

Developing Global Leaders for Emerging Markets

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Abstract

In order to operate effectively in emerging markets, global leaders not only must possess higher-order business skills, but also the fundamental global leadership competencies that will allow them to effectively deploy such business skills. In this paper we delineate the fundamental global leadership competencies that are necessary for success in emerging markets and also report what is known from the research about how to develop them in managers. The paper concludes with a discussion of how Japanese firms can improve in developing global leadership competencies in their managerial cadres who will later be assigned to work in emerging markets.

Keywords:

Global Leadership, Emerging Markets, Globalization

INTRODUCTION

Why do some firms compete successfully in the world marketplace and others lose or fail to gain a global advantage? Some analysts argue that strategy is the key: The winners are the ones with the right game plans. However, in order to develop effective business strategies for operating in emerging markets, it is critical to consider with care “who” develops these strategies—in other words, it is vital to “get the right people with the right skills” to “formulate and implement strategy” (Black, Gregersen, & Mendenhall, 1992: 3). Indeed, recent research has started to demonstrate how companies can create an enduring competitive advantage by effectively leveraging their people and company culture (Chan, Shaffer & Snape, 2004; Pfeffer, 1995; Tan, 2009).

In this article, we explore in depth the question: “What are the skills and competencies that global

leaders need in order to design and implement strategies in emerging markets?” Before addressing the skills critical for success in global leadership in emerging markets, it is first necessary to delineate the definition of the term “emerging markets.”

WHAT IS AN EMERGING MARKET?

The concept of emerging markets first came about in 1981 from economists who worked at the International Finance Corporation (IFC). From that time until the present, many different people, businesses, and government entities have defined the concept in many different ways (Khanna, & Palepu, 2010: 3). The three most common ways that emerging markets are conceptually differentiated from developed economies are:

1. Emerging markets are distinguished by marked, rapid economic growth patterns, where Gross

Domestic Product (GDP) growth, for example, is significantly higher compared to other countries, expanding the middle class sector, and providing jobs and opportunities for their labor pools. The BRIC countries (Brazil, Russia, India, and China) are examples of this version of the concept of emerging markets (Khanna, & Palepu, 2010: 4).

2. The second approach reflects a more macro perspective, wherein “emerging markets are seen as emerging competitors” to developed economies (Khanna, & Palepu, 2010: 4). The BRIC countries fall under this conception as well. The threat of competition from firms in these countries in the global marketplace is the primary prerequisite, in the minds of many, for a nation being classified as an emerging market (Khanna, & Palepu, 2010: 5).
3. Finally, a common way of deciding upon whether a nation represents an emerging market or not is the evaluation of how difficult it is to do business within the country as an outsider. Problems around issues such as intellectual property rights, governmental red-tape, corruption, insufficiently educated managerial pools, arcane and messy distribution systems, and so on, often draw inferences that the nation in question is an emerging market due to the difficulty of conducting business there in a straightforward manner (Khanna, & Palepu, 2010).

Khanna and Palepu (2010) take a somewhat different approach to assessing emerging markets, one that we will adopt as well in this paper. They argue that:

We see these features of emerging markets as symptoms of underlying market structures that share common, important, and persistent differences from those in developed economies... Emerging markets reflect those transactional arenas where buyers and sellers are not easily or efficiently able to come together. Ideally, every economy would provide a range of institutions to facilitate the functioning of markets, but developing countries fall short in a number of ways. These institutional voids make a market “emerging” and are a prime source of the higher transaction costs and operating challenges in these markets. (Khanna, & Palepu, 2010: 6).

For example, they observe that if one were to assess nations by their per capita gross domestic product, the United Arab Emirates would be assessed as being one of the world’s most developed nations. However, Khanna and Palepu (2010) would classify the United Arab Emirates as an emerging market because of the dynamics of its market structure. “Market structures are the products of idiosyncratic historical, political, legal, economic and cultural forces within any country. All emerging markets feature institutional voids, however, although the particular combination and severity of these voids varies from market to market” (Khanna, & Palepu, 2010: 6). They conclude that:

By developing a granular understanding of the underlying market structure of emerging economies—and not only cataloging symptoms to be incorporated in an overall risk assessment—companies can tailor their strategies and execution in emerging markets to avoid mistakes and outcompete rivals (Khanna, & Palepu, 2010: 6).

GLOBAL LEADERSHIP SKILLS NECESSARY FOR SUCCESS IN EMERGING MARKETS

We now return to the original question we posed earlier in this paper: “What are the skills and competencies that global leaders need in order to design and implement strategies in emerging markets?” Or, from the perspective of Khanna and Palepu, “What are the skills that are necessary for a leader to possess to go about developing a granular understanding of the underlying market structures of an emerging economy in order to tailor strategy to outcompete rivals?” (Khanna, & Palepu, 2010: 6).

We have been part of a team of scholars who have been conducting research on this question since the late 1990s. Our conclusions and recommendations are based on over 15 years of research on what differentiates effective global leaders from less effective global leaders. The research in this area indicates there is both “good news and bad news” (to use a North American phrase) for companies who seek to operate in emerging markets. We will share the “good news”

first, and then the “bad news”; however, we view the “bad news” as being in actuality an opportunity for growth rather than an overwhelming obstacle.

THE “GOOD NEWS”: WE KNOW WHAT SKILLS ARE NECESSARY FOR SUCCESS IN GLOBAL LEADERSHIP

Fifteen years of research has produced a clear understanding of the core competencies and skills necessary for global leaders to lead, strategize, organize, and implement strategy in global and intercultural contexts (Bird, Mendenhall, Stevens, & Oddou, 2010; Osland, Bird, & Mendenhall, 2012). Fortunately, the same competencies apply across the board whether operating in developed economies or emerging markets. Obviously, technical, business, and organization skills were found to be important, which comes as no surprise. These are higher-order business skills, the type that leaders generally rely on when creating strategy, and are almost always developed and honed, via experience, in the leaders’ domestic business environments.

However, the research found that there are other sets of competencies that significantly influence the effectiveness of leaders’ abilities to deploy their higher-order business skills in global/emerging markets contexts. There are 16 of these competencies, and they can be grouped into three competency categories: *Perception*, *Relationship*, and *Self* (Mendenhall, Stevens, Bird, & Oddou, 2008). The competencies in each of these groups are prerequisite in nature to the successful deployment of the higher-order business skills. That is, unless leaders are strong in the *Perception*, *Relationship*, and *Self* competencies, it will be difficult for them to create and then implement effective strategies outside of their domestic business environments. This is primarily due to the fact that implementing strategies in emerging markets requires leaders to lead others—which is essentially a human endeavor that always requires nuanced skills in terms of influencing, motivating, teaching, communicating, and developing people. And when this is done in a cross-cultural environment, it means global leaders must perform these human endeavors of leadership with people who differ culturally from the leaders.

What are the 16 competencies in each of these

three broad global competency groupings? The Perception group includes the following competencies: *Nonjudgmentalness*, *Inquisitiveness* (some scholars argue that this is the most critical of all global leadership competencies), *Tolerance of Ambiguity*, *Cosmopolitanism*, and *Interest Flexibility*. The Relationship group consists of: *Relationship Interest*, *Interpersonal Engagement*, *Emotional Sensitivity*, *Self-Awareness*, and *Social Flexibility*. Finally, the Self group includes the following competencies: *Optimism*, *Self-Confidence*, *Self-Identity*, *Emotional Resilience*, *Non-Stress Tendency*, and *Stress Management* (Mendenhall, et. al., 2008).

Our research has shown that global managers who possess these 16 competencies at higher levels than their counterparts have higher overseas job performance, greater job satisfaction, higher development of higher-order global business skills than their counterparts, and greater transfer of those global business skills upon repatriation (Furuya, Stevens, Oddou, Bird, & Mendenhall, 2009). Thus, the “good news” is that we know what competencies to focus on in terms of developing and selecting global managers and preparing them to work in emerging markets.

THE “BAD NEWS”: DEVELOPING GLOBAL LEADERSHIP COMPETENCIES TAKES TIME, DEDICATED EFFORT, AND ORGANIZATIONAL FOCUS

While research indicates that these 16 competencies can be developed in managers, it unfortunately also indicates that it cannot be done strictly through traditional training programs. Developing foundational global leadership takes time, dedicated effort, and organizational focus. In addition to traditional training programs, it requires the following process (Mendenhall, Arnardottir, Oddou, & Burke, 2013):

Phase I: Individual Assessment

Before managers can strengthen their weaker competencies and learn to more effectively deploy their stronger competencies, they first must become aware of their levels of strength in each of the 16 competencies, which can be assessed via the *Global Competencies Inventory* (Stevens, Bird, Mendenhall,

TABLE 1 List of Global Leadership Competencies and Definitions

Perception Management Involves the process by which perceptions and judgments are made of new situations or events, as well as the ability to accurately interpret ambiguous situations.
➤ Nonjudgmentalness – Being willing to withhold or suspend judgment in the moment.
➤ Inquisitiveness – Enjoying new and different experiences; welcoming variety and change.
➤ Tolerance of Ambiguity – Being open to ambiguity or uncertainty.
➤ Cosmopolitanism – Being worldly-wise and experienced living in or visiting different cultures or foreign countries.
➤ Interest Flexibility – Being willing to replace preferred interests, hobbies and leisure activities with new ones.
Relationship Management Involves self-awareness, the ability to attend to oneself and others, and the application of sound interpersonal skills.
➤ Relationship Interest – Being aware of and interested in others.
➤ Relationship Interest – Being willing to initiate and maintain positive interpersonal relationships.
➤ Emotional Sensitivity – Being aware of and sensitive to the emotions of others.
➤ Self-Awareness – Having an awareness of self and one’s impact on others.
➤ Social Flexibility – Being capable of adopting new behaviors in order to build relationships with others.
Self Management Involves self-understanding, self-confidence in cross-cultural situations, emotional resilience and effective coping skills.
➤ Optimism – Having a positive mental outlook toward people and situations.
➤ Self-Confidence – Being confident in oneself and being willing to take initiative.
➤ Self-Identity – Having the capacity to maintain one’s values and identity in challenging situations.
➤ Emotional Resilience – Being emotionally strong and able to cope well.
➤ Non-Stress Tendency – Innate disposition to respond with calmness to stressors (higher scores indicate greater freedom from stressors).
➤ Stress Management – Being able to effectively manage and reduce stress.

& Oddou, 2014). Without a clear perspective of which global competencies that one is currently strong or weak in, it is difficult to comprehend how to develop one’s self. Without a clear and objective answer to the question, “What competencies should I try to develop?”, it is difficult to improve one’s global leadership skills.

Another aspect of individual assessment is to gain an honest awareness of one’s current level of leadership developmental readiness. Leadership developmental readiness is “the positive ability, orientation, and openness to develop” (Avolio & Hannah, 2008). Alternatively, it also has been defined as “both

the ability and motivation to attend to, make meaning of, and appropriate new knowledge into one’s long-term memory structure” (Hannah & Lester, 2009). Another way to understand developmental readiness is to refer to the old adage, “You can lead a horse to water, but you cannot make him drink.” Unless managers or leaders desire to develop global leadership competencies, the research literature indicates they will have very limited success developing them. Thus, when selecting managers to work in emerging markets, it is first necessary to assess both their current levels of global competencies and their developmental readiness.

Phase II: Moving from “Knowing” to “Doing”

Simply knowing about one’s strong and weak global leadership competencies is necessary, but not sufficient for enhancing them. Research clearly shows that these competencies can be developed by creating personalized development plans (PDPs) whereby managers actively engage in short, daily, incremental activities that are designed to strengthen a given competency. While significant progress can be possible over short periods of time using well-crafted PDPs, such progress seems to hinge on an accountability component being a central part of the PDP process; that is, managers must be required to report their activities to a coach or some other designated person—otherwise progress seems to stall (Mendenhall, et. al., 2013).

The concept of PDPs can be extended to group development processes wherein managers are organized into small teams, and then placed in cross-cultural contexts where their skills and competencies are tested and stretched. Previous training is important prerequisite work before being placed in these crucible experiences, but research has shown that such immersive training contexts enhance the global leadership competencies of participants. To date, few companies are investing in their global leadership cadres by using immersive training; however, those that have done so (e.g., PriceWaterhouseCoopers, IBM, and GlaxoSmithKline) have found them to produce positive results (Oddou, & Mendenhall, 2013).

Two other effective but less expensive approaches to developing global leaders have also been developed. The first approach comes from the Global Leadership Advancement Center at San Jose State University’s Lucas College and Graduate School of Business and has been tested on hundreds of students. Their programs, based on research best practices, are geared on going beyond transferring global leadership knowledge to increasing global leader behaviors and performance. Thus, the Global Leadership Lab (GLLab) takes an assessment center approach to developing global leaders (Hemelin, Lievens & Robertson, 2007). This involves a battery of assessment instruments, including the GCI, combined with reflections and PDPs that are complemented by sophisticated behavioral simulations and a multicultural team project to create an innovation. Students receive

extensive feedback on their behaviors on the team project and in simulations from peers, trained graduate students, and instructors. Students who scored higher on the sixteen competencies mentioned in Table 1 also received higher simulation performance ratings from the trained graduate students and instructors. To move from “knowing to doing,” the GLLab is incorporated into all of San Jose State University’s global leadership courses, degree minor, advanced certificate program, and its Global Leadership Passport Program.

The second approach comes from the Passport Program mentioned above. This is a co-curricular, self-paced program in which students earn “passport stamps” for campus activities that, according to research, develop global leadership competencies. The program’s goal is to prepare students for global work by developing a global mindset and global leadership skills. Students earn stamps for taking pre-and post-assessment instruments and creating a PDP, taking global courses, learning foreign languages and participating in and reflecting on GLLab training modules, cultural immersion programs, leadership and social innovation projects, and mentoring foreign students. Students upload their reflections on each activity to a web-based platform that also tracks their progress; trained staff read and comment on their reflections. Companies could use a type of “passport program” with employees to encourage personal development and life-long learning as well as global leadership development.

Phase III: Cementation of Development through Reflection.

Competency development is preserved or “cemented” when managers engage in reflection processes regarding their experiences in enacting their PDPs or after their immersive training experiences. It seems that long-term competency development requires thoughtful and deliberate self-reflection about the work one has put into strengthening a competency, likely because such cognitive/emotional work is necessary to retain the competency gains in long-term memory and within one’s emotional framework. More research needs to be done in this area, but extending findings from clinical psychology in similar internal change processes indicates that psychological

integration of the developmental experience itself deepens and preserves the long-term existence of the learned competency (Mendenhall, et. al., 2013).

IMPLICATIONS FOR JAPANESE FIRMS

The first author was originally asked to present an earlier form of this paper at the Annual Conference of the International Academy of Strategic Management (IASM) in Tokyo on September 13, 2014. After the paper presentation at that conference concluded, a question and answer session ensued. We found two of the questions to be particularly poignant, and we would like to organize our concluding thoughts around them.

Question 1: Japanese firms and managers are constantly being criticized for lacking global leadership skills, global mindsets, English language skills, and global savvy that is so necessary for success in the 21st Century. Aren't we doing at least something right? Is Japan really as deficient as it is being made out to be by the media and other experts?

There are a plethora of hand-wringing articles about Japan's need to globalize its business leaders and the next generation of business leaders. Illustrative of such concerns can be seen in the following quote, based on IMD's 2013 World Competitiveness Yearbook (WCY) (Rosselet, 2013):

With a low emphasis on creativity and innovation in the [university] classroom, and rigid language and cultural barriers, Japanese companies are finding it hard to hire local managers who have the necessary skills to compete in international markets. Facing weak economic growth and domestic demand, companies have no choice but to "go global" and diversify into foreign markets. But the growing shortage of competent senior executives will hold Japanese companies back from successful internationalization. Again, the data is telling: Japan is the only developed nation in the 2013 WCY that ranks near the bottom (51st out of 60) for "the availability of competent senior managers.... Nurturing talent doesn't only start at an early age but includes life-long learning that spans international exchanges, language skills and acceptance of cultural diversity. Japan performs poorly in each of these

areas, especially for the "international experience of senior managers," for which the country ranks third to last in the 2013 WCY.... Given Japan's cutting-edge technologies and strong emphasis on business R&D, it's a shame not to see this prowess being accompanied by similar managerial excellence. Without a global mindset and intimate knowledge of foreign markets, Japanese companies may find that their "go-global strategy" is doomed to disappoint. Being a Japanese company in Japan is one thing, but succeeding abroad requires a host of soft skills and diversity that define the global leaders of the future." (Rosselet, 2013)

Our response to the challenge that Japan faces is that Japan does not face this challenge alone. In our consulting work, and based on our review of the existing research in global leadership, we conclude that the vast majority of firms around the world, from numerous different countries, face essentially the same challenge that is characterized above in the IMD report. Virtually everyone is struggling with how to develop global mindsets, global leadership competencies, and global business knowledge in their managerial cadres. A sense of Japan being an isolated case in this human resource challenge is one that is false and, we believe, counterproductive in nature, in that there is a danger of it becoming a self-fulfilling prophecy in the minds of Japanese business, academic, and government leaders. It is not a self-fulfilling prophecy that there is something about Japanese culture and its myriad social institutions that destine the Japanese to be unable to be "globalized." It is definitely possible for Japanese to develop a global mindset, and to increase their global leadership competencies, because we personally know many Japanese who have done so. In our conclusion, Japan does need some targeted institutional changes to facilitate a more rapid increase in this "human capital globalizing process," and instead we agree with the following recommendations to accomplish this from the IMD WCY report (Rosselet, 2013):

- ❖ Partnerships and exchanges with foreign companies to accelerate the two-way transfer of knowledge and global business management practices.
- ❖ Experiencing a multi-cultural learning

environment through international executive education programs.

- ❖ Revising corporate remuneration policies to encourage managers to accept positions abroad.
- ❖ Reforming universities to develop more global talents and encouraging cultural exchange programs.
- ❖ Encouraging English proficiency (among other languages) in the school system and corporate world.
- ❖ Opening up the corporate sector to more global competition and appointing foreign executives to top management positions within Japanese companies.

However, we would love to see such changes occur in the United States, Canada, Brazil, India, China, the U.K., Russia, and many other countries as well! Japan is not alone in its challenges—it is our opinion that other countries are not so far ahead of Japan in this regard that it is impossible for Japan to catch up with them. There are plenty of organizations in countries all around the world that are struggling to develop global leaders.

Question 2: If you could speak to the Human Resource Directors at all of the major firms in Japan, what advice would you give them to globalize their employees?

There are many variables, many aspects to developing global leadership competencies within a managerial cadre and across a range of levels of employees within any given firm. Our advice is contained in the books we have written on this topic and in our consulting work. However, the answer that was given to this question by the first author, was roughly as follows:

Perhaps the most important thing that companies could do right away is to include assessment of global leadership competencies in graduating university students, and to base their hiring at least partially on their existing global competency configurations. It is possible to measure the degree to which a student possesses or does not possess global leadership competencies at the time of graduation from university. Populating a company, year after year, with young, managerial cohorts who already possess above average to high levels of global leadership

competencies is a simple, straightforward, and wise investment for the future for any company. It is easier to “buy” than “make” global leaders. Adding global leadership training of the type that we described above will further catalyze the enhancement of these cohorts’ existing global leadership competencies, ensuring Japanese firms with a solid team of young managers who have global mindsets and who have the developmental readiness to continue to develop their global skills across time. This is the most important thing that Japanese firms can do right now, as they wait for societal institutions to make changes. We contend that there is no need for Japanese firms to wait for outside entities to change before taking action in globalizing their managerial cadres.

In summary, developing the competencies necessary for effective global leadership in emerging markets is definitely possible. All it takes is the right vision and the will do so on the part of top management.

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