Yet scholars of cross-cultural management suggest that objectives like this are unrealistic.

While global leadership is still a nascent field, common conceptions of it already incorporate myths or half-truths that rest on misconceptions about globalization. Correcting these myths should help the efforts of companies to increase their global-leadership capacity.

Myth #1
My company, at least, is global.

When I present data on the limited extent of international interactions to executives in large multinational corporations, a typical reaction is that even if markets are not that integrated, their firm certainly is. Such claims, however, seldom hold up to scrutiny. Less than 2 percent of firms on *Fortune*'s Global 500 list of the world's largest companies, for example, derive more than 20 percent of their revenues from three distinct regions.[3] Most firms also remain quite domestically rooted in other aspects of their business, such as where they do their production or R&D or where their shareholders live. BMW, for instance, derived 51 percent of its sales revenue from outside of Europe in 2011, but still maintained roughly 64 percent of its production and 73 percent of its workforce in Germany.[4]

An accurate read on the extent of globalization in one's firm and industry is certainly a crucial requirement for global leadership. Also invaluable is an appreciation of the extent to which the people within your company are far from completely globalized. Consider just a few pertinent facts. Trust, which some have called the currency of leadership, declines sharply with distance. Research conducted in Western Europe suggests that people trust citizens of their own country twice as much as they trust people from neighboring countries and that they place even less trust in people farther away. Turning to information flows—also central to leadership—people get as much as 95 percent of their news from domestic sources,[5] which devote most of their coverage to domestic stories. Similarly, 98 percent of telephone-calling minutes and 85 percent of Facebook friends are domestic.

The persistent rootedness of both firms and employees has the surprising implication that global leaders should not seek to sever or hide their own roots to become global citizens. Rather, they should embrace "rooted cosmopolitanism" by nurturing their own

[3] Alan M. Rugman and Alain Verbeke, "A perspective on regional and global strategies of multinational enterprises," *Journal of International Business Studies*, 2004, Volume 35, Number 1, pp. 3–18.

[4] Revenue and workforce figures from BMW Group, *Annual Report 2011*; production figures represent 2010 car production as reported by the International Organization of Motor Vehicle Manufacturers (OICA).

[5] Calculations by Ethan Zuckerman, as reported in "A cyber-house divided," *Economist*, September 2, 2010, p. 58.

roots and branching out beyond them to connect with counterparts elsewhere who, like themselves, are deeply rooted in distinct places and cultures. Indeed, studies of expatriate performance confirm that expats who identify strongly with both their home and host cultures perform better than those who identify only with one or with neither.[6]

This rooted-cosmopolitan approach also accords better with research showing that people can become “biculturals,” with a truly deep understanding of two cultures,[7] but probably can’t entirely internalize three, which implies that four is out of the question. Facing such limitations, attempts to become global by breaking free from one’s roots seem more likely to lead to symmetric detachment—a lack of meaningful ties to any place—than to symmetric attachment everywhere.

Myth #2
Global leadership is developed through experience.

Leadership scholars have argued that experience contributes some 80 percent to learning about global leadership.[8] My own investigations of senior executives’ perceptions of globalization, however, indicate that experience, while required, is not sufficient for the development of an accurate global mind-set.

To illustrate, in a survey I asked readers of *Harvard Business Review* to estimate a set of basic values about the internationalization of product, capital, information, and people flows. The respondents overestimated these values, on average, by a factor of three. And, more interesting from the standpoint of leadership development, the magnitude of the readers’ errors increased with their years of experience and the seniority of their titles. The CEOs in the sample overestimated the values by a factor of four!

[6] Yih-teen Lee, “Home versus host—identifying with either, both, or neither? The relationship between dual cultural identities and intercultural effectiveness,” *International Journal of Cross Cultural Management*, 2010, Volume 10, Number 1, pp. 55–76.

[7] See, for instance, Mary Yoko Brannen and David C. Thomas, “Bicultural individuals in organizations: Implications and opportunity,” *International Journal of Cross Cultural Management*, 2010, Volume 10, Number 1, pp. 5–16.

[8] Bruce Dodge, “Empowerment and the evolution of learning: Part one,” *Education + Training*, 1993, Volume 35, Number 1, pp. 3–10.

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Why might experience correlate with less rather than more accurate perceptions about globalization? One possibility is *projection bias*. Senior executives and CEOs tend to lead far more global lives than most of the world's population, often touching several continents in any given month. Ninety percent of the people on this planet will never venture beyond the borders of the countries where they were born.

If experience alone is insufficient to develop accurate perspectives about globalization, what do executives need to learn off the job? A starting point is an accurate read on the magnitude and patterns of international interactions within their industries and companies. Rooted maps, described in my 2011 *McKinsey Quarterly* article,[9] can help executives to visualize and interpret these patterns.

Global leaders also need to understand the factors that shape international interactions in their businesses, by undertaking a structured examination of cross-country differences and their effects. That is what a survey of academic thought leaders recently concluded should be the focus of the globalization of business school curricula.[10]

Conceptual learning of this sort is a complement to—one might even say a precondition of, though certainly not a substitute for — experiential learning. When executives can fit their personal experiences into an accurate global perspective defined by conceptual frameworks[11] and hard data, they can gain more from their typically limited time abroad and avoid costly mistakes.

[9] "Remapping your strategic mind-set," mckinseyquarterly.com, August 2011.

[10] Pankaj Ghemawat, "Responses to forces of change: A focus on curricular content," chapter 4 in AACSB International's *Globalization of Management Education: Changing International Structures, Adaptive Strategies, and the Impact on Institutions*, Bingley, UK: Emerald Group Publishing Limited, 2011.

[11] My "CAGE" distance framework, one way to structure thinking about cross-country differences, places those differences into cultural, administrative/political, geographic, and economic categories. For more, see my article "Distance still matters: The hard reality of global expansion," *Harvard Business Review*, 2001, Volume 79, Number 8, pp. 137–47.

Myth #3
Development is all about building standard global-leadership competencies.

Many lists of global-leadership competencies have been developed in business and in academia, but these provide only a starting point for thinking through the right competency model to apply within a particular company. Customization and focus are essential. In part, that's because even though literally hundreds of competencies have been proposed, a lot of these lists have important gaps or fail to go far enough toward incorporating unique requirements for global leadership. That isn't surprising, since the lists often grow out of research on domestic leadership.

One large review of the literature summarizes it in three core competencies (self-awareness, engagement in personal transformation, and inquisitiveness), seven mental characteristics (optimism, self-regulation, social-judgment skills, empathy, motivation to work in an international environment, cognitive skills, and acceptance of complexity and its contradictions), and three behavioral competencies (social skills, networking skills, and knowledge).[12] To my mind, most of these would also be useful for domestic leadership. Only the motivational point seems distinctively international, although one or two more (such as acceptance of complexity and its contradictions) clearly seem more important in the international domain than domestically.

Typical competency lists also tend to focus on cultural differences, missing other components critical to global leadership. Economic differences (such as the challenges of fast- versus slow-growth markets) and administrative and political differences (including the extent of state intervention) are among the other factors that can cause leaders to stumble in unfamiliar contexts.

Perhaps most important, standard lists of global-leadership competencies reinforce a one-size-fits-all view of global leadership that is inconsistent with the reality of globalization and the mix of work global leaders do. A company may find it useful to recruit for and develop a small set of key competencies across all of its

[12] Tiina Joniken, "Global leadership competencies: A review and discussion," 2005, *Journal of European Industrial Training*, Volume 29, Number 3, pp. 199–216.

global leaders. Yet the diversity of roles that fall under the broad category of global leadership argues for substantial customization around that common base. At the corporate level, this implies developing a portfolio of competencies rather than an interchangeable set of global leaders who have all met a single set of requirements.

Operationally, an ideal training program would therefore include a geographic dimension and prepare people for dealing with particular origin–destination pairs. For example, a Japanese executive going to work in the United States would probably benefit from preparing for the higher level of individualism there. One preparing for China would in all likelihood benefit more from understanding that "uncertainty avoidance" is less pronounced there, so executives must be ready for faster-paced change and greater levels of experimentation.

Customizing training-and-development efforts at the level of individual country pairs is likely to run up quickly against resource constraints. However, the fact that 50 to 60 percent of trade, foreign direct investment, telephone calls, and migration are intraregional suggests that, in many cases, customizing at the regional level is sufficient. Firms will need a mix of regional and global leaders. Regional leadership is presumably less difficult and costly to develop than global leadership.

At a more granular level, competencies can also be customized to the requirements of specific executives' roles. The dimensions to consider include depth in particular markets versus breadth across markets, the frequency and duration of physical presence abroad, and a focus on internal versus external interactions.[13]

Myth #4
Localization is the key.

Some firms, rather than trying to fulfill the requirements of one-size-fits-all lists of global-leadership competencies, have embraced the opposite extreme of localization. Significant localization has taken place in the management teams of foreign subsidiaries.

[13] For a more systematic treatment, see Mark E. Mendenhall et al., "Defining the 'global' in global leadership," *Journal of World Business*, February 2012.

According to one study, the proportion of expatriates in senior-management roles in multinationals in the BRIC countries (Brazil, Russia, India, and China) and in the Middle East declined from 56 percent to 12 percent from the late 1990s to the late 2000s.[14]

Within this broad trend, some firms still rely too much on expatriates and need to localize more, but localization can be—and, in some instances, clearly has been—taken too far. Giving up on expatriation implies giving up on building the diverse bench of global leaders that CEOs say they require. Persistent distance effects, particularly those associated with information flows, do confirm the general wisdom: global leaders need experience working for extended periods in foreign locations because living abroad creates permanent knowledge and ties that bind. Extreme localization leaves no room for the development of leaders of this sort.

Executives report that "it takes at least three months to become immersed in a geographical location and appreciate how the culture, politics, and history of a region affect business there."[15] This judgment accords with the finding that living abroad expands your mental horizons and increases your creativity. However, merely traveling abroad doesn't produce these benefits.[16]

Long stays abroad are costly: traditional expatriation typically costs three times an employee's salary at home. Nonetheless, firms that really wish to prioritize global-leadership development will need to allocate the required resources. Better metrics to track the returns on such investments may help. One survey indicates that just 14 percent of companies have any mechanisms in place to track returns on international assignments. Most of these companies use metrics tracking only business generated from an assignment.[17]

Better career management could help capture and measure returns on investments in developing global leaders. Evidence indicates that in European and US multinationals, expatriates still take longer,

[14] William J. Holstein, "The decline of the expat executive," *Strategy + Business*, July 2008.

[15] Gail Naughton, as quoted in Tricia Bisoux, "Global immersion," *BizEd*, 2007, Volume 6, Number 4, pp. 44–49.

[16] Adam D. Galinsky and William W. Maddux, "Cultural borders and mental barriers: The relationship between living abroad and creativity," *Journal of Personality and Social Psychology*, 2009, Volume 96, Number 5, pp. 1047–61.

[17] *Emerging Trends in Global Mobility: Policy & Practices Survey*, Cartus (now Credant Mobility), 2004.

on average, to ascend the corporate ladder than managers who continue to work within their home countries. That indicates a deficiency in this area, as well as an incentive problem.[18]

Rather than pure localization, firms should embrace the practice of rotation, which provides the foreign work experience—not just travel—essential to the development of global leaders. And don't make the mistake of viewing expatriation as being solely about sending people from headquarters to emerging markets. The same requirement for immersion outside of one's home market also applies to the cultivation of global leaders recruited in emerging markets. For these executives, time spent in more established markets can, on the return home, reinforce both local- and global-leadership capacity.[19]

Myth #5
We can attract the best talent.

Nationals from key growth markets are underrepresented in the leadership ranks of many Western companies, so hiring future global leaders from these areas is critical. Yet recruiting top talent there is becoming increasingly difficult, as described in "How multinationals can attract the talent they need" (on mckinseyquarterly.com). I recall from my own youth in India how foreign multinationals used to be unequivocally the preferred employers, prized for their superior professionalism, brands, technologies, scale, and so on. Now I see that Indian companies have raised their game, putting pressure on multinationals in local talent markets.

The implications for global-leadership development are threefold. First, shifting to the rooted-cosmopolitan ideal described here is critical to attracting and developing executives from emerging markets. This approach makes it clear that ambitious young Indians, for example, proud of their country, don't have to refashion themselves as Westerners to succeed in Western multinationals.

[18] Monika Hamori and Burak Koyuncu, "Career advancement in large organizations in Europe and the United States: Do international assignments add value?," *The International Journal of Human Resource Management*, 2011, Volume 22, Number 4, pp. 843–62.

[19] Manpower CEO Jeffrey A. Joerres suggests that outbound rotation programs for managers are crucial to developing emerging-market talent. For more, see "Beyond expats: Better managers for emerging markets," mckinseyquarterly.com, May 2011.

Second, escalating competition for talent in growth markets implies that it is even more urgent for multinationals to diversify their leadership teams quickly. One of the main advantages of local firms is the fact that young recruits often can see, in the faces of the current leadership, that if they excel they have a clear shot at rising to the top. In many multinationals, such promises will require a leap of faith until diversity is significantly expanded. And the local competitors' ongoing international expansion gradually diminishes another advantage of foreign multinationals: the ability to offer a wide range of global opportunities.

Third, incorporating more local talent will require a greater emphasis on developing people. Tight talent markets and overstretched education systems imply, frankly, that firms hire some people who are not up to the standards they would prefer to uphold. Among the great strengths of India's IT firms is their ability to convert such not quite fully prepared talent into effective performers on a large scale.

It is indeed in today's large emerging markets that the war for talent, identified by McKinsey back in 1997, has become most acute.

Addressing the global-leadership gap must be an urgent priority for companies expanding their geographic reach. Predictable biases rooted in widespread misperceptions about globalization are hampering their efforts to develop capable global leaders.

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