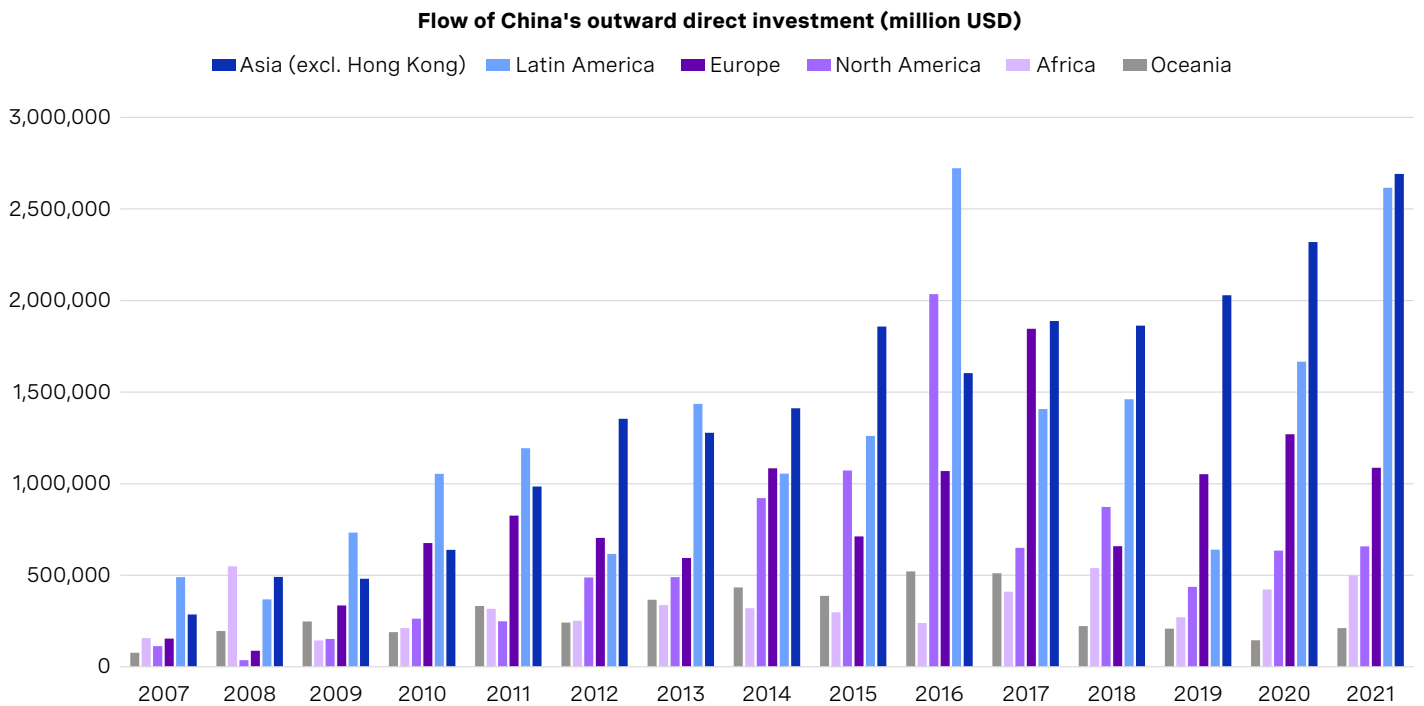




# Talent Implications for Chinese Enterprises Going Global: A Journey of Diversity and Inclusion

In recent years, Chinese enterprises have accelerated their global expansions. According to data released by the Chinese Ministry of Commerce, China's all-industry outward direct investment in 2022 was RMB 985.37 billion, a year-on-year increase of 5.2%.<sup>1</sup> However, these enterprises have encountered numerous setbacks. Leading Chinese enterprises and brands have encountered various internationalization challenges due to their business models, capital operation strategies, and compliance issues, including data privacy and taxation.

**Figure 1. Flow of China's outward direct investment to the world (2007-2021)**



Source: China National Bureau of Statistics

For most Chinese enterprises, overseas expansion is a relatively unfamiliar field and talent challenges are a crucial issue. To advise Chinese enterprises on their internationalization talent strategy, Russell Reynolds Associates conducted interviews with 12 leaders and experts from Chinese enterprises that succeeded in going global about their experiences and lessons learned.

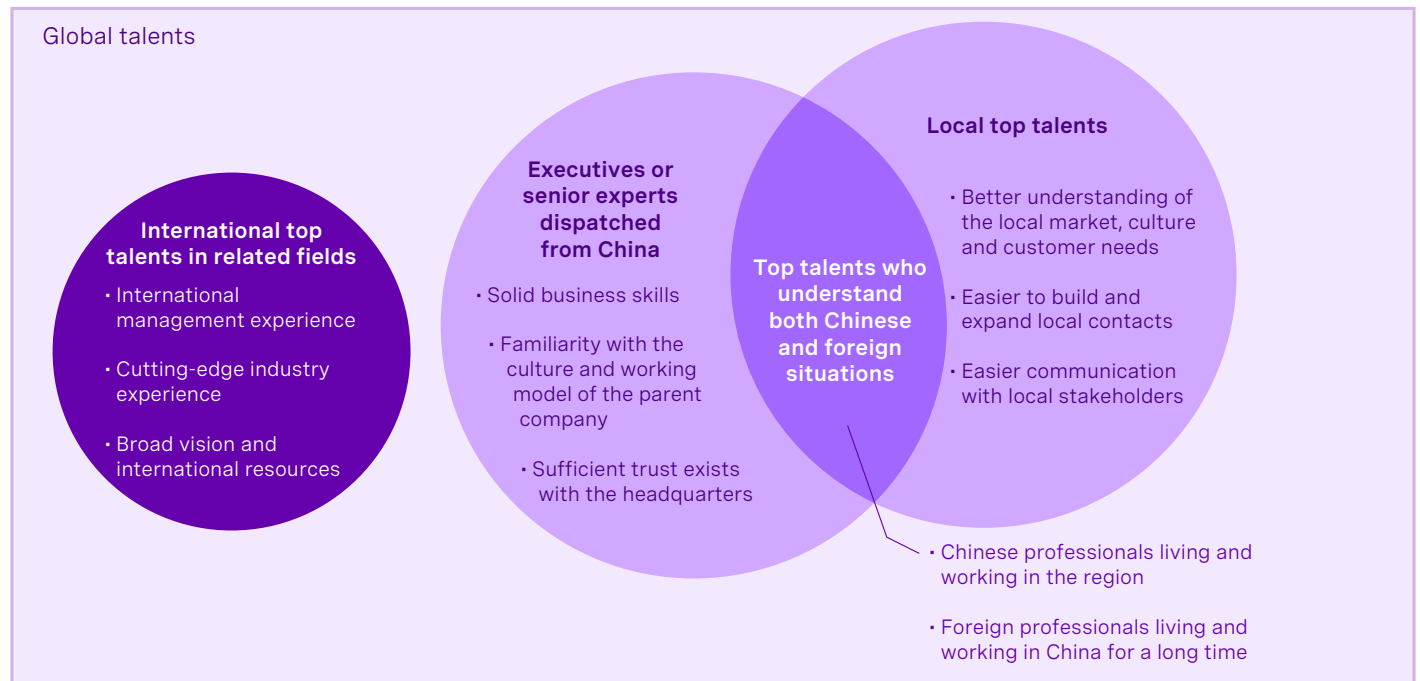
The interview results showed that at different stages of internationalization, Chinese enterprises have different talent preferences. Based on the results, we created a general talent model for Chinese enterprises to help their internationalization.



# Balancing trade-offs: Chinese enterprises' talent challenges

Overall, we found that Chinese companies face contradictions in required skills and talent availability. On issues such as personnel dispatching, local talent hiring, and executive selecting, interviewees' answers were highly dependent on where their companies were in their global development journey.

**Figure 2. Talent categories available to Chinese enterprises in the internationalization process**



# Expatriates from China: Talent is familiar and reliable, but faces challenges beyond their relevant experience

When expanding globally, dispatching executives overseas from China may be the organization's initial solution. This approach brings many advantages, including long-term experience within the parent company, familiarity with the company's culture, and proven business capabilities.

However, there are also serious challenges to consider when deploying expatriate talent—beyond the obvious language differences, cultural adaptability, and compensation settings.

- **Difficulty in obtaining overseas business experience:**

For a company expanding its business overseas, foreign language fluency and prior experience working abroad is not enough. Only those who have truly conducted business in overseas markets, understand business principles in said markets, and have established mature networks can be considered as truly having "overseas business experience." However, such personnel are rare.

- **Lack of international thinking:** In regions such as the Middle East and Europe, Chinese companies can easily find Chinese talent with local business experience. However, this talent often applies Chinese domestic company practices to the local market, as they lack firsthand experience with the local market's culture and business habits. Such personnel may have considerable resilience when working at the entry to mid-level, but often have difficulty building deep relationships with local partners and customers as leaders.

Additionally, expats themselves have various concerns. On one hand, there are quality of life concerns, including prolonged separation from family, culture shock in leisure times, and assimilation to local food and lodging.

On the other hand, there are career development concerns. Working in China's established business lines typically provides stable performance, leading to predictable returns and promotions. However, the performance prospects overseas are less certain.

Because expats face these challenges, Chinese companies should not ignore local talent when establishing overseas business. These local executives can effectively balance the issues expatriate leaders face, while also coaching said leaders as they transit into new roles.

“Currently, the most needed talent for Chinese companies is international talent. But how do we define international talent? Having a background of studying abroad, language proficiency, and cultural understanding are not enough. What truly matters is the ability to expand business overseas, which means having practical experience in marketing and operations abroad.”

— Head of overseas business development of a communications company

“Leading a western team with western thinking and language to achieve the desired results for Chinese company is the biggest challenge for Chinese expatriates. This is a skill that is not commonly possessed by Chinese talent.”

— Chief human resources officer of a consumer goods company

# Local talents: Long-term benefits balanced with longer adaptation and training timelines

Compared with expats from China, locally hired leaders—particularly those working at Chinese businesses that are highly integrated into the local market—bring many advantages, including:

- **Better understanding of local practices:** Local talent have a deep understanding of the local market and culture, which can help Chinese enterprises better respond to local market opportunities and challenges.
- **Easier to establish local connections:** Local talent tend to have rich networks, which can help Chinese enterprises establish business networks, find opportunities and partners, and establish a good brand reputation.
- **Easier to communicate with stakeholders:** Language and cultural differences may cause unnecessary trouble for businesses. Local talent can use the same language as local investors, customers, suppliers, regulatory agencies, and media to help Chinese enterprises establish good relationships with various stakeholders.

- **Easier to understand local regulations and policies:** Local talent can help Chinese enterprises better understand local regulations and policies to ensure compliance.

Despite these benefits, some Chinese companies are hesitant to hire local talent, due to cultural, leadership, and lifestyle differences between Chinese leaders and local talent. Because of this, some Chinese companies and expatriate leaders believe that it is difficult for local leaders to stay strategically consistent with the dispatched team and Chinese headquarters.

However, refusing to engage with local talent is unsustainable. While deploying Chinese leaders might maintain short-term efficiencies, it sacrifices the company's development in the long run. When Chinese companies expand overseas, they should aim to improve their existing corporate culture, laying the foundation for successful transformation into an inclusive multinational company.



# A diverse talent slate enables better team integration

To better integrate their teams, Chinese companies should seek out “integration agents”—talent with multi-faceted backgrounds who can ease team blending and buffer any potential friction. But who are these “integration agents”?

One archetype includes people who understand both Chinese and foreign situations, including top Chinese talents living in a foreign market, or foreign senior professionals who have worked in China for a long time.

Another archetype encompasses global leaders who can be added to local teams to strengthen its diversity. This approach is more common once overseas teams have a certain degree of autonomy—that is, once they’ve integrated into the local market and achieved localized operation.

**Table 1. Leadership models for overseas branches**

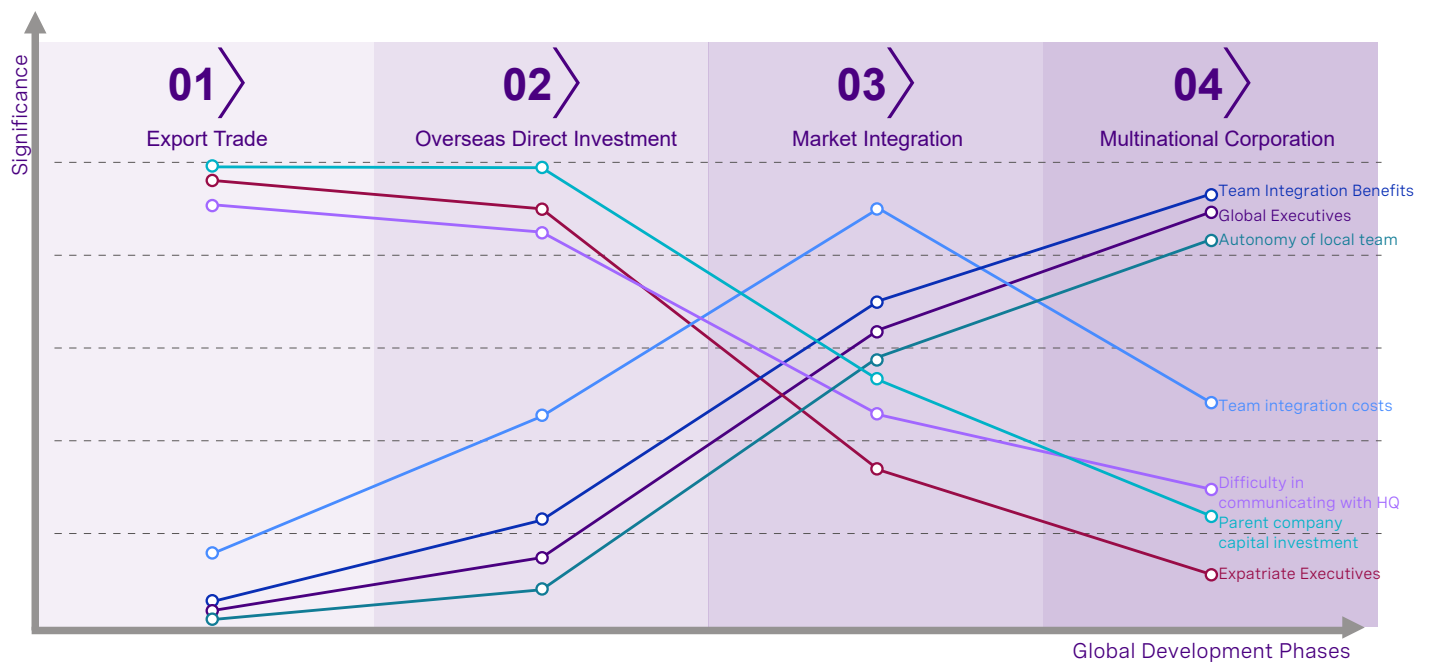
| Focuses   | Chinese lead + Chinese executives | Chinese lead + Global executives | Global lead + Global executives |
|---|-----------------------------------|----------------------------------|---------------------------------|
| Coordination and unity with the HQ in China                 | ●                                 | ●                                | ●                               |
| Autonomy of overseas branches                               | ●                                 | ●                                | ●                               |
| Business development with existing products                 | ●                                 | ●                                | ●                               |
| Product development that caters to local market preferences | ●                                 | ●                                | ●                               |
| Compatibility with local talent                             | ●                                 | ●                                | ●                               |
| Cooperation with local stakeholders                         | ●                                 | ●                                | ●                               |
| Flexible operating models that meet local conditions        | ●                                 | ●                                | ●                               |
| Global strategy compatibility                               | ●                                 | ●                                | ●                               |

Legend: ● Weak, ● Medium, ● Strong

# Recommendations for Chinese enterprises' overseas talent strategy

When expanding internationally, Chinese enterprises have different requirements at different phases. To help Chinese companies navigate these fluid talent needs, we created a talent model that highlights the level of investment needed across the overseas expansion phases, including: export trade, overseas direct investment, market integration, and multinational corporation.

**Figure 3. Talent model for Chinese enterprises expanding abroad**



In this figure, each line represents an agenda of local teams, addressing on talents and team building. The significance of each agenda fluctuates in different phases of global development.

## 1. Export Trade Phase

The company begins to export products or services to foreign markets while it gradually establishes overseas sales channels and networks. This is the first step for business to go abroad, but not counted as a real overseas expansion.

*As shown in the model, the factors in various dimensions are accumulating, but have not yet been put into action at this stage.*

In order to effectively communicate and cooperate with overseas customers and partners, companies need talent who are proficient in foreign languages and have a certain understanding of the destination market.

## 2. Overseas Direct Investment Phase

This is the first and most difficult stage of the internationalization process. Companies establish overseas branches or offices through investments and/or mergers and acquisitions. Committing to enter the market, companies might focus on building stable supply chains and distribution channels locally.

*As shown in the model, various factors have not yet fully converged, but will soon collide. At this stage, the parent company needs to invest a lot to support the overseas branch, which is not yet autonomous. In terms of the composition of personnel in overseas branches, Chinese expatriate executives and employees are dominant. The cost of team integration is higher than its benefits, but in order to develop steadily to the next phase, early design on team and culture integration should be made at this stage.*

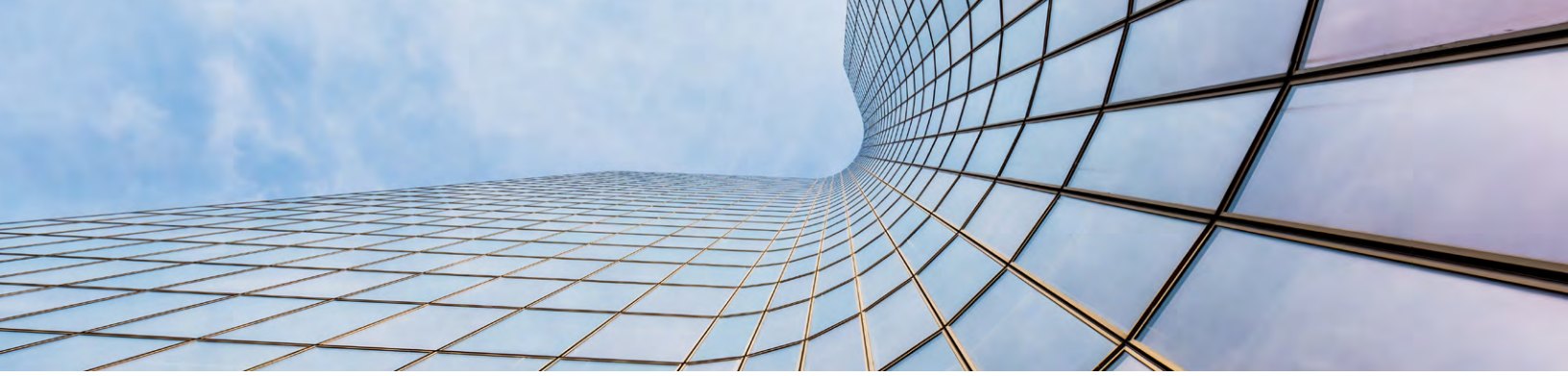
Chinese companies at this stage should pay attention to the following:

- **Preliminary investigation:** Conduct investigations into the specific local market situation, such as consumer preferences and the availability of supply chains. Additionally, organizations need to fully understand the local legal and regulatory requirements and employment policies to avoid compliance risks.
- **Organization and role design:** International expansion should be highly top-down work. Using the insights from preliminary investigation, the parent company in China can set clear stage goals in the process, and design organizational structures and key positions for specific situations in a certain market.
- **Communication with headquarters:** The cooperation between the parent company in China and the overseas branch is also crucial for team integration. An effective and sustainable communication channel should be established between the two as early as possible to build mutual trust and maintain consistency.
- **Cultural respect:** Respect the culture and working habits of local employees. Avoid simply applying Chinese management concepts and cultural ideas.
- **Standard training:** Arrange specifically designed training for expatriates and local employees in overseas branches that establish common terms to improve overall recognition.
- **Equity:** Meeting participation should be based on business needs, rather than on nationality. Holding business discussions only among Chinese expats, and conveying discussion results to local employees after the fact is not a desirable practice.
- **Address conflicts:** Embrace constructive conflict to enhance team communication. Treating Chinese and local personnel differently to attempt to keep the peace will only split the team further. Evading conflicts, although it may improve short-term efficiency, deepens estrangement in the long run.

“Without communication, people’s determination to do things will be completely different. If there is no communication between Chinese and foreign personnel within the team, there will be no output in overseas business. To achieve this, it is required that Chinese enterprises have confidence in team communication and not give up due to short-term discomfort.”

— Chief human resources officer of a consumer goods company





### 3. Market Integration Phase

During market integration, the company has already established a foothold in the local market. Continued success no longer depends on investment from the parent company, but mainly on the local branch's ability to handle its own market, products, and brand image.

*As shown in the model, factors in multiple dimensions are colliding. At this stage, the overseas branch has some autonomy, and is expected to customize products and services to local market preferences. Local talent and global leaders comprise the majority of the team, and there are higher employer branding requirements. In this phase, communication between the overseas team and headquarters are still undergoing adjustments and team integration costs are at their highest.*

In addition to maintaining the good foundation laid in the previous phases, Chinese companies should also:

- **Localize operations:** To achieve flexible localized strategies, the overseas team should be given increased decision-making power. Additionally, global talent should take on more leadership roles.
- **Reduce conflict points:** For overseas branches that have carried out mature localized operations, it's ideal to let local executives serve as the head of the overseas team and report to the headquarters. When structured this way, local personnel report to local leaders, rather than the Chinese team, minimizing cultural conflicts and integration issues.
- **Promote legal and cultural awareness:** Stay compliant with labor laws, respect the local working culture, gradually establish a reputation and brand among local employees, and create a healthy corporate culture.
- **Cooperate locally:** Build relationships with local governments, universities, research institutions, etc. Establish high-level cooperation mechanisms to further enhance influence.
- **Promote communication:** Invite global executives and teams to visit the headquarters in China. By meeting colleagues in person, mutual understanding can be enhanced.

### 4. Multinational Corporation Phase

When the company has achieved integration in multiple markets, it is ready to become a multinational corporation. In this phase, the company implements a diversified strategy, satisfies preferences in different markets through diversified product lines, and explores global resource integration to optimize global business layout. Additionally, global business and functional processes should be standardized and integrated via the unification of financial, supply chain, and human resources processes. Once complete, the organization will become a mature global enterprise.

*As shown in the model, various conflicts have been mostly resolved in this stage. Overseas branches have a high degree of autonomy and can independently explore diversified strategies, bringing benefits to the enterprise. At this point, the company is no longer divided into Chinese and foreign talent, but functions as one team. Global talent not only serves as regional leaders, but also have opportunities to join management or the board. The global team speaks the same language, shares common beliefs, and works toward the same goals. Team integration costs are greatly reduced. Due to the sustained focus on team and culture in previous phases, the entire organization begins to enjoy benefits at this stage.*

This final phase will only be reached if the company sustains its attention on and investment in equitable and inclusive team building from the initial stages of global expansion.

# Globalization as a journey of diversity, equity, and inclusion

Chinese companies expanding overseas are embarking on a long-term project that requires continuous investment in talents, teams, and culture to ensure sustainable, global business development. This is not only true for Chinese companies that are going global, but also for global companies investing in various parts of the world, including China.

In this uncertain era, maintaining an open-mind, embracing diversity, and accommodating different backgrounds, experiences, and ways of thinking will bring long-term benefits to companies. Attracting global talent to Chinese companies will undoubtedly provide long-term benefits on your globalization journey.

“Entrepreneurs need to go out and interact with various local people, telling them who we are, what kind of people we need, and what opportunities we may create in the future. Only by doing so can we gradually increase our visibility and raise the profile of Chinese enterprises in the area.”

— Chief human resources officer of a consumer goods company

“The biggest problem with business is people not understanding one another, and if you’re able to bridge this divide, it makes everything possible.”

— A European entrepreneur with deep experience in working with Chinese companies

“As overseas projects become increasingly difficult, it becomes necessary to have people who are familiar with the local politics, economy, and culture. It is also necessary to have locals manage locals and create more value. This is a great test of our company’s management level.”

— A former official of the Ministry of Commerce in South America

“Entrepreneurs themselves should maintain an open mindset and respect local cultures. The company’s management consciousness should keep up and understand that the management of multinational enterprises cannot be done in the same way as Chinese companies, and that the model of Chinese enterprises cannot be applied universally. Instead, a modular management approach should be adopted.”

— Head of a luxury brand

“No matter how large a Chinese enterprise is, when it goes to another country, it is just a small company. It needs to gradually establish a good reputation among local employees and cannot ignore ethics. Haste makes waste. If the company moves too quickly but makes mistakes, the cost of starting over will be even higher, as the company’s reputation in the local area may already be damaged.”

— Human Resources leader of a real estate company

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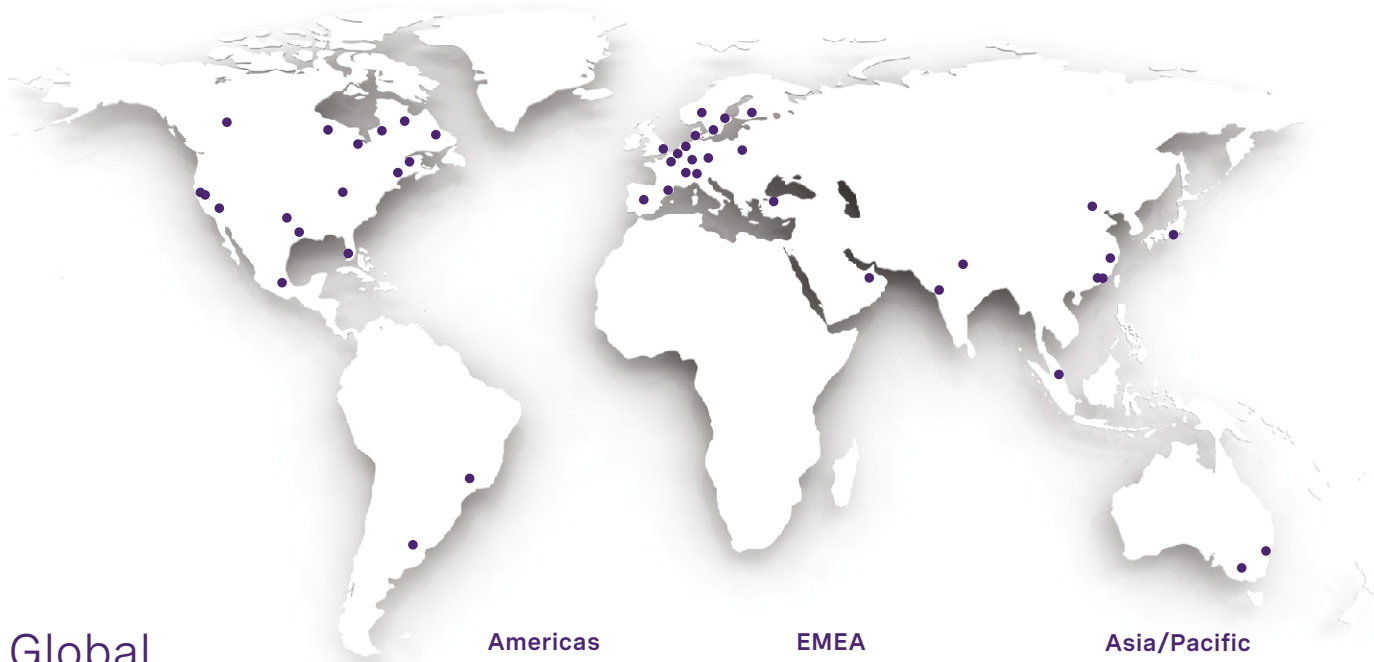
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1. [Head of Cooperation Department of the Ministry of Commerce discusses China's foreign investment cooperation situation in 2022](#)

# About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory firm. Our 600+ consultants in 47 offices work with public, private, and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic, sustainability, and political trends that are reshaping the global business environment. From helping boards with their structure, culture, and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led

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