Going Global: Talent Advice from China's Healthcare Internationalization Executives

Chinese healthcare companies are accelerating their expansion progress

At the end of 2021, China issued a development plan[1] for the healthcare industry, pointing out the need for Chinese healthcare companies to develop new competitive advantages across international markets and to fully integrate into global innovation networks and industrial systems.

As China's healthcare industry continues to mature, internationalization has become increasingly important to the long-term growth strategy of Chinese healthcare companies. These healthcare companies are embarking on different globalization journeys, each with their own intrinsic competitive advantages, including:

1. Acquiring new technology for the Chinese market:

Successful Chinese companies have flourished due to their understanding of the sizeable China market. Many seek to leverage this on-the-ground commercial execution expertise by acquiring innovative products overseas and introducing them to their home market. As a result, many medical device companies, pharmaceutical companies, and healthcare-focused financial platforms are actively seeking advanced technologies and high-quality products overseas, either via acquisition, in-licensing or other forms of partnerships.

2. Accessing global market:

Conversely, China's healthcare companies have also developed products and services that are competitive in global markets. Therefore, expansion into overseas markets has also become an important strategy to access new markets and leverage the advantages of scale.

3. Accessing global R&D talent:

As China healthcare companies seek new breakthroughs in product development, they have also aggressively sought to access research talent in more mature markets, like the US and Europe. Through exchange programs, collaboration with universities, and investing in R&D centers, these companies seek to access global talent in the R&D space and solidify their competitive advantage.

Companies face difference challenges at each stage of internationalization

Pioneer healthcare companies' innovation journeys provide useful roadmaps for other companies looking to follow in their footsteps. Russell Reynolds Associates interviewed 10 experienced leaders who led the internationalization journeys of healthcare companies to learn more about their experiences in going abroad, focusing on their reflections around talent management.

These leaders shared candid insight on complicated political landscapes and regulatory systems. They also reflected on particular challenges in managing cultural differences and motivations across diverse stakeholders both within China and beyond.

A common theme across interviewees: success or failure was dependent on the quality of the leadership team during the organization's internationalization journey.

Three Stages of Internationalization

	Pre-internationalization	Pre & Post-merger	Stabilization & Integration
Stage:	• When intention for internationalization emerges and no deals are made yet	• From sourcing to deal-making	• Ongoing partnership after deal
Key areas to understand:	• Talent reserve • Leadership capability and mindset	• Acquired asset including acquired team • Management style	• Working culture • Vision
To-dos:	• Assess current leadership team • Identify talent need and cultivate talents	• Assess the leadership team and the acquired team • Establish cultural norms at leadership level	• Shape cohesive working culture • Embrace sub-culture

1. Pre-internationalization

Before healthcare companies even consider internationalizing, they need to critically assess their talent reserves. It is important for the leaders and business development teams to have an international mindset and vision from the onset. They need to have an accurate understanding of key success factors and on-the-ground operating environments in the target overseas market. Where there are gaps in understanding, it is important for the leaders to learn and respond quickly.

Healthcare companies may encounter unforeseen challenges in any part of the value chain. Leaders must consider the significant risks associated with product registration, market access, and reimbursement models. These risks can only be mitigated by a competent team of professionals with experience across functions and geographies.

Recommendation: Conduct a self-evaluation in advance of any integrations, and cultivate talent with high potential and an international mindset

Companies with the intention of going abroad should plan ahead and conduct a comprehensive assessment and adjustment of their own team. The internationalization team should not only possess global vision and strategic thinking, it should also know the rules of business operations and have sufficient knowledge of policies and regulations to ensure compliance. Ideally, someone will bring a medical background to ensure the success of medical product development and clinical launch.

Selecting a leader for overseas operations is a complex challenge. This leader must be dedicated to the headquarters, understand both markets, and serve as a bridge between headquarters and in-market teams. Therefore, we believe that once a company intends to expand abroad, it should start to prepare and develop potential talent as soon as possible. The development should focus on exposing selected executives to markets outside of China, broadening the individuals' perspectives and developing an international mindset.

A human resources director from a healthcare company reflected that, prior to her company's expansion to Europe, "Our business development team was not aware of something so simple as that the language of each European country is different, and the laws and regulations are also different, so the labels we printed on the product should be different in each market." Inadequate due diligence creates huge obstacles for internationalization.

2. Pre & Post-Integration

Whether it is an overseas acquisition or a joint venture, the completion of the transaction is only a starting point. Success is fully dependent on establishing an effective management and collaboration model.

Our interviewees agree that one must respect the expertise of local teams and their importance in order not to jeopardize the business's commercial position. In-market professionals fully grasp the nuances and context of regulatory policies and business operations, and have the best access to local stakeholders across regulators, key opinion leaders(KOLs), and payors.

In practice, efforts to build cohesive and high-performing cross-border teams have encountered significant challenges, especially when establishing mutual trust. Therefore, it is important to acknowledge these challenges and invest in overcoming them .

Case Study: The chief operating officer (COO) of a healthcare company shared that they acquired a U.S. company in 2018 with the intention to register its valued pharmaceutical asset in China. Post-acquisition, there was a misalignment between the organization and this newly acquired asset, who did not intend to disclose the necessary information for drug registration in China. As a sign of respect, the organization initially felt it was best to keep the acquired team intact. However, when the Chinese drug registration matter was not resolved, the COO explained they "had to let the newly acquired company know we are clear in our purpose and intention, and make the necessary senior leadership changes to match this."

"Acquired assets are not only products and technology, but also talent."

—Former global partner from a pharmaceutical and healthcare industry group

"Don't try to replace the local team. We can't do what they do, so we must engage with them first to understand what their teams are like."

—a C-suite leader from a pharmaceutical company

Recommendation: Integrate gradually to build trust and understanding between teams

Pre-merger

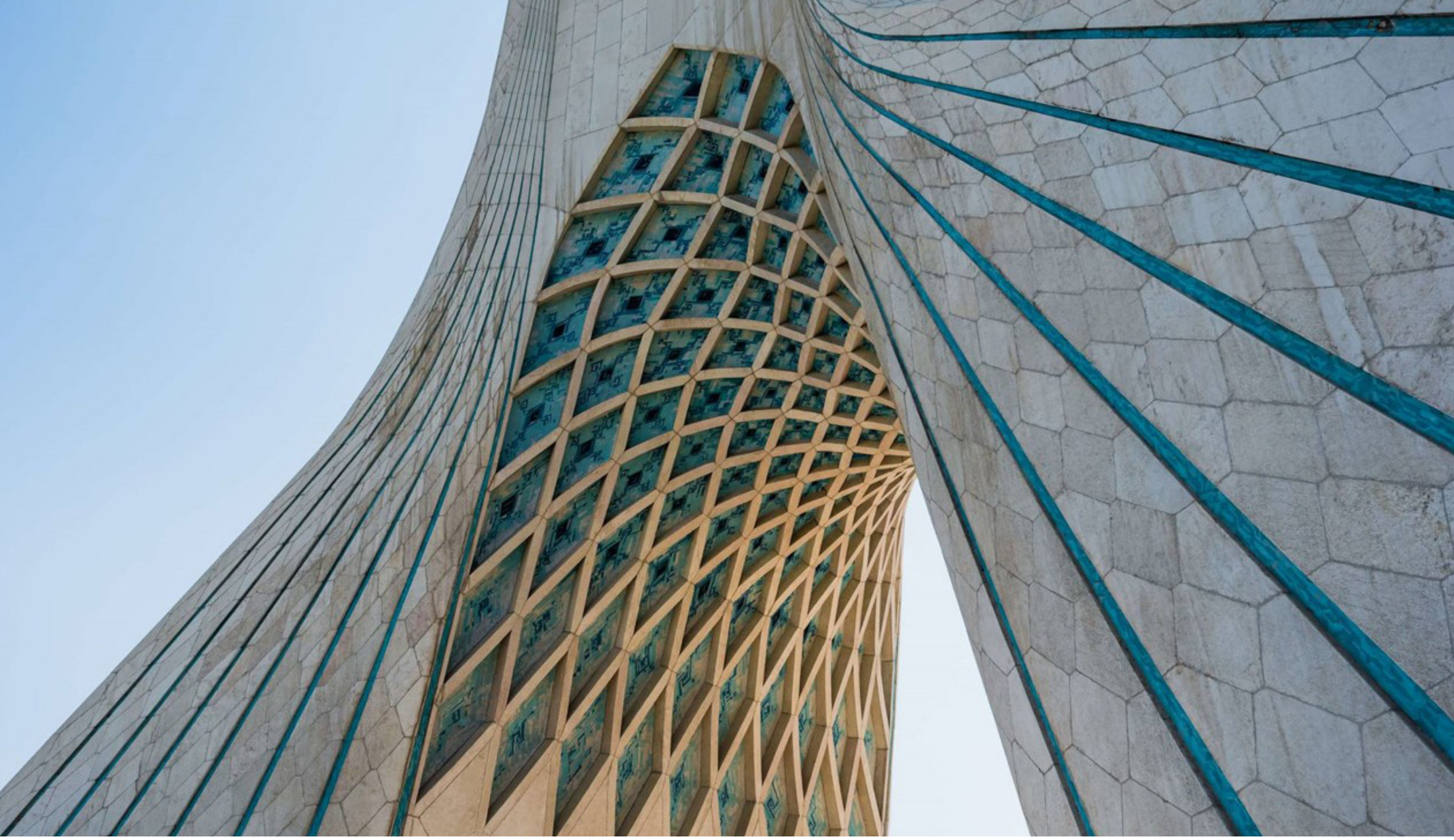
- **Establish a relationship with the target company.** Prior to the acquisition, engage with the executive team. by gathering their views and ambition for the business, personal aspirations and understanding their challenges and concerns. Gathering their feedback before commencing further work helps obtain buy in and engagement. Further, the inputs gathered from this stage helps the acquiring company form an initial understanding of the current situation.

- **Understand the target company.** This includes leaders' capabilities, the top team's effectiveness and diversity, and the organization's culture. Having a view on the current performance of the target company informs where investments need to be made to align capabilities to business objectives. This could include acquiring and developing talent, building a more cohesive team, putting systems in place, or hiring talent from different backgrounds. The information gathered from this stage will also serve as a baseline for further team development and growth.

  Some companies choose to engage a third-party organization to conduct these steps for objectivity, fairness, and professionalism.

Post-merger

- **Establish cultural norms at the leadership level.** Different values, beliefs and ways of working will inevitably emerge due to different customs and cultural norms. It is important to develop an understanding on how each party prefers to operate. These perspectives should emerge in steps described above. Members of the leadership team from both organizations will then need to align by negotiating where each party can compromise, agreeing on "rules of engagement" to guide ways of working going forward. For example, agreeing upfront that "we should always involve stakeholders from both sides when making strategic decisions on the business" could contribute to less friction long term.



3. Organizational culture and vision

As Chinese healthcare companies seek to form partnerships overseas, many have encountered stakeholders with different working norms. Nonetheless, as they mature into full-fledged international companies with headquarters in China, it is also important to forge a common operating and cultural language.

In achieving this shared vision, our experienced interviewees shared that it is important to keep multiple communication channels open in order to understand and embrace differences in sub-cultures.

Case Study: When a Chinese healthcare company acquired a German company, they intended to add their new Germany-based colleagues' personal data to the Chinese acquirer's human capital management system. While it is common for China-based employees to provide personal information, this is not as common in Germany. It took an open-minded and respectful discussion to understand the context, resolve the misalignment, and build an open corporate culture.

Recommendation: Shape a cohesive narrative, but embrace sub-cultures

In shaping global organizational culture, it is important to harness the diversity that exists within teams, develop mutual respect, and create aligned ways of working. Sub-cultures will inevitably exist. Insisting on culture conformation—particularly when it impacts employees with very different backgrounds—will often be met with resistance.

As a starting point, companies need to understand the two entities' current cultures and preferred ways of working. Using analytics and tools designed specifically to measure organizational culture, as well as engaging in transparent and honest conversations, will provide companies with a view on where synergies and tensions may arise.

Next, companies need to identify a few critical elements that will enable its strategy. For example, a therapeutics company looking to expand and penetrate new markets may want an efficient, customer-centric and growth-oriented organizational culture. These might form the "norms of working" for all parties and transcend preferences that exist in national. A culture imaging tool can provide insights into where these elements may already exist in the organization, and highlight where the needle needs to be moved. (To learn more about culture imaging, see our recent paper, "Measurement Mindset: A Practical Approach for Understanding Culture.")

Operating in a global context requires leaders to be flexible. For example, if the employees of an acquired entity prefers to work 32 hours a week, is that a place to compromise, provided they work efficiently? If one entity prefers a direct communication style, and the other less so, should employees in both organizations adapt their communications when speaking to a counterpart? Recognizing sub-cultures and being flexible in some of these areas will be important. Cross-cultural training for employees and open feedback loops could help bridge differences and all parties to 'meet in the middle.'

These are but a few examples of factors to consider before internationalizing. The actual process is bound to be more complex, especially for healthcare companies. As the race abroad unfolds, the organization that can best leverage its competitive advantage, plan ahead, and truly understand the leadership challenge will stand out as a real Chinese multi-national enterprise. Understanding the gap between internal capabilities and leadership needs, assessing the target team, acquiring the right people, and shaping a cohesive working culture are all essential steps in the globalization journey.

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Acknowledgements

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References

1. Xinhua, "China releases development plan for medical equipment industry," December 29, 2021.

About Russell Reynolds Associates

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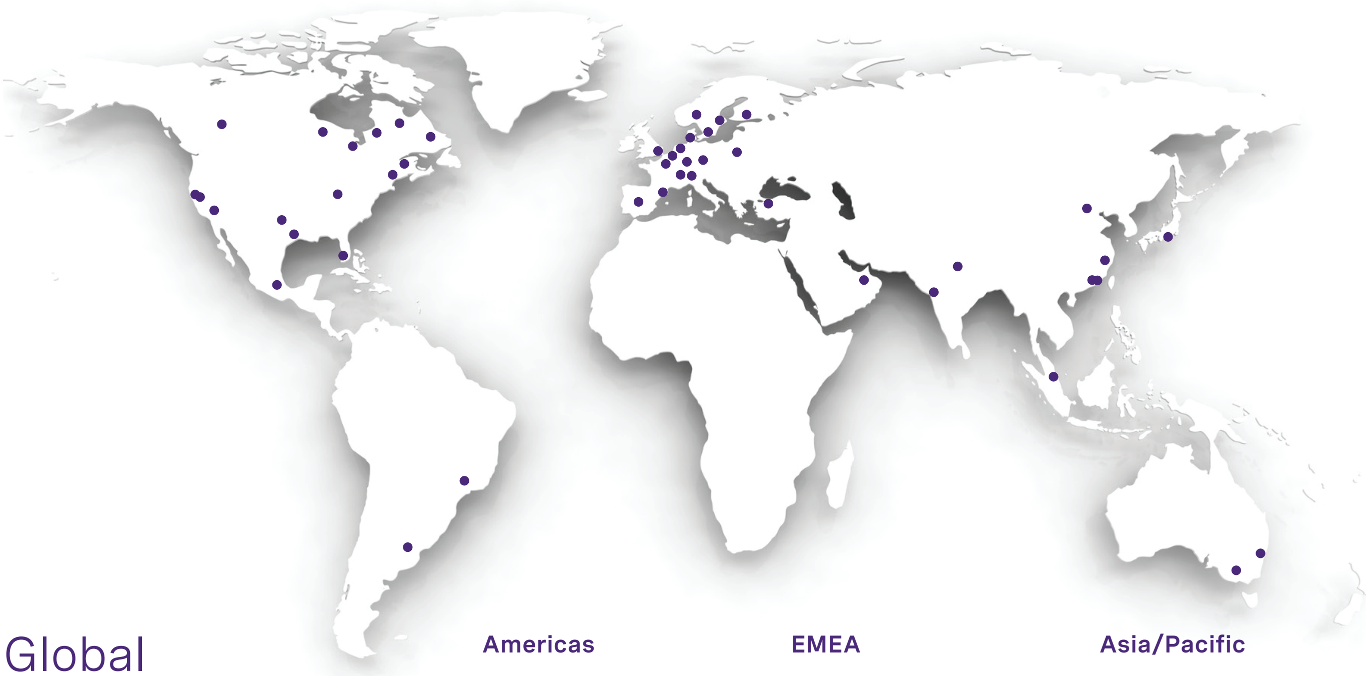

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