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Pushing the Right Buttons: Global Talent Management at KONE Corporation

Teaching case

Adam Smale
Department of Management
University of Vaasa
Vaasa, Finland

Ingmar Björkman
Aalto University School of Business
Helsinki, Finland

Johanna Saarinen
Department of International Management Studies
Aalto University School of Business
Helsinki, Finland



This is a hypothetical case study on KONE which was made possible by their generous co-operation. The case is based on primary and secondary data. However, events, organizational arrangements, and timings may have been changed by the authors for classroom purposes. The case does not represent KONE's official views on talent management. This teaching case is intended to be used as a basis for class discussion rather than to illustrate the effective or ineffective handling of a management situation. The case is not intended to serve as endorsement or a source of primary data.

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North America
t +1 781 239 5884
f +1 781 239 5885
e info.usa@thecasecentre.org

Rest of the world
t +44 (0)1234 750903
f +44 (0)1234 751125
e info@thecasecentre.org

1. Onwards and Upwards (Part 1)

On an early winter morning KONE's President and CEO Matti Alahuhta takes the elevator up to the eighth floor where Kerttu Tuomas (Executive Vice President, Human Resources) and Bill Johnson (Managing Director, KONE Greater China) are waiting to discuss their talent management activities, the core of one of the corporation's 'must-win' battles. As the elevator gently rises, Alahuhta looks out over the Helsinki archipelago, and wonders how to maintain KONE's own rise in competitiveness, especially their rapid ascent to number one in China – the industry's currently most prized market and suddenly KONE's biggest country in terms of employment.

His thoughts turn to the talent management pressures KONE is facing in China: the large-scale recruitment, employer brand and leadership development efforts needed to maintain KONE's upward momentum. Having been an industry challenger in China for so long, now being the industry leader is an unfamiliar experience. KONE's investments in global talent management have already paid dividends, but will they be enough in China and elsewhere?

2. Lift Off: KONE and the Elevator and Escalator Industry

2.1. *The Elevator and Escalator Industry*

KONE operates in the elevator and escalator industry, elevators representing 90% in terms of global market revenues. The industry comprises new equipment and services – the services business including maintenance and modernization. New equipment and services combined, the elevator and escalator industry was worth \$66 billion in 2010 and is expected to increase six percent per year to \$90 billion by 2015.¹ Despite slower growth in new equipment in the aftermath of the financial crisis in 2008, KONE estimates that the number of elevators and escalators in operation globally has risen from 8.7 million units in 2007 to over 11 million in 2012, with new equipment sales rising from 495,000 units to 670,000 in the same period. Almost half of the units in operation are in Europe, but today by far the biggest growth market for new equipment is China with the volume of new units increasing from 36% of the total in 2007 to 65% in 2012.

Four firms control two-thirds of the global elevator and escalator market: Otis, part of America's United Technologies; KONE, from Finland; ThyssenKrupp, a unit of the German conglomerate; and Schindler, from Switzerland. In 2012 KONE's global market share in new equipment was estimated at 18%, up from 9% in 2005. All key players have enjoyed healthy margins from some time, but the most positive development in both margin and absolute profit has been at KONE (see Exhibit 1). Although the Chinese market's rapid growth has helped bolster sales of new equipment for these firms during the worst of the recession, revenues from maintenance mostly derived from the installed base in Western markets have remained relatively stable throughout. Sales of new equipment are closely connected to construction, which is very cyclical with approximately a one-year time lag. The maintenance part of the service business follows installation and is more stable, with many firms fiercely trying to secure maintenance agreements at the point of sale of new equipment. The time lag between installation and modernization is much longer – estimated to be somewhere between 15-20 years.

The elevator and escalator industry environment is being shaped by four main forces (referred to as 'mega-trends' – see Exhibit 2). The first is *rapid urbanization*, which refers to the movement of people from rural to urban areas and the subsequent concentration of people within those urban areas. This is especially acute in Asia where this trend is coupled with population growth. The

¹ Source: World Elevators (2012), Freedonia Group.

second is the *aging population*, which is driving demand for greater accessibility in buildings and across urban infrastructures. The third is *safety*, which is partly driven by aging infrastructure systems and installations in mature markets (e.g. Europe), but also by a general tightening of international safety standards. Lastly, the *environment* is encouraging the industry to find innovative ways to reduce the energy consumption involved in moving people within and between buildings.

2.2. KONE: Company Background

KONE was founded as a family-owned firm in 1910 and is currently one of Finland's largest companies. Its shares have been quoted on the Helsinki Stock Exchange (NASDAQ OMX Helsinki) since 1967. Having been involved in businesses as diverse as textile manufacturing and medical technology over its more than 100-year history, KONE's main focus today is on the elevator and escalator business. The company had net sales of close to 7 billion EUR in 2013 and employs approximately 40,000 employees across 50 countries worldwide.

KONE's international growth was mostly achieved via acquisitions. KONE's acquisition strategy was to rapidly acquire companies not only in order to take advantage of scale economies, but also to gain access to local service networks. KONE's rapid internationalization began in earnest in 1968 with the acquisition of Sweden's Asea-Graham. Following this takeover KONE's number of foreign subsidiaries grew quickly, from 4 to about 100 units between 1968-1988, as the company diversified and expanded into new geographic markets (from 4 countries to 37). By 1995 the decision was made to divest several non-core businesses. Unlike the earlier phase of acquisitions, KONE's acquisitions from that point onwards were subjected to much tighter integration. Part of this was driven by the decision to increase the standardization of products and processes in order to improve profitability in response to a drop in competitiveness, particularly in Europe.

KONE has for many years invested in research and development. The company created a state-of-the-art facility in Hyvinkää in the 1980's and later a facility in Lohja – one that sits above a 333-metre-deep mineshaft which KONE uses as a test laboratory. In 1996 the investments in R&D paid off with the announcement of a technological breakthrough. A new motor technology and hoisting machine (EcoDisc®) would eliminate the need for machine rooms, paving the way for machine room-less elevators. Machine room-less elevators (and KONE's own MonoSpace®, see Exhibit 3) continue to increase their penetration of the global elevator market to this day. Internally, this new flagship technology provided KONE with a common platform around which to pursue tighter global integration.

Off the back of improved product offerings, stronger cost competitiveness and larger order volumes, KONE deepened its international expansion with a focus on emerging markets. In addition to India, Russia and the Middle East, this included opening a greenfield factory in China in 1998. In 2005, a joint-venture agreement was formed with Giant Elevator Co. Ltd. in China, which saw KONE assume 40% ownership (increased to 80% in 2011). This represented an important step in KONE accessing the growing Chinese market and adding to its production capacity. Operating in an increasingly competitive industry, KONE knew that success in key emerging markets such as China would play a big role in their long-term competitiveness.

2.3. Alahuhta joins as CEO

Matti Alahuhta, who had already been sitting on KONE's Board of Directors for two years, took over as President in 2005, and became CEO shortly after in 2006. On taking charge, Alahuhta saw KONE as a good company with a solid reputation. KONE had internationalized early, and had in place an effective globally-oriented management style as well as a healthy company culture and

loyal employees. However, the stable profitability and modest recent growth of the company also revealed the substantial development potential that KONE possessed.

Alahuhta quickly set about a programme for renewal. In some respects he considered himself fortunate, since KONE's rapid series of acquisitions, internationalization and divestments over the company's 100-year history had rendered KONE managers and employees familiar and comfortable with change. A workshop was convened lasting several days with around 25 of KONE's key people. This led to the formulation of KONE's first development programme (referred to internally as 'must-win battles'). The development programmes were to be redefined every three years (see Exhibit 2 for the current development programmes). These 'battles' were made very visible throughout the organization with the aim of getting all KONE employees to understand how their own work contributed to the development programmes.

In parallel, KONE increased people development activities at all levels. For the top 300 this involved the set-up of an intensive global leadership development programme to be offered by a leading business school. These programmes were tailored to fit the particular phase of KONE's growth. During 2005-2008 the theme was change management; 2008-2011 it was leadership and managing business in a downturn with emphasis on self-reflection, team spirit, and focusing on growth opportunities; and 2011-2013 the theme was accelerating growth in diverse markets, addressing KONE's challenges in pursuing growth in a "three-speed world" where markets range from decline (e.g. Europe), to recovery (e.g. North America), to rapid growth (e.g. China). A Supervisor Development Programme was established and provided to 3,000 supervisors globally. The programme received very good feedback and was later developed into two different role-based offerings – one for Service Managers and one for Branch Managers. Alahuhta also noticed room for improvement in recruitment:

"In 2005 our target level simply was not high enough. There were people, not all, who thought that a given candidate was 'good enough' for us. So we changed the target level to recruiting only the best possible people."

At the end of 2007 with several key parts of the transformation in place, it was deemed the right time to define for everyone what KONE was and what it stood for. The result was KONE's vision, which remains unchanged, to deliver the best People Flow™ experience (see Exhibit 2). This denoted an important shift from KONE being a product-based company that had been involved in different businesses to a focused product- and service-based company, with heavy emphasis now being placed on user experience and customer focus.

2.4. KONE today

Since 2005, KONE's global sales have grown an average of 10% annually and KONE has either maintained or improved its position in all its major markets. In 2012, KONE was the leader in terms of market share for new equipment in Central and Northern Europe, the Middle East, Australia, India and China. KONE's return on equity has remained above 30%, EBIT growth has risen continuously (see Exhibit 1), and its share price has consistently outperformed the market (see Exhibit 4). KONE's average annual growth in its maintenance base has been around 6%, which currently stands at approximately 900,000 units.

KONE's structure is organized along two lines of business – the Service Business (modernization and maintenance) and the New Equipment Business – and five geographical 'areas': Central and North Europe, West and South Europe, Asia-Pacific and Middle East, the Americas, and Greater China (consisting of China, Hong Kong and Taiwan). The heads of the businesses and areas report directly to the CEO. KONE employs just over 40,000 employees globally with around 60%

employed in maintenance and modernization positions, meaning that over half of KONE's employees are in the field every day.

In terms of geographical sales mix in the first half of 2013, Europe, the Middle East and Africa accounted for 46%, Asia-Pacific (including China) 38%, and the Americas 16%. The main way to grow the service business is through conversions from new equipment installations. Strong growth for new equipment in China and Asia-Pacific has resulted in both a more balanced geographic and business mix at KONE, which has seen the service business to new equipment business ratio shift from 60:40 in 2005 to 48:52 in 2013.

KONE is acknowledged as an innovator and product leader. This is exemplified in its recent offerings including: the industry's most energy-efficient MRL elevator (MonoSpace® 500), which won the World Architecture News 2012 Product of the Year award, the JumpLift (a temporary fixed machine-room that 'jumps' up in the hoistway during the building construction stage), and the UltraRope™ – a rope with a lightweight carbon fibre core that will allow an elevator, and thus high-rise buildings, to be raised a kilometre or more (see Exhibit 3). These kinds of innovations, which also extend to innovations in design and people flow services, have resulted in KONE being ranked amongst the top 50 in the Forbes World's Most Innovative Companies for three straight years (2011-2013).

Talent management and leadership development have always been at the heart of KONE's philosophy. People and leadership development were already on the CEO's agenda in the early 1970's, and people leadership has been a 'must-win-battle' since 2008. This has led to KONE being recognized as the 'Most Attractive Employer' with the 'Best CEO', and 'Best HR' in its native Finland. In many countries, the average length of employment of a KONE employee is over a decade. Much of this is attributed to the investments KONE has made in global talent management.

3. Global Talent Management at KONE

Talent management, like most of the HR practices at KONE, is a global practice, built upon globally shared processes and tools, and designed to work in parallel with KONE's global performance management processes. Much of the harmonization of HR observable at KONE began in earnest back in 2002 following the appointment of a new Vice President for HR, Kerttu Tuomas. At that time, Tuomas could see that there was a strong intention to integrate HR globally, but saw the actual implementation of global HR processes as needing attention. This became easier after Alahuhta's arrival in 2005, and HR was able to align itself around the global businesses which were becoming more streamlined, globally integrated, and supported by improved global process architecture and the common must-win-battles. Soon, there were global policies and processes in place for all the main HR activities and the emergence of a common language when talking about people issues. This was observed in more interaction between countries, the sharing of HR best practices and greater involvement of country units in the corporate development of HR practices.

The purpose of talent management at KONE is to achieve KONE's strategic targets by attracting, retaining, leading and developing people with the right set of competencies and attitudes, ensuring that KONE possesses the right capabilities now and in the future. The global talent management process at KONE is built around the 'Leadership and Talent Review' (LTR), which is an annual process covering all businesses and areas. The key objectives of the LTR are to (1) identify high potentials, (2) nominate successor candidates to key positions, and (3) decide on development actions for key people. The Executive Board sets annual targets for the LTR, including diversity goals (gender and cultural diversity), high potential development actions (e.g. proportion undergoing job rotation including cross-functional moves) and recruitment targets (e.g. proportion

of external recruitments, and development in recruitment skills). The LTR comprises the review of current leaders, the evaluation of growth capacity, the identification of high potential, and Unit Successor Planning.

The Head of Talent Management at KONE is responsible for the global talent management policy, process and tools and for driving the process together with the business leaders and unit HR directors. The Head of Talent Management is seen as instrumental in leading the global talent management process and does this by communicating guidelines each year, kicking off the LTR process, providing definitions and tools, and travelling to all Area- and Unit-level LTR workshops to ensure they are run effectively.

3.1. Talent identification

The talent identification part of the LTR involves the identification of high potentials ('HiPos') and the evaluation of a person's 'growth capacity'. HiPos are defined as those possessing the ability, organizational commitment, and motivation to rise and succeed in more senior leadership positions. The High Potential Identification Process involves the use of four sets of criteria (see Exhibit 5): performance (consistently strong ratings), KONE HiPo competences, basic requirements (such as strong educational background and fluent English), and motivation to become a leader (including growth capacity). The different areas and units are expected to nominate 1-5% of their people as high potentials. KONE's approach is to spot the HiPos early enough in their career to ensure the development of competences that fit their future needs, such as a holistic business understanding and seeing the big picture. However, in order to allow for the observation of performance and potential in practice, the High Potential Identification Process is only carried out on those with a minimum tenure of 6 months. In order to follow up and facilitate better decision making about key people, the HiPo information is collected in files together with information about the person's growth capacity, willingness to relocate, start date at KONE and in the position, performance appraisal figures, education level, language skills, development actions taken, and potential nomination to development programs.

An individual's growth capacity is evaluated in terms of whether the individual meets the requirements of his/her current position and has the potential to make a move to the next level up, a major lateral move, or an expansion of their existing role. Evaluations are based on a 5-year time horizon and emphasize future growth capacity instead of only looking at past performance. These evaluations are performed on all Management Team Members (approximately 500 globally, comprising a minimum of all the country management teams) as well as HiPos (approximately 300 globally, representing 1-5% from further down the country units). The global evaluation criteria of growth capacity consist of the KONE Leadership Competences, the High Potential competences, the individual's motivation and aspiration to take more senior positions, and the individual's learning agility (motivation and capability to learn and develop). The evaluations lead to the placement of an individual on the following scale: (1) the person does not meet the requirements (less than current), (2) the person meets the requirements but is not likely to be promoted (current position), (3) the person is competent in her/his current position and has growth capacity to make a move one level up in the organization or a major lateral move (current +1), and (4) the person has the growth capacity to make two progressive moves in the organization (current +2).

3.2. Succession planning

The main purpose behind KONE's Unit Succession Planning is to ensure that there are sufficient numbers of internal candidates to address any gaps or changes in leadership, often measured and referred to as 'bench strength'. In the Unit Succession Planning process, each management team position is reviewed, and successor candidates are proposed. The intention is that individual

development action plans are then updated and implemented for each successor candidate to ensure they are ready for new and more challenging roles. The idea is also that succession plans are monitored throughout the year, checking that development plans are being implemented and that successor candidate development is on track. In situations where there are few or no suitable successor candidates for key leadership roles, attention shifts to external recruitment activities. Similar to HiPo evaluations, successor candidate information is compiled together with other key information about the individual, but also includes the urgency of change. Using a traffic light system, the degree of urgency in making a change with current management team members is labelled as green (change is not likely within the next year), yellow (change is likely to happen in the next 12 months), or red (change is required within 6 months). As is fairly common in firms in the Nordic countries, HiPos and successor candidates at KONE are not officially informed about their status.

3.3. Talent development

KONE's overall approach to development follows the 70:20:10 principle, whereby 70% is for job experiences and new job challenges (e.g. projects, on-the job-learning, rotation), 20% is reserved for learning from others (e.g. coaching, mentoring, 360 feedback), and 10% for formal training and development. For each HiPo and proposed successor candidate an individually-tailored development plan is drawn up, and its implementation is subjected to mandatory follow-ups throughout the year. One of the key development actions KONE emphasizes is mobility. KONE's targets for HiPo rotation are two functions or two countries within 6 years and a maximum of 3 years in the same position. Global and country HR managers, together with the assignee and his/her supervisors, are responsible for discussing the next career step and organizing the moves.

In addition to increased mobility, a proportion of the HiPos are nominated to specific development programs, the most intensive being Leadership Experience (LEX), a three-module leadership development program run by a leading consultancy and training firm in Europe. The program, designed for those possessing the greatest potential who have just entered or soon will enter a leadership role, focuses on self-reflection and the participants' understanding their own strengths and areas for development. All Leadership Experience participants are assigned their own mentor from within KONE, and the program culminates in group presentations on a global business topic which Alahuhta personally attends.

Leaders are expected to demonstrate a keen interest in developing people and creating opportunities for personal and professional growth. Based on the firm belief that leaders cannot lead and help others to grow without first being able to lead themselves, a lot of emphasis is placed on self-awareness and self-leadership in KONE's development activities. With the aim of building a coaching culture, coaching and mentoring form particularly strong roles in talent development. In some global leadership programs participants are assigned an internal coach, and all HiPos are assigned a mentor. External (i.e. cross-company) as well as internal mentoring programs are used, and virtual mentoring training is arranged for all managers.

3.4. LTR workshops

The LTR is carried out in workshops within the different areas and business units. The workshops typically consist of the area/business management teams and are held annually in May or June. The objectives of these workshops are to share talent needs and gaps, facilitate cross-border moves and rotations of current management team members and successors, review the HiPos, discuss the successor candidates in terms of readiness with the help of the 'traffic light' indicators, and review the development actions taken. The results of these workshop discussions are reported to Global HR

for creating overviews and preparing for the corporate Executive Board LTR workshop in August/September.

To ensure that everyone has an input into the discussion and decisions about talent, and to increase the visibility of key people, it is recommended that management team members adopt a “walk and write” approach in the LTR workshops. Before the discussion starts, the workshop involves the participants walking around the room and writing their comments on the individuals’ posters and then presenting each of their candidates. These discussions about the current supply of talent and successor candidates is considered an especially important means of facilitating cross-functional ideas and moves, whilst also helping to create a common understanding of what kind of talent KONE needs now and in the future.

3.5. Global talent management implementation: From tools to impact

KONE has come a long way in creating a talent culture in which managers openly talk about individuals from the perspective of personal growth capacity and thinking about developmental opportunities. Tuomas recalls a particular landmark case that occurred a few years back:

“In a LTR workshop in Asia, a country manager had rated all his candidates at level 4 (‘exceeds expectations’). The Area Head jumped in and commented that, “if you rate them all as 4 you prevent them from growing”. That was a ‘light bulb’ moment for that country manager, but what’s more, that comment came from the Area Head, not from HR!”

One significant factor that is attributed to the evolution of this talent mindset is the support and commitment from the highest levels of management. This is not only reflected in the heavy emphasis on personal and professional development and the incorporation of talent management into KONE’s must-win-battles, but also through the personal commitment of KONE’s top executives, epitomized by Alahuhta himself. Tuomas notes: *“Matti has been present at every session where LEX program participants have to give their final presentations. I can’t recall one time that he hasn’t been there.”* In fact, Alahuhta has participated in almost all senior leadership development programs. There was even a year when, due to a flight diversion, Alahuhta was stuck in Frankfurt, Germany the day before some participant presentations in Lausanne, Switzerland. Having prepared to take his place, the Competence Manager was shocked to see Alahuhta having breakfast in the same hotel the following morning. He had taken a taxi overnight to be there.

Another key to success has been the development of global tools and processes. However, Tuomas and her HR team acknowledge that the real success of KONE’s global talent management should be measured in terms of impact – impact on the moves, career paths and development actions of key people, and the business impact these have on KONE’s competitiveness. KONE in this regard, like any global firm, has been facing certain challenges. In some areas there have been shortages of competent, ready and available successor candidates. HiPo density (or bench strength) has been below desired levels, and in some parts of the organization rotation and diversity targets have not been met.

The corporation has attempted to address these challenges in different ways. Firstly, continuous improvements have been made in recruitment quality through global recruitment training for all people managers, and a number of employer branding projects. Secondly, a shift in emphasis from succession planning to development has been taking place in recent years: *“managers need to know that they have to develop these people!”* (EVP HR). Thirdly, HR is becoming more active in helping business and area managers to identify rotation opportunities. And fourthly, KONE has also ramped up efforts to identify HiPos earlier and to go deeper into the units in talent identification by introducing country-level LTR workshops, starting with the largest countries.

However, plenty of questions remain about how to manage talent globally. Growing at an average of 1,000 employees per year since 2005, the talent management challenges in China have been particularly acute. The urgent need to resource this growth has meant that KONE had to attract a plentiful supply of talent whilst simultaneously ensuring recruitment quality and finding enough development opportunities to grow talent internally.

4. Top Floor, Please: KONE in China

4.1. KONE's history in China

2012 marked the year that KONE assumed the position of overall market leader in China. However, KONE's rise to number one was made all the more impressive by the fact that KONE was a latecomer to the Chinese market. Exports to China commenced in 1985, but it wasn't until the end of 1996 that KONE Elevators Co. Ltd. was officially established in China. Despite being a relative latecomer, KONE's timing of entry into China still allowed them to ride the crest of a huge wave in new equipment demand. Whereas the average annual growth in new equipment was 10% for the period 1990-1999, this grew at an average of 22% between 2000 and 2012. A boom in the construction sector, housing reforms and rapid urbanization quickly turned China into the industry's most attractive market. It was also a very crowded market. Ten years ago there were an estimated 600 elevator and escalator firms operating in China. In 2013 there remained approximately 400 firms, 20 of which KONE competes with directly week-in week-out.

William Johnson was appointed to take over KONE's China business in 2004. An American by nationality, Johnson first came over to China to study Chinese as a graduate student in 1981. After going back to the US, he returned permanently in 1993 and remained in China for the subsequent twenty years – longer than KONE itself. Johnson was previously employed by one of KONE's main competitors and upon arriving at KONE he immediately recognised some of the challenges confronting the China organization:

“The people were reactive, tentative, didn't have the spirit I was looking for. [...] the company didn't see itself in first place. People didn't have a clear understanding of what the opportunities were and that was having a direct impact on how the people operated.”

In his first few months Johnson set about communicating to people at KONE headquarters his views about the situation in China – how the market's growth potential had been under-estimated, why KONE's market share in China was perhaps not as high as people thought, and why certain parts of the China organization needed to be turned around.

In 2005, with KONE's market share in China at only 3.5%, KONE needed to accelerate its development activities there, and a strategy for China was crafted (see Exhibit 6). Off the back of large investments in R&D and its industry-leading innovations that were being well received in other parts of the world, KONE knew that its competitive advantage lay in its superior technology. However, KONE's product strategy until 2005 had meant KONE was focused on the higher mid-end segment (i.e. large-scale residential and some smaller scale commercial buildings). KONE quickly expanded its product portfolio with products that would prove to be attractive in the lucrative large-scale commercial segment as well as eco-efficient product offerings that could penetrate the lower-end affordable housing segment. Tapping into the lower-end of the market was also made possible through the creation of the joint venture with Giant Elevator Co. Ltd. in 2005, in which KONE acquired majority ownership in 2012. With most of the operations of the two companies kept apart, this also allowed KONE to pursue a dual-brand strategy with GiantKONE which further strengthened their market position.

In the elevator and escalator industry, sales, installation, maintenance and modernization are all very locally driven and network based. With urbanization and new investments in real estate rapidly extending to the inland areas of China, KONE knew that it needed to expand its presence within China in order to capitalize on new growth opportunities – both in terms of new equipment in the short-term and services in the longer-term. In a short period of time KONE increased its presence to 49 branches (almost half of which were added from 2005) and around 400 locations (see Exhibit 7). The geographic and product portfolio expansions were critical in KONE quickly accumulating market share, and KONE was soon outgrowing the market – at an average of 42% per year in terms of orders received (units) between 2004-2011 compared to a total market average of 21%. By 2012, KONE had succeeded in moving from eighth in the market for new equipment with a market share of 3.5% in 2005, to number one with a 17% market share. This increasing market share for new equipment was also a vital component in another of KONE’s strategic development objectives in China, that of building a strong maintenance business. With the leading conversion rate (i.e. service agreements signed on top of the sale of new equipment) in China of around 60%, in 2013 KONE also became number one in the service business in China in terms of units under service. All this had, of course, a significant impact on recruitment. From having around 2,500 employees in its Greater China area in 2005, KONE employed over 10,000 by 2013. Greater China suddenly comprised a quarter of KONE’s global workforce, and China was the largest country by employment.

During this intense growth period, KONE had to decide how to organize and manage its China operations. Although KONE had pursued tighter integration of the different parts of its global operations in recent years, this mostly concerned the business functions of R&D, production and sourcing. KONE’s approach to sales and the service business (i.e. the ‘frontline’) was to be as close to the customer as possible, which naturally presented challenges in the case of China:

“It’s a huge country – it’s a continent. Different regions in China are in very different phases of economic and urban development, and we have to really know these regions well. No one could lead this in a centralized way from a single location.” (Alahuhta)

Although the China business was allowed a certain degree of autonomy in how it was run, Johnson also wanted to align product management with the China frontline. This would allow those in manufacturing to gain a better understanding of the market and translate what was happening in the market into a product strategy. To facilitate this, a person was brought in from manufacturing and R&D and put in charge of a new team called Marketing and Product Strategy.

Another key part of KONE’s China strategy has been active talent management (see Exhibit 8). In order to support KONE’s rapid growth, pressure has been exerted on KONE being able to attract and recruit the best talent externally as well as internally, training new waves of technical frontline employees, developing leadership capabilities and creating opportunities for personal growth, and all the while working on keeping the retention rate high in one of the most difficult labour markets in the world. Tuomas and Johnson certainly had their work cut out.

4.2. Talent management at KONE China

On taking up his position as head of the China Business in 2004, one of Johnson’s main priorities was to set about changing the culture. He consequently made a number of people-related decisions. Firstly, despite KONE’s usual practice of recruiting from across KONE’s own businesses, he quickly brought in several key people with whom he had worked previously. Having been in the industry in China for some time he knew precisely who he wanted with him. One of these was an experienced and very results-driven sales director. In a short period of time the China unit “*went from a placid baby, to a screaming toddler.*” Based on strong convictions about the market potential in China and what KONE needed to do to tap into it, Johnson and his team began to

negotiate for more resources, headcount and flexibility with some of the global policies and processes. In turn, Corporate HR requested that he hire an HR director with a stronger focus on talent management.

One key decision Johnson made was to change the corporate language from English to Chinese. He recalls thinking “why are we spending time with English? This is China!” Soon all contracts with customers went from being in two languages to just Chinese and meetings involving Chinese managers were held in Chinese. Whilst English language training was offered through local and global programmes, it was not obligatory. Johnson immediately noticed the difference:

“Those who were shy, reticent, started to speak out. When they spoke English or were being translated in management meetings they were meek, mild. [...] Those that were better at English looked stronger, but you could see that their colleagues really had less respect for them. [...] Hopefully the reasons behind this are clear and I think it has borne out. We have tried to turn this from an awkward English-speaking, Euro-centric kind of organization into a high-speed Chinese one.”

It was also noticed that the China organization was highly centralized and that this was disempowering the branch managers – the very people that KONE needed to run the frontline business. So the decision was taken to de-centralize the structure, and profit-and-loss centres were moved from the China headquarters down to the branch level. Now Johnson and his team could measure branch and branch manager performance, and this feedback mechanism allowed them to provide direction and support to the branches. The move from a centralized hub to a decentralized framework also allowed decisions to be made quicker, which was something customers wanted.

Talent recruitment and employer branding

With headcount growing at an average of 1,000 employees per year, KONE in China was facing huge pressures to hire enough talented employees. In the early growth phases KONE had been able to rely on recruiting people externally, but the sheer number of new hires required and the industry’s fierce competition for talent in China soon meant that a ‘hire from within’ approach was also desperately needed. One of the challenges was that KONE was not well-known outside of its native Finland where it had built a particularly strong employer brand. KONE leveraged the fact that it was growing rapidly and becoming highly successful. In effect, the brand sought to attract customers and employees alike to KONE’s success story and was incorporated into KONE’s message of “*come to work for the fastest growing company.*” One of the keys to talent attraction was therefore to grow the business and offer new employees enticing development opportunities. The growing trend of Chinese graduates wanting to work for a Chinese company as opposed to foreign multinationals 5-10 years ago is seen as a potential threat to the effectiveness of this approach, together with the relentless war for talent.

“There are head-hunters approaching you every week saying “hey, would you like to work in this position?” [...] they offer you a shortcut – you can stay where you are and maybe get promoted in three years or you can get promoted in one year and on top of that get a much better compensation package. People like accepting these offers. I think it’s the Chinese style.” (Identified High Potential in KONE China)

Employer brand-building efforts in China have mostly followed KONE’s global approach, meaning small, practical investments in a number of different channels. In addition to selective internet advertising on online job portals, KONE needed to focus efforts on getting close to potential employees. Since the branches were dispersed throughout 30 provinces in China, KONE needed to attract employees from all over the country. What made this especially important was the general reluctance amongst Chinese graduates to relocate too far from home. KONE has therefore worked intensively with well over 50 different technical schools, including more intensive cooperation with strategic partner schools where KONE employees are sourced as teachers. These teachers inform

students of their career options and have an influence over the curriculum. KONE's global staffing policy, especially in the frontline part of the business, has been to localize management. In line with KONE China's localized and decentralized organization, in 2013 Greater China boasted a total of only 40 expatriates in an area employing over 10,000.

Talent identification

KONE in China uses the global LTR process and the same HiPo identification criteria. However, due to its rapid expansion and the fact that branch manager is seen as a critical position, the HiPo identification process was taken down to the branch level (49 branch managers plus HiPos representing 1-5% of the branch total), in addition to the regional and China corporate level. Following global recommendations, this has been supplemented with a cross-boundary technical talent review to cover key technical positions that sit across businesses (e.g. quality management).

The LTR is viewed as giving a clear structure and a timeline for important decisions about talent. It is also a powerful way to encourage the organization to make commitments regarding the identification and development of high potentials, such as nominating candidates to the LEX programme or creating opportunities for job rotation.

“The tool has helped to raise people’s awareness of the current status of talent in connection to ongoing organizational development, and arriving at a greater consensus about what kind of talent we need. It also gets us to talk about people: individuals, their strengths, weaknesses, and their next moves. We now talk in terms of actions, mobility, moves.” (VP HR Greater China)

However, one dilemma to emerge has been the issue of language competence. ‘Fluent English’ is listed as one of the Basic Requirements for being identified as a HiPo (see Exhibit 5) since there are very limited growth possibilities for people with purely local language capabilities. KONE China's language policy, based on the belief that English was not needed in most of the frontline part of the business (*“English will not help win you more market share”*), often meant that Chinese-speaking candidates with limited competence in English were being nominated for positions in China. As a result, many of the candidates did not meet the Basic Requirements, the successor pools remained too thin. Limited language skills also caused difficulties in the Chinese candidates' integration into the global organisation and hindered their participation in global training and development programmes run in English (e.g. LEX).

“The candidates you want are those who can interact comfortably with international colleagues and gain the respect of their Chinese colleagues, but they are rare.” (Johnson)

In practice, this dilemma has created the need for KONE in China to identify so-called ‘local HiPos’ in addition to the ‘global HiPos’ that are submitted as candidates to global HR.

Talent development

The parallel growth in both new equipment and service businesses meant that there were simply not enough external sources that KONE China could draw upon to bring in the required number of talented people. Internal recruitment and thus talent development became critical. Development actions for HiPos represents a talent management target that is monitored and followed-up at both country and global levels. Training and coaching is also provided to managers to ensure appropriate actions are being taken to develop people's growth potential. Despite rapid growth, KONE China has improved its performance in this area, evidenced by well over 80% of employee and management positions being filled internally.

KONE's global programmes such as LEX and the appointment of mentors are open to Chinese employees, and receive positive feedback from Chinese participants. However, the ability of global programmes to cater for the needs of local Chinese talent was sometimes seen as a challenge. In

addition to the language barrier, there was a feeling that the high-growth Chinese market, the Chinese operating environment and the unique attributes of the Chinese workforce required more locally-tailored leadership development programmes. In terms of rotation, despite "losing some talent", KONE in China has managed to fill 30-50% of branch manager positions with candidates possessing both sales and other functional experience. This has partly been facilitated by a separate top-down, collaborative LTR process between the supply line and frontline businesses where the main focus was on identifying talent and opportunities for cross-functional mobility. The mobility in and out of China, however, has remained low.

Many of the senior managers and HiPos at KONE China cite the lack of a "political" and "bureaucratic" culture as being one of KONE's core strengths and something that it is known for amongst job applicants. The widely held view is that KONE is quick to rectify problems and that it is "easier to succeed" in KONE compared to its major competitors. This also helps to explain KONE's higher than average rate of talent retention.

"I was recently approached by a competitor who was offering the same position but with a much higher compensation package. I have been in this position almost 3 years and although I have heard my case was reviewed in some kind of talent review, I was a bit unclear what my future was. I made my boss aware of this and discussions were quickly arranged with him, local HR and the Vice President during their summer vacation. I remember the Vice President told me "At KONE, if you want a new opportunity, we really can do something. KONE is a company that does things." The management team has now given me a new position. I am very happy with it and happy that they really want to keep me." (Identified High Potential in KONE China)

Looking back, Johnson recollects that although it involved continuous dialogue and some give and take, and despite the current challenges, headquarters has come to embrace the measures they have taken in China. He also acknowledges the support from Alahuhta and the executive team, which has been a key to the success in China. However, as industry leader a new potential threat is complacency.

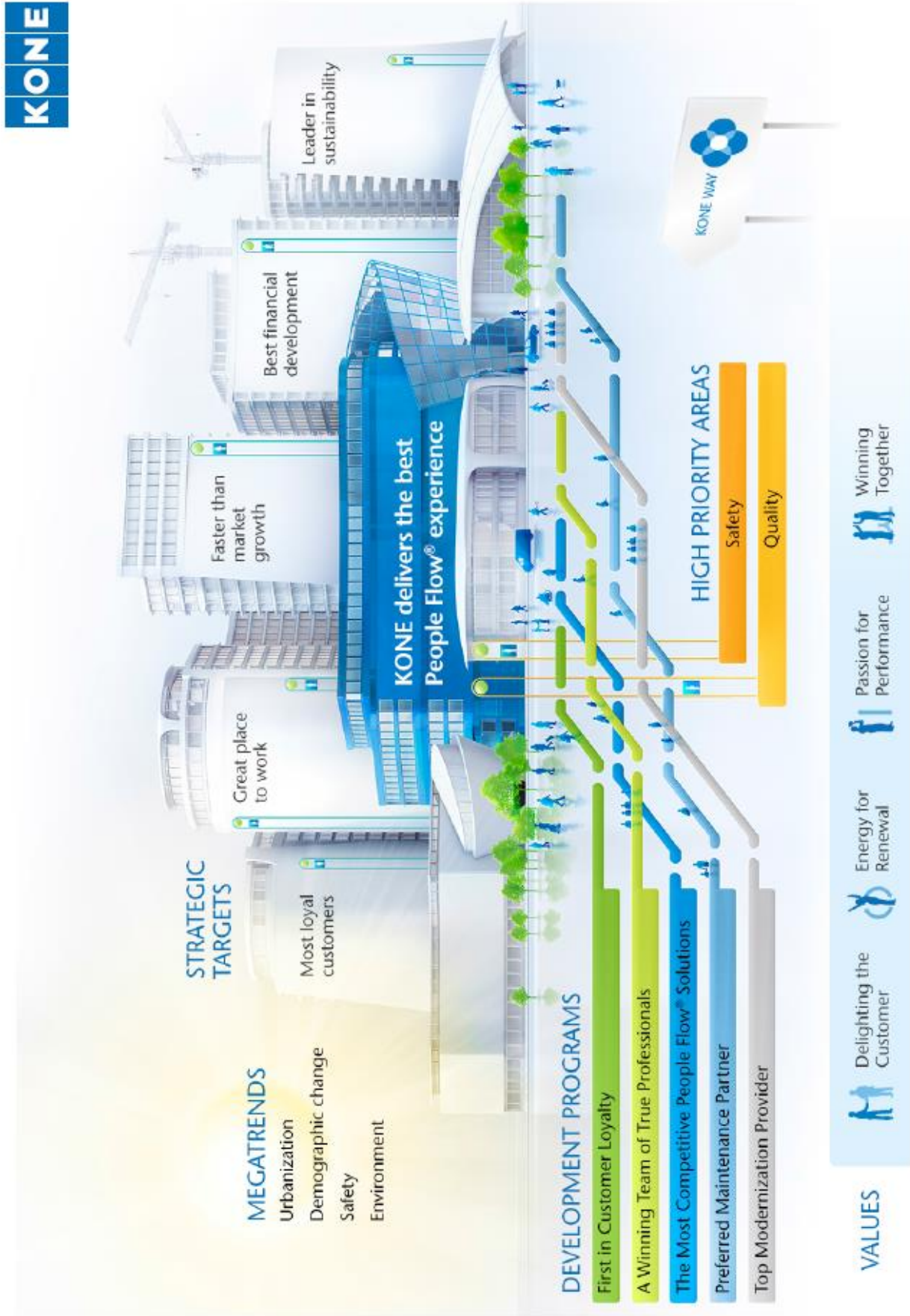
5. Onwards and Upwards (Part 2)

Thinking about the most critical talent management issues he should raise with Tuomas and Johnson, Alahuhta reaches the conference room door and notes the small sense of irony in KONE's vision – how does KONE ensure the best 'people flow' experience of its own employees, and how can KONE benefit most from it? What kinds of improvements should KONE make to its talent management activities globally? For instance, should they follow many other firms and begin communicating formally to HiPos and successor candidates about their status? And what should KONE do in China? Off the back of its success, the China organization risks growing faster than its ability to nurture future talent. The less than ideal degree of talent mobility in and out of China is perhaps not a problem now, but what about in the future, both in terms of leadership bench strength and maintaining a globally integrated organization? And what is the best solution to the language issue? On the other hand, shouldn't KONE be promoting the positive experiences in China? Soon to step down as CEO and hand all these things over to his successor, Alahuhta opens the conference door and thinks to himself; these 'must-win' battles are never easy.

Exhibit 1: KONE Five Year Financial Summary (2009-2013)

Consolidated statement of income, Jan 1–Dec 31						
	2013	2012	2011	2010	2009	
Sales, MEUR	6,933	6,277	5,225	4,987	4,744	
- sales outside Finland, MEUR	6,807	6,114	5,080	4,836	4,597	
Operating income, MEUR	953	791	725	696	567	
- as percentage of sales, %	13.8	12.6	13.9	14.0	11.9	
Operating income excl. non-recurring one-time items, MEUR ¹⁾	953	829	725	696	600	
- as percentage of sales, % ¹⁾	13.8	13.2	13.9	14.0	12.7	
Income before taxes, MEUR	960	804	817	714	595	
- as percentage of sales, %	13.9	12.8	15.6	14.3	12.5	
Net income, MEUR	713	611	644	536	466	
Consolidated statement of financial position, MEUR						
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009	
Non-current assets	1,938	1,937	1,750	1,423	1,218	
Current assets	3,405	3,197	2,977	2,725	2,467	
Total equity	1,725	1,834	2,034	1,601	1,339	
Non-current liabilities	262	302	208	203	180	
Provisions	139	136	89	99	100	
Current liabilities	3,217	2,862	2,397	2,245	2,065	
Total assets	5,343	5,134	4,727	4,148	3,684	
Interest-bearing net debt	-622	-574	-829	-750	-505	
Assets employed ²⁾	1,103	1,260	1,205	851	835	
Net working capital ²⁾	-612	-439	-361	-394	-229	
Inventories, net of advance payments received	-294	-261	-167	-137	-48	
Other data, Jan 1–Dec 31						
	2013	2012	2011	2010	2009	
Orders received, MEUR	6,151	5,496	4,465	3,809	3,432	
Order book, MEUR	5,587	5,050	4,348	3,598	3,309	
Capital expenditure, MEUR	74	119	52	44	47	
- as percentage of sales, %	1.1	1.9	1.0	0.9	1.0	
Expenditure for research and development, MEUR	96	86	83	71	62	
- as percentage of sales, %	1.4	1.4	1.6	1.4	1.3	
Average number of employees	41,139	38,477	34,769	33,566	34,276	
Number of employees at end of period	43,298	39,851	37,542	33,755	33,988	
Key ratios, %, Jan 1–Dec 31						
	2013	2012	2011	2010	2009	
Return on equity	40.1	32.1	35.5	36.5	39.3	
Return on capital employed	36.3	29.4	34.3	34.8	34.0	
Total equity/total assets	43.7	47.1	54.0	49.3	47.0	
Gearing	-36.1	-31.3	-40.8	-46.8	-37.7	

Exhibit 2: KONE overview



Examples of KONE's industry leading innovations

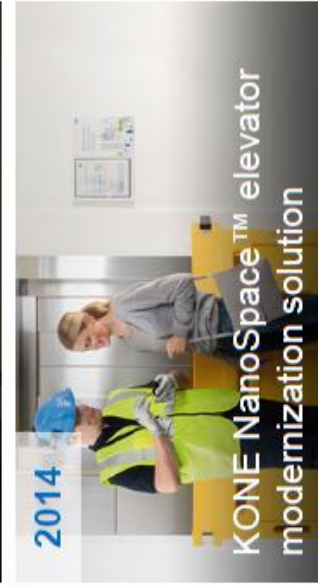
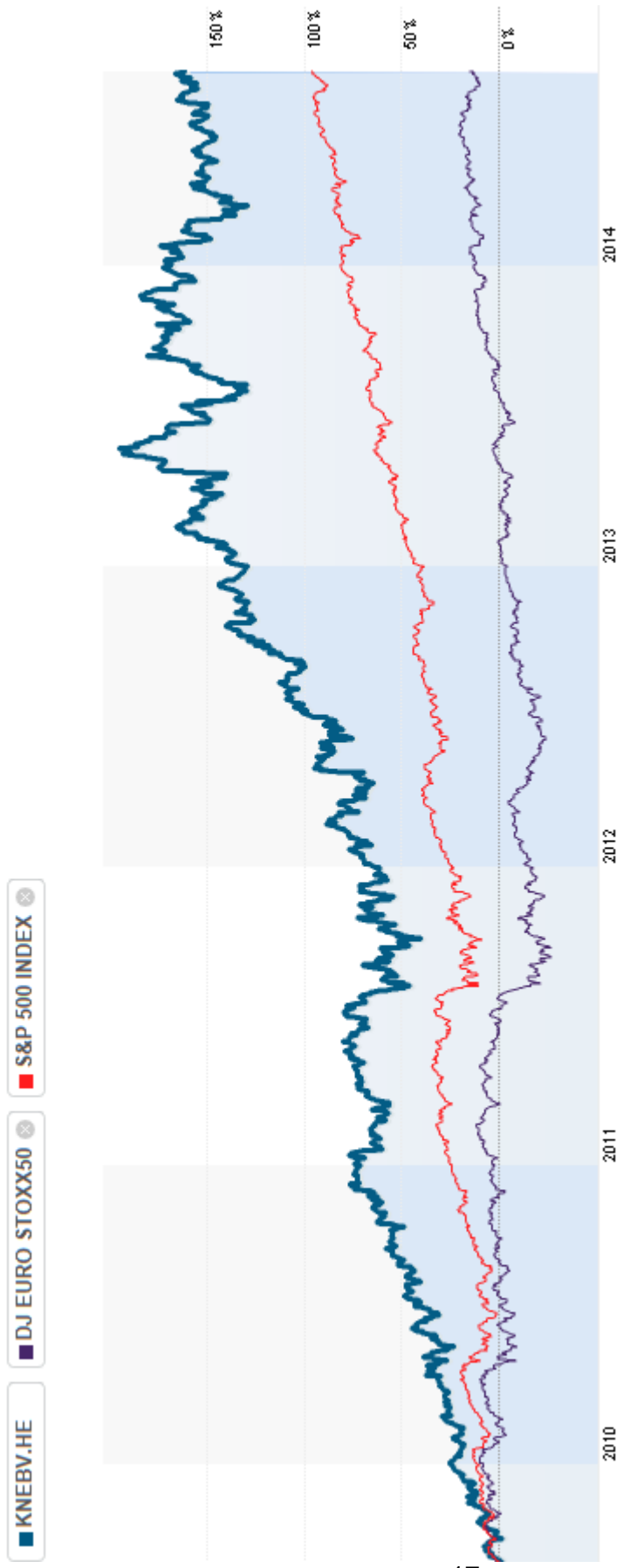


Exhibit 4: KONE Five-Year Share Price Performance (Compared to DJ Euro Stoxx50 and S&P 500 Index)



Source: Reuters



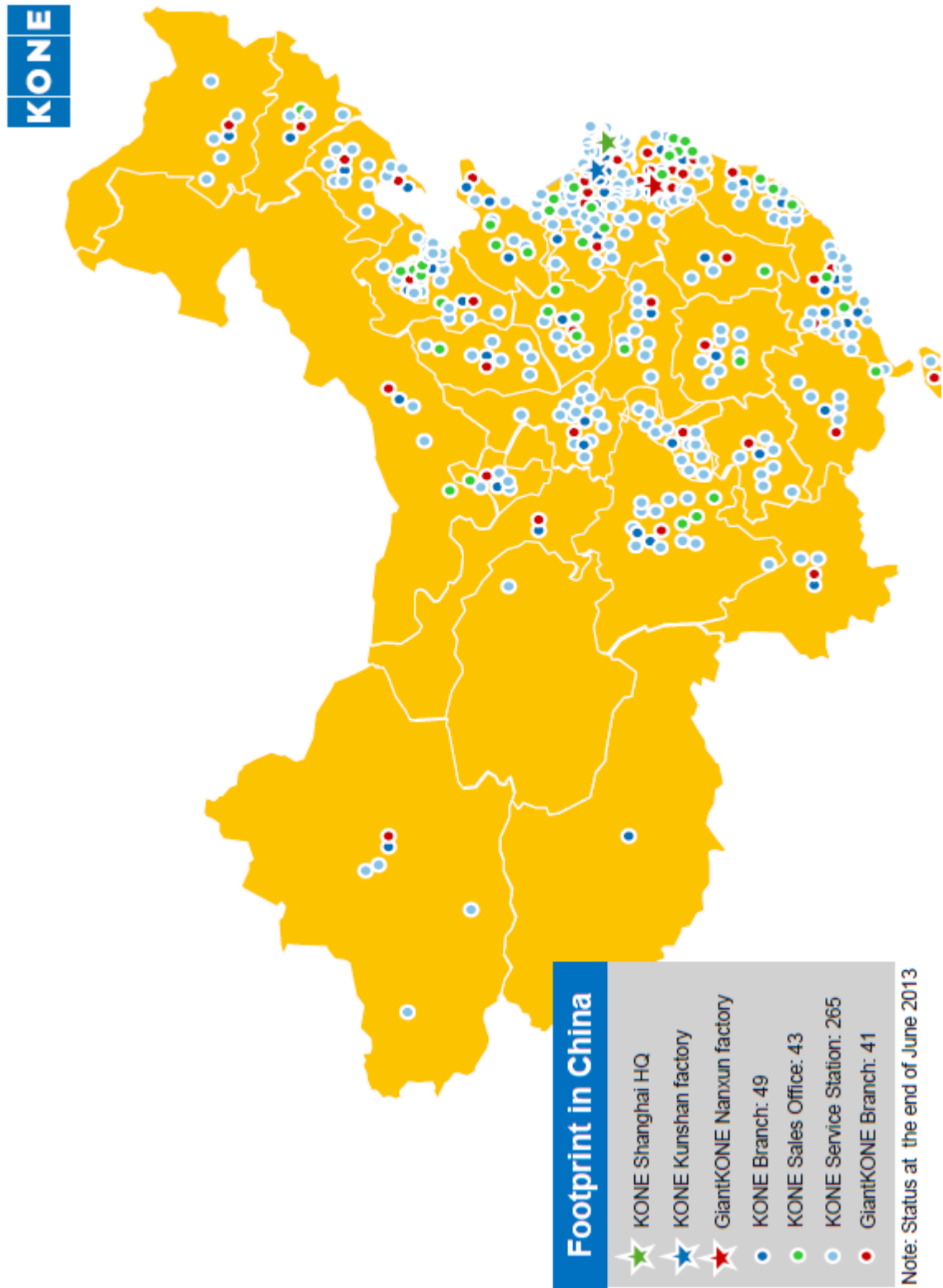
High Potential Criteria

<p>Performance</p> <ul style="list-style-type: none"> <input type="checkbox"/> Consistently strong ratings (3 or 4) in Performance Appraisal (What and How) Especially the HOW (values and leadership behavior for those in managerial positions) <ul style="list-style-type: none"> <input type="checkbox"/> Decision Making <input type="checkbox"/> Executing <input type="checkbox"/> Winning through People <input type="checkbox"/> Collaborating <input type="checkbox"/> Strategic & Business Acumen 	<p>KONE HiPo Competences</p> <ul style="list-style-type: none"> <input type="checkbox"/> Proactive communication <input type="checkbox"/> Drive and Persistence <input type="checkbox"/> Conceptual thinking <input type="checkbox"/> Flexibility <input type="checkbox"/> Interpersonal sensitivity <input type="checkbox"/> Self confidence
<p>Basic requirements</p> <ul style="list-style-type: none"> <input type="checkbox"/> Strong educational background (at least BSc-level degree or equivalent) <input type="checkbox"/> Fluent English <input type="checkbox"/> Typically from Grade 4-5 (IPE 50-57) <input type="checkbox"/> Enough time in KONE (>6 months) to demonstrate performance and behaviors 	<p>Motivation to become a leader</p> <ul style="list-style-type: none"> <input type="checkbox"/> Interest and ability to accept cross-functional or cross-border assignments <input type="checkbox"/> Self-awareness and learning agility i.e. motivation and capability to learn and develop <input type="checkbox"/> Stretching beyond responsibility of current role (geographically or functionally) <input type="checkbox"/> Mobile <input type="checkbox"/> Growth capacity: Current +1 or +2

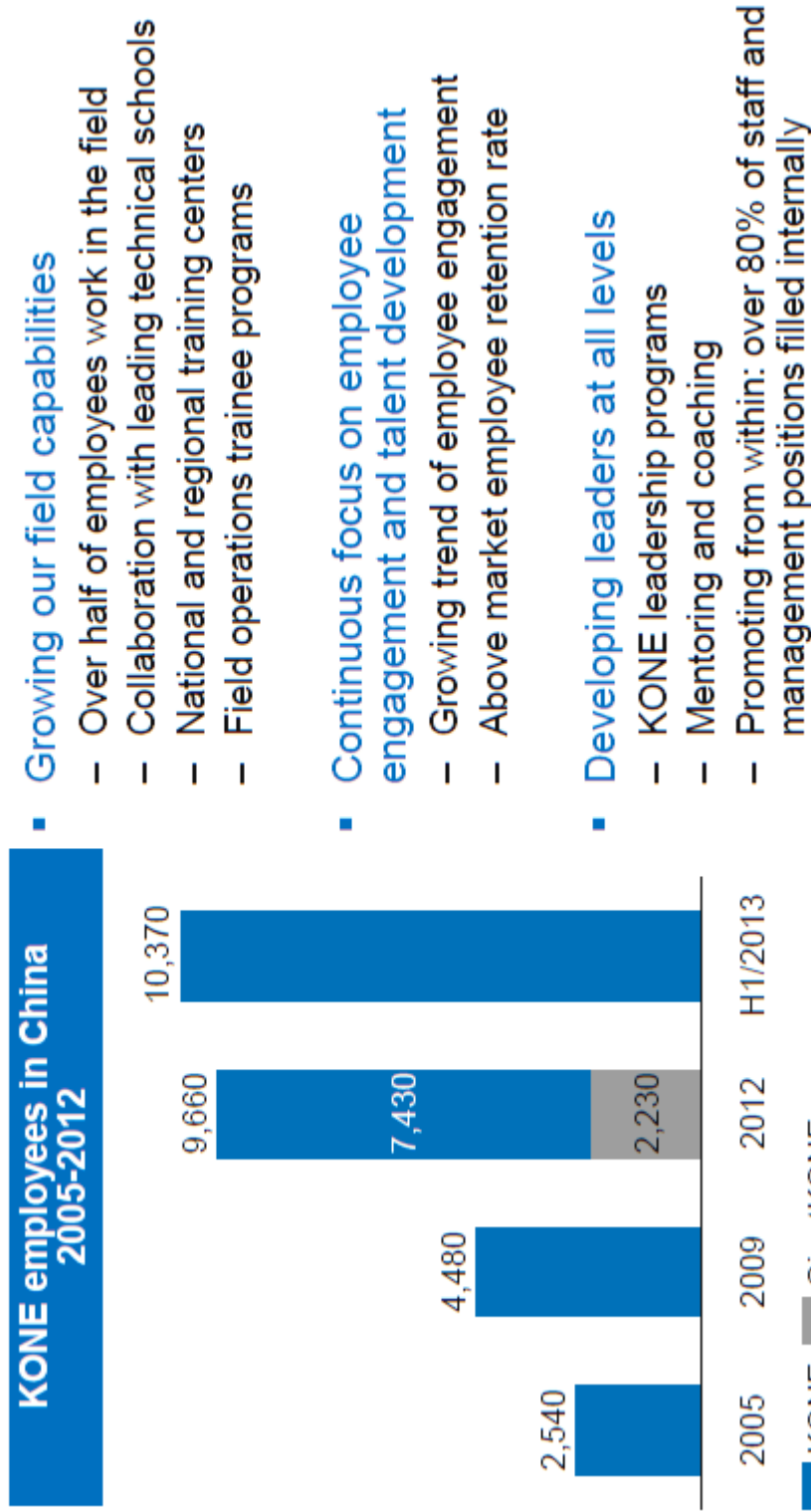
We started to accelerate our development actions in China at the right time



Exhibit 7: KONE coverage in China



Motivated and highly capable employees are our key asset – talent management is a priority



Incl. China mainland, Hong Kong and Taiwan