



University of Vaasa



## **Pushing the Right Buttons: Global Talent Management at KONE Corporation**

### **Teaching case**

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This is a case study on KONE that 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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## 1. Tough at the top (Part 1)

In an attempt to walk off their jet lag, President and CEO Henrik Ehrnrooth and Executive Vice President of Human Resources Susanne Skippari take an evening stroll along the Bund in Shanghai. They cannot help but admire the dramatic skyline on the other side of the Huangpu River and how much had changed – both in Shanghai and in KONE.

Having been an industry challenger in China for so long, in 2012 KONE had become the industry leader in the most prized market. Today, China is KONE's most important market and the biggest country in terms of employment. However, this is also presenting its own set of challenges. Whilst the market potential is still enormous and the corporation continues to do very well, competition is fierce, and technological disruption is opening up opportunities for new digitalised services as well as creating a need for new competences and organizational capabilities.

In preparation for their meeting with Bill Johnson (Executive VP, KONE Greater China) the next day, Ehrnrooth and Skippari go over their meeting agenda: How to secure the right competences for KONE's digital future, how to attract millennial talent as KONE pushes further into different provinces, how to retain key talent and ensure a strong pipeline of leaders in China, and how to maintain customer centricity and collaborative innovation in a global organisation. Both agreed that tomorrow was going to be an important day.

## 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 core services business including maintenance and modernization. Four firms control two-thirds of the global elevator and



The Economist

**Figure 1.** Global market shares in 2018  
(source: The Economist 2019)

escalator market: KONE, from Finland, Otis, part of America's United Technologies; Schindler, from Switzerland; and Thyssenkrupp Elevator Technology, a German-based conglomerate<sup>1</sup> (see Figure 1).

Sales of new equipment are closely connected to construction, which is cyclical with approximately a one-year time lag. The maintenance part of the service business follows installation and is more stable, with many big and smaller firms competing fiercely to secure maintenance agreements. The time lag between installation and modernization is much longer – usually between 15-20 years.

The elevator and escalator industry environment is shaped by global forces, which KONE identifies as 'mega-trends' (see Exhibit 2). For a long time KONE viewed these as being related to *rapid urbanization* (driven by concentration of people within urban areas), *aging population* (driving demand for greater accessibility), *safety* (driven by aging infrastructure and tighter

<sup>1</sup> On 27 February 2020, it was announced that Thyssenkrupp is selling its Elevator Technology business to a consortium led by Advent, Cinven and RAG foundation. The closing of the transaction is expected by the end of 2020.

international safety standards), and *environment* (driving need for innovative ways to reduce energy consumption). Whilst these are all still important today, 2016 saw the addition of a new mega-trend, *technological disruption*, which now sits alongside urbanization as KONE's two main mega-trends driving their business. Described as creating new opportunities, technological disruption is being driven by smart, sustainable buildings, the Internet of Things and Artificial Intelligence, autonomous systems, and digital identification and verification.

## **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 focus today is on the elevator and escalator business and improving the flow of urban life.

KONE's international growth was mostly achieved via acquisitions. KONE's strategy was to acquire companies rapidly not only in order to take advantage of scale economies, but also to gain access to local service networks. KONE's 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).

Off the back of improved product offerings (for example the MonoSpace®), 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, and 100% in 2016). 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. Reaching new heights: KONE's growth phase (2004-2014)**

Matti Alahuhta took over as President in 2005, and became CEO shortly after in 2006. KONE had internationalized early, however the stable profitability and modest growth of the company also revealed the substantial development potential that KONE possessed. KONE increased people development activities at all levels. For the top 300 this involved the set-up of an intensive global leadership development program, tailored to fit the particular phase of KONE's growth. A Supervisor Development Program was established and provided to 3,000 supervisors globally. More emphasis was also placed on the quality of recruitments.

At the end of 2007 with several key parts of the transformation in place, it was deemed the right time to define 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). At that time, 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 placed on user experience and customer focus.

Between 2005-2014, KONE's global sales grew at an average of 10% annually and KONE either maintained or improved its position in all its major markets. By 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 remained above 30%, and EBIT grew steadily with improving margin.

#### **2.4. Disruption in service: KONE's new strategy for a digital future (2015-)**

The pace of growth began slowing in 2014 due to a slowdown in the market and the intensification of competition, especially in China. As Henrik Ehrnrooth took over as Chairman and CEO, KONE needed to find new ways to create value. The answer lay in services, just at the same time that digital technology was noticeably disrupting the industry. As CEO Ehrnrooth noted:

*“When we looked at our service business the feedback from customers was clear: ‘You are all the same, you offer the same, I don’t know the difference between you, what you sell is not what I want to buy, and by the way, we have no idea what you do: the only communication we get from you is an invoice.’ So we really needed to find different ways to create value for our customers and to differentiate from our competitors.”*

By way of a response, KONE launched its new strategy built around service transformation and ‘winning with customers’. The new strategy comprised four key organizational capabilities (Exhibit 2): Collaborative innovation and new competences, Customer-centric solutions and services, True service mindset, and Fast and smart execution.

Seeking out ways to mass customize in an industrial way, KONE introduced the KONE Care service offering in 2017, providing a fully customizable portfolio of services and advanced tools, designed to meet the individual needs of different customers. KONE also collaborated with IBM Watson to create an IoT platform called 24/7 Connected Services – a system that enables vast amounts of data from elevator sensors to be monitored, analysed and displayed in real-time, improving equipment performance, reliability and safety.

According to Ehrnrooth at the time<sup>2</sup>, *“We are well on our way towards creating a truly intelligent elevator and escalator service platform, which will use Watson’s cognitive capabilities and take elevator and escalator services to a new level.”* As illustrated in Exhibit 4, these new services are ‘stacked’ into two levels that sit above the core new equipment, and maintenance and modernization businesses: Advanced People Flow Solutions, and People Flow Planning and Consulting. Whilst many parts of KONE required transformation in light of this new strategy, there were three areas that demanded specific management attention: New capability and competence development, global organisation, and the role of China.

In terms of **capability and competence development** (see Exhibit 5), creating value by offering customers non-obligatory services required the development of new organizational capabilities related to service transformation and customer orientation. Among others, this highlighted the need for consultative-style solution selling. As Ehrnrooth put it: *“The mindset shift – from selling something our customers must have to something that they don’t necessarily need but will add value to their business – it’s massive. This requires us to drive the change through the competences of our sales and operations people. This is our biggest challenge, not the technology.”*

However, it was not only sales people that needed re-skilling, but also operations and business leaders. Rather than create a position of Chief Digital Officer, KONE built digitalisation into the business model and required business leaders to understand new digital services themselves as a central part of the business they ran. For this purpose, KONE put all global leaders through

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<sup>2</sup> Source: <https://www.kone.com/en/news-and-insights/releases/kone-revolutionizes-elevator-maintenance-with-new-customizable-kone-care-tm--service-offering-and-24-7-connected-services-2017-02-08-3.aspx>

leadership training to instil this mindset, to identify how and why customer needs are changing, and how to avoid commoditisation.

Although using selected partnerships to acquire some new competences quickly, KONE's focus was on how to develop and enable its existing employees, and to review from where new recruits can be hired. In order to support competence development in key areas such as digital foundation skills, new services and solutions, and solution selling, KONE has provided an array of development initiatives globally delivered via training centres, online challenges, and eLearning solutions. In terms of recruitment, KONE has begun actively hiring from outside the industry, in customer industries and industries further along with selling digital solutions. The amount of new hires from outside the industry is followed up systematically and is to be added to the nationality and gender diversity criteria. Evidence of this has come in the form of, for example, a new Chief Technology Officer hired from Cisco in 2019 with a greater emphasis on 'thought leadership', and the use of scientists to apply queuing theory to solve people flow problems and hiring teams who can sell this, including a team led by a professional architect.

With respect to *global organisation*, KONE had to find ways to ensure even greater customer centricity whilst at the same time building a learning culture and facilitating collaborative innovation. This has involved the lines getting blurred between new equipment and upstream R&D, and frontline sales and services. One of the outcomes has been a re-organization with a renewed R&D function called 'Technology and Innovation' (also integrating the previous IT function) to serve the service business in addition to the new equipment business, and the creation of a new unit called 'New Services and Solutions'. As a way to break down silos between different parts of KONE's value chain, this led to the development of the new KONE Residential Flow concept. The value that this adds to property managers was only made possible via this intersection.

The 'Accelerate Program' was also launched to enable country organizations to focus on customers and gain speed. The program involved the harmonizing of roles and processes, leveraging scale and integrating expertise in key functions. These actions were directed towards supporting the frontline organisation with needed competences in areas where most things had been done locally in the past. With the key targets being customer centricity, speed and efficiency, the HR function was the first to go through the program. Competence areas such as people development, training and coaching were moved into regional 'centres of expertise' hubs, designed to take burden from frontline managers and move towards HR as a service. The program was then rolled out in other areas such as finance, customer solutions engineering, logistics and sourcing.

Rapid urban, economic and technological developments in *China*, by far the industry's largest and fastest growing market, also presented KONE the market leader with challenges and new opportunities. China has quickly transitioned from a market buying leading technology developed elsewhere, to an uptake market for new digitally-based services. As Ehrnrooth noted: "*China is the fastest country in terms of uptake in technology and applying it. When they get excited about something new, it will happen. If you want to do things fast, China is the place. Proof of concept takes days not months. There is no legacy.*"

This new role for China could have significant implications for both new organisational capability development in terms of talent attraction, development and retention, as well as global organisation in terms of how the corporation globally supports and benefits from what is happening in China.

## **2.5. KONE today**

KONE's structure is organized along two lines of business – the Service Business (modernisation and maintenance) and the New Equipment Business – and five geographical 'areas': Central and

North Europe; South Europe, Middle East and Africa; Asia-Pacific; the Americas, and Greater China (consisting of mainland China, Hong Kong and Taiwan). KONE employs approximately 60,000 employees in close to 60 countries worldwide with around 55% employed in maintenance and modernisation positions. Over half of KONE's employees are in the field every day.

Based on global sales of nearly 10 billion EUR in 2019, KONE's market share in the global new equipment market is 18% and in maintenance around 10%. KONE is the market leader in world's largest elevator and escalator market, China. KONE's average net income has been 960 MEUR over the past five years (see Exhibit 1), and its share price has outperformed the market since 2007 (see Exhibit 3).

In terms of the geographical sales mix in 2019, 41% of sales came from EMEA, 39% from Asia-Pacific, and 21% from the Americas. By business area, the new equipment business to service business ratio has been edging ever closer to the 50/50 mark, with 53% of sales coming from new equipment, and 32% and 15% coming from maintenance and modernization respectively – new equipment sales still being buoyed by strong growth in China and Asia-Pacific.

KONE is acknowledged as a global leader in innovation. It has been ranked by Forbes as one of the top 100 most innovative companies in the world for six years running, making it the eighth most innovative company in Europe and the only elevator and escalator company featured on the list.

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 became a 'must-win-battle' in 2008 under Alahuhta. This has led to KONE being consistently recognized as among the 'Most Attractive Employers' with the 'Best HR' in its native Finland, and appearing on the list of Forbes' Global 2000 World's Best Employers (2019). Much of these successes are attributed to the investments KONE has made over the years in global talent management.

### **3. Global Talent Management at KONE**

Talent management, like most of the HRM 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 HRM observable at KONE began in earnest back in 2002 following the appointment of a new EVP for HR, Kerttu Tuomas. At that time, Tuomas viewed the implementation of global HRM processes as needing attention. This became easier after Alahuhta's arrival in 2005, and HR was able to align itself around the global businesses that were becoming more streamlined, globally integrated, and united by common must-win-battles. Since Susanne Skippari took over as EVP for HR in 2017, the focus has been on tracking talent via HR analytics, greater emphasis on retention, improvements to the development package for talent, and implementing KONE's diversity and inclusion roadmap.

In connection with its strategic target of being a 'great place to work', the purpose of talent management at KONE is to attract, retain, develop and engage people with the right set of competences and attitudes, ensuring that KONE possesses the right capabilities now and in the future. Global talent management at KONE is divided into Talent Acquisition (talent acquisition and employer branding) and Talent Management (Leadership and Talent Review, diversity and inclusion, and individual development).

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 Talent Management Center of Expertise (Talent Management CoE), unit HR directors and business leaders. The Head of Talent

Management is instrumental in leading the global talent management process and does this by communicating guidelines each year via the Talent Management CoE, kicking off the LTR process, providing definitions and tools, and travelling to most Area- and Global Business Unit-level LTR workshops to ensure they are run effectively.

### ***3.1. Talent identification: The Leadership and Talent Review***

The ‘Leadership and Talent Review’ (LTR) is an ongoing process covering all businesses and areas. The key objectives of the LTR are to review and calibrate employees and plan their next career steps, to identify successors, and to plan succession pipelines and talent pools. The Executive Board sets annual targets for the LTR, including diversity goals (gender and cultural [regional] diversity), talent development actions (e.g. proportion undergoing job rotation including cross-functional moves) and recruitment targets (e.g. proportion of hires outside of industry).

The talent identification part of the LTR involves the identification of ‘Emerging Leaders’ (used to be ‘High Potentials’, but this was changed in order to emphasize leadership and those at an early career stage). Emerging Leaders are defined as individuals with the competences, organisational commitment and motivation to rise to and succeed in senior leadership positions at KONE. The framework used to identify Emerging Leaders draws upon four sets of criteria (see Exhibit 6): *Basic Requirements* (e.g. English language skills, minimum tenure, mobile), *Performance* (‘what’ – strong past performance, and ‘how’ – behaviour in line with corporate values), *Enablers* (learning focus, collaboration & inclusion, energy & resilience, and achievable level/growth capacity), and *Motivation* (aspiration to become a leader, motivation to stretch beyond current responsibility, and engagement). The Enablers and Motivation criteria focus on future potential, whereas the Performance criteria focus on past performance. Whilst being a complex exercise, Skippari acknowledges the progress KONE has made, “*managers really challenge each other in those terms, like growth capacity and collaboration, whereas in the past it was ‘I have a good feeling about this guy, he’s doing really well’ – they are now able to articulate why someone has the growth capacity to reach the next level.*”

Areas/Units are expected to nominate 1-5% of their employees above a certain level as Emerging Leaders. In order to allow for the observation of performance and potential in practice, the identification process only includes those with a minimum tenure of 6 months. In response to some promising candidates missing out on being identified due to insufficient English language skills and an unwillingness to be internationally mobile (e.g. in China), KONE created a separate category – Local Emerging Leaders.

### ***3.2. Succession planning***

The succession planning part of the LTR is designed to ensure that there are sufficient numbers of internal candidates to address any gaps or changes in leadership, referred to as ‘bench strength’ and monitored systematically for key positions. In the Succession Planning process, managers complete succession plans for all positions above a certain level and successor candidates are proposed.

The key criteria used in succession planning is an individual’s *Achievable Level*, which 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 director and manager level employees, some specialist-level employees, as well as Emerging Leaders (approximately 300 globally, representing 1-5% from further down the country units).

The global evaluation criteria of Achievable Level consist of assessments against the requirements of the current role and the intended future roles, 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').

Similar to Emerging Leader evaluations, successor candidate information is compiled together with other key information about the individual and includes an ongoing evaluation of the *urgency of change*. Using a traffic light system, the degree of urgency in making a change in the position with current 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).

### **3.3. LTR workshops**

After managers have completed the talent reviews and succession plans, these are fed into LTR workshops that take place within the different areas and business units. The workshops typically consist of the area/business management teams and are held annually. 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 Emerging Leaders, 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 Talent Management for creating overviews, analytics reports and preparing for the corporate Executive Board LTR workshop.

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, 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.

As is common in firms in the Nordic countries, Emerging Leaders and successor candidates at KONE are told about the LTR process, but corporate policy is that they are not officially informed about the outcome of the workshops in terms of their status as an identified Emerging Leader or successor. However, this information is shared with an employee if they submit an official personal data request.

### **3.4. Talent development**

Introduced as one of KONE's leadership competences in 2017, managers at KONE are held accountable for talent development. In addition to engaging in informal discussions and providing feedback on an on-going basis, managers are expected to create high-quality individual development plans (IDP) with all of their Emerging Leaders that are subject to continuous discussion and assessment (e.g. using personal assessment tools such as 360). The IDP is based on the 70-20-10 philosophy, whereby 70% of development actions are based on experience (visit a job, stretch assignment, experience with customer, etc.), 20% on social experiences (e.g. coaching,

mentoring and networking) and 10% on formal development interventions such as virtual and face-to-face training (see Exhibit 7). The Talent Accelerator curriculum is a framework of recommended learning and training content that follows the 70-20-10 philosophy. Manager and Emerging Leaders can see all the recommended learning and training options and choose the most relevant.

One of the key development actions KONE emphasizes is mobility. Global and country HR managers, together with the assignee and his/her supervisors, are responsible for discussing the next career step and organising the moves. In addition to this, a significant proportion of the Emerging Leaders are nominated to specific development programs, the most intensive being Leadership Experience (LEX), a three-module leadership development program run by an external provider. 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.

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 Emerging Leaders 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.

### ***3.5. Talent retention***

In recent years, KONE has ramped up efforts to manage talent retention more actively. To this end, KONE introduced a set of indicators to identify, monitor and react to retention risks. Firstly, as part of the talent reviews, all staff employees are evaluated regarding retention risk (Low, Medium, High) based on various indicators including employee satisfaction and the receipt of external job offers. Employees are also evaluated in terms of their 'loss impact' – the level of impact the departure of that employee would have on the organization (minor, moderate, significant, critical). These are fed into the system that allows KONE to track 'Critical Talent', defined as employees above a certain level whose loss impact is significant or critical, and whose performance is consistently strong. Critical Talents evaluated as a high retention risk are brought into the LTR workshops in order to agree on retention actions and ensure a succession pipeline. This involves discussions with individuals about meeting career and development needs. If necessary, secondary monetary retention mechanisms are offered that include long-term incentives in the form of the KONE Share Plan and Share Ownership Plan.

### ***3.6. Strategic talent management***

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. One significant factor that is attributed to this talent mindset is the support and commitment from the highest levels of management. This is not only reflected in the strong emphasis on personal 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 previous CEO Alahuhta and continued by Ehrnrooth.

However, plenty of questions remain about how to manage talent globally in order to support KONE's vision and new strategy. One key question has been *competence management*, with new competences being identified as one of KONE's key 'ways to win' with customers. This provided

the foundation for the new People Strategy and involved mapping the new competence needs with input from a wide variety of managers and an external consultancy firm. As Skippari reflects:

*“The team and business leaders were getting a bit frustrated that we didn’t have a comprehensive picture of what competences we should concentrate on. We also recognized that this wasn’t just about new competences, but about how to get the best out of our people, so we opted for a more holistic people strategy than a narrow competence strategy.”*

KONE organized a workshop in late 2017 in order to identify and narrow down a shortlist of competences needed to support KONE’s business transformation. The outcome was the identification of six competences (see Exhibit 5) and enabling projects (attract, develop, engage, partner) for how to get them. The workshop also included an analysis of how the needs of the workforce are changing (e.g. demographics, global talent supply and demand, flexibility) and what KONE needs to do to prepare for them. Looking back, Ehrnrooth admits, *“if I could roll the clock back, I would have started with the competence mapping much earlier, and developing those competences within our people.”*

The HR team has also ramped up the use of HR analytics to support their global talent management activities. This includes collecting real-time data on attrition by region, tracking key talents, talent forecasts (e.g. time to hire), and reviews of competences via new hires. The goal is to move into predictive analytics, but the current analytics data is still viewed as important:

*“In the LTR I get to see where our digital competences lie, where do we have people with competences in data analytics, solution selling, and I get a monthly hiring report where I can see how many have solution-selling competences and in what areas – are we going in the right direction? That visibility is crucial.”* (Ehrnrooth)

Another ongoing strategic talent management challenge has been how to support the explosive growth in *China*, both in the short term and the long term. Between 2005 and 2014, KONE’s *China* organization grew at an average of 1,000 employees per year, so attracting talent to fuel growth was critical. Over time, attention has been turning to the longer-term issues of improving the leadership pipeline and implementing necessary development actions, identifying Local Emerging Leaders and integrating *China* (particularly the locally-driven services business) into the rest of the global organisation whilst giving it the freedom to win with customers in a strategically key market.

## **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*; in 2019, the market share stood at around 20%. 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 was not 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. Whilst average annual growth in new equipment during 2004-2014 in *China* compounded at around 20%, at KONE it was around 40%. 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. In 2004 there were an estimated 600 elevator and escalator firms operating in *China*. In 2014, there remained approximately 400 firms, 20 of which KONE competed with directly.

William Johnson was appointed to take over KONE's China business in 2004. An American by nationality, Johnson first came to China to study Chinese as a graduate student in 1981. After going back to the US, he returned permanently in 1993 and has remained in China – 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 did not 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 2005, with KONE's market share in China at only 3.5%, KONE accelerated its development activities, and a strategy for China was crafted. Off the back of its industry-leading innovations, KONE knew that its competitive advantage lay in its superior technology.

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 full ownership in 2016. With most of the operations of the two companies were kept apart, this 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, KONE increased its presence to 80 branches and over 500 locations (see Exhibit 8).

The increasing market share for new equipment was a vital component in another of KONE's strategic development objectives in China – building a strong service business, estimated to make up half the monetary value of the Chinese market by 2025 compared to 15% in 2010. With the leading conversion rate (i.e. service agreements signed against the sale of new equipment) in China of around 60%, by 2013 KONE had also become number one in the service business in China. From that point onwards, Greater China has contributed a quarter of KONE's global net sales, and at nearly a third of the total (18,000), is the largest country by employment (see Exhibit 9).

Like the rest of KONE's global operations, the strategic challenges in China rest in developing new competences in support of the service business as a substantial source of future revenue. However, China needs to achieve this off the back of continued high volumes of new equipment sales (still around 85% of China sales) and a pivotal market in terms of size and source of new product and service innovations. As Ehrnrooth summarises, *“In China, the new services and solution-selling mindset is a difficult message to get across since they have been extremely successful in selling, where it has been more about volume than value. We are changing minds, but we would obviously like to do this faster.”*

A key part of KONE's China strategy has been active talent management (see Exhibit 10). In order to support KONE's 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 contested labour markets in the world.

## 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 units, he quickly brought in several key people with whom he had worked previously. One of these was an experienced and very results-driven sales director. In a short period, 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 programs, 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. [...] We have tried to turn this from an awkward English-speaking, Euro-centric kind of organization into a high-speed Chinese one."*

### *Talent recruitment and employer branding*

With headcount growing at an average of 1,000 employees per year during the rapid growth phase, KONE in China faced huge pressures to hire enough talented employees. In the earlier 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 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 employees to KONE's and the industry'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 trend of many Chinese graduates wanting to work for a Chinese company as opposed to foreign multinationals 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 Emerging Leader in KONE China)

Recent developments have also seen the entry of non-traditional competitors for early career-stage, millennial talent – future field employees. "*Having invested in a scooter, a hard-working delivery service worker can earn more than double what I can pay them. But this gig work is tough: you don't get employee benefits such as health insurance. There is no safety net.*" So KONE has emphasized the comparative advantages of skill development, career progression and even just being paid on time, in addition to appealing to wealthy parents as a desirable career destination for their only children.

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 focused efforts on getting close to potential employees. Since the branches were dispersed throughout many 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 a large number of different technical schools, including more intensive cooperation with strategic partner schools where KONE employees are sourced as teachers.

#### *Talent identification*

KONE in China uses the global LTR process and the same talent identification criteria. However, due to its rapid expansion and the fact that branch manager is seen as a critical position, the identification process was taken down to the branch level (approximately 50 branch managers plus Emerging Leaders 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 talent, such as nominating candidates to the LEX program 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 has been the issue of language competence. ‘Fluent English’ is listed as one of the Basic Requirements for being identified as an Emerging Leader (see Exhibit 6) since there are limited growth possibilities for people with purely local language capabilities. KONE China’s language practice, 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 or hit your Q4 targets!”*), 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 and 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 programs run in English (e.g. LEX). As Johnson explains, *“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.”* This dilemma has been partly addressed through the creation of Local Emerging Leaders, but the ongoing challenge remains in how to populate the Global Emerging Leader talent pool and succession plans.

#### *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 have become critical. Development actions for Emerging Leaders 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 programs 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 programs 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 programs. As a result, a 'local' LEX program was rolled out for Chinese Emerging Leaders.

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 side and frontline businesses where the main focus was on identifying talent and opportunities for cross-functional mobility. However, the mobility in and out of China has remained low, and Johnson admits that inward mobility can be challenging:

*“When I take in a new expat manager, who doesn't speak Chinese, I need to surround them with 3-4 people who explain how things work. That usually takes about a year, and then after two years the spouse wants to return home. I had a very smart person for over five years, but I need more of those. But it is a tough transition. So deepening expertise in developments in China can be difficult. And as for outward mobility, there is little interest in Europe – it is viewed as a museum. It's really either the US or nothing for most.”*

Many 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 Emerging Leader in KONE China)*

## **5. Tough at the top (Part 2)**

As the taxi approaches KONE's state-of-the-art factory in Kunshan for the meeting, Ehrnrooth and Skippari are reminded of the huge leaps they have made in talent management in China – from attracting the talent needed to fuel its rapid growth, to the provision of locally-tailored career and development opportunities. Their attention then turns to the notes for the meeting. First up, how does KONE reskill its workforce within the next three years so that it possesses the new competences it needs to develop the organisational capabilities need to deliver on the new digital service transformation strategy? What type of people and what type of organisation does KONE need to succeed in this market? Where are they going to get these people, and assuming there will continue to be a shortage in the war for talent with the kind of competences that they will need, how

do they develop these within their own people? Should they follow many other firms and begin communicating formally to Emerging Leaders about their status?

Second, how does KONE ensure sufficient customer centricity in each of its markets whilst fostering collaborative innovation across the global organisation? In particular, what might this mean for global talent management in terms of competences, talent mobility, career tracks, leadership profiles and building a learning organization that supports value co-creation?

And third, how to do all this in China – their biggest market and the potential source of much growth, innovation and new business development in the future? How to attract millennial talent away from new forms of employment and more attractive industries? How to strengthen the leadership succession pipeline and retain their highly sought-after leadership talent? What is KONE's unique employer value proposition in China for these groups? And how can more talent mobility into and out of China be stimulated? Are there any better solutions to the language issue?

As he steps into the elevator and selects the floor for the boardroom Ehrnrooth smiles to himself: One of the tough things about being the leader in the world's most prized market as digital disruption sweeps through your industry is knowing which buttons to press.

## Exhibit 1: KONE five-year financial summary (2015-2019)

Consolidated statement of income, Jan 1–Dec 31	2019	2018	2017	2016	2015
Sales, MEUR	9,982	9,071	8,797	8,784	8,647
- sales outside Finland, MEUR	9,783	8,879	8,620	8,594	8,486
Operating income, MEUR	1,192	1,042	1,192	1,293	1,241
- as percentage of sales, %	11.9	11.5	13.6	14.7	14.4
Adjusted EBIT, MEUR <sup>1)</sup>	1,237	1,112	1,206	1,293	1,241
- as percentage of sales, % <sup>1)</sup>	12.4	12.3	13.7	14.7	14.4
Income before taxes, MEUR	1,218	1,087	1,250	1,330	1,364
- as percentage of sales, %	12.2	12.0	14.2	15.1	15.8
Net income, MEUR	939	845	960	1,023	1,053

Consolidated statement of financial position, MEUR	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Non-current assets	2,811	2,418	2,387	2,489	2,361
Current assets	5,802	5,316	5,075	5,463	5,144
Total equity	3,193	3,081	3,029	2,796	2,575
Non-current liabilities	760	489	491	534	343
Provisions	127	139	138	183	174
Current liabilities	4,533	4,025	3,804	4,438	4,414
Total assets	8,613	7,734	7,462	7,951	7,506
Interest-bearing net debt	-1,553	-1,704	-1,690	-1,688	-1,513
Assets employed <sup>2)</sup>	1,640	1,377	1,339	1,108	1,063
Net working capital <sup>2)</sup>	-856	-758	-773	-1,055	-983

Other data, Jan 1–Dec 31	2019	2018	2017	2016	2015
Orders received, MEUR	8,400	7,797	7,554	7,621	7,959
Order book, MEUR	8,052	7,951	7,358	8,592	8,210
Cash flow from operations before financing items and taxes, MEUR	1,550	1,150	1,263	1,509	1,474
Capital expenditure excluding acquisitions, MEUR	200	112	116	127	93
- as percentage of sales, %	2.0	1.2	1.3	1.5	1.1
Expenditure for research and development, MEUR	171	164	158	141	122
- as percentage of sales, %	1.7	1.8	1.8	1.6	1.4
Average number of employees	58,369	56,119	53,417	50,905	48,469
Number of employees at end of period	59,825	57,359	55,075	52,104	49,734
Employee costs	3,048	2,818	2,725	2,634	2,446

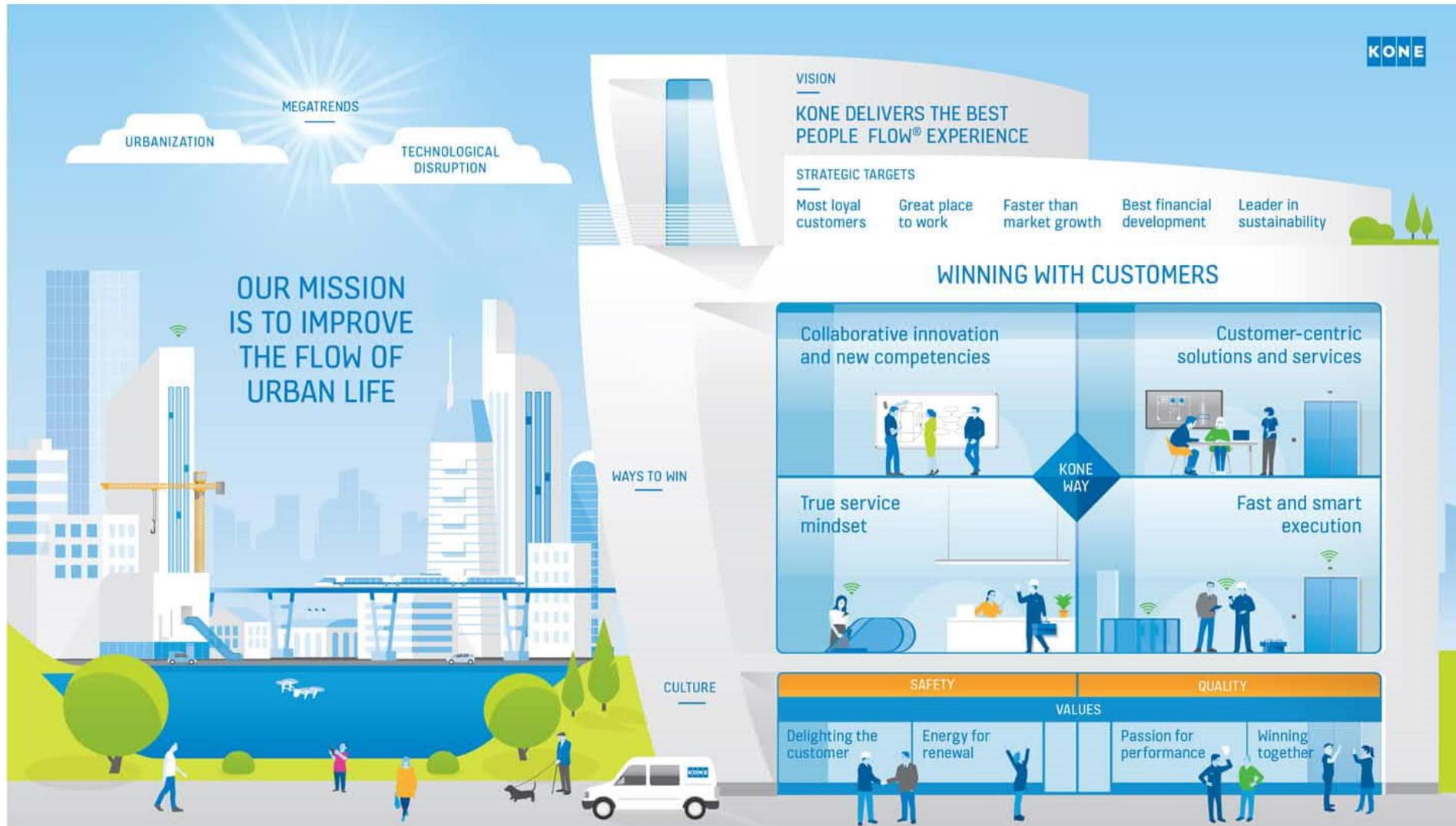
Key ratios, %, Jan 1–Dec 31	2019	2018	2017	2016	2015
Return on equity	30.1	27.7	32.1	38.1	45.4
Return on capital employed	25.1	25.0	28.8	34.1	41.7
Equity ratio	46.5	49.9	50.0	46.8	45.4
Gearing	-48.6	-55.3	-55.8	-60.4	-58.7

IFRS 15 and IFRS 16 impacted the comparability of KONE's financials in 2017 and 2019. I would add these texts under the tables. "KONE has applied new IFRS 15 and IFRS 9 standards from January 1, 2018 onwards and 2017 financials are restated retrospectively. Figures for 2015-2016 are not restated and thus not fully comparable. KONE has adopted new IFRS 16 and IFRIC 23 effective January 1, 2019. Figures for 2015-2018 are not restated and thus not fully comparable.

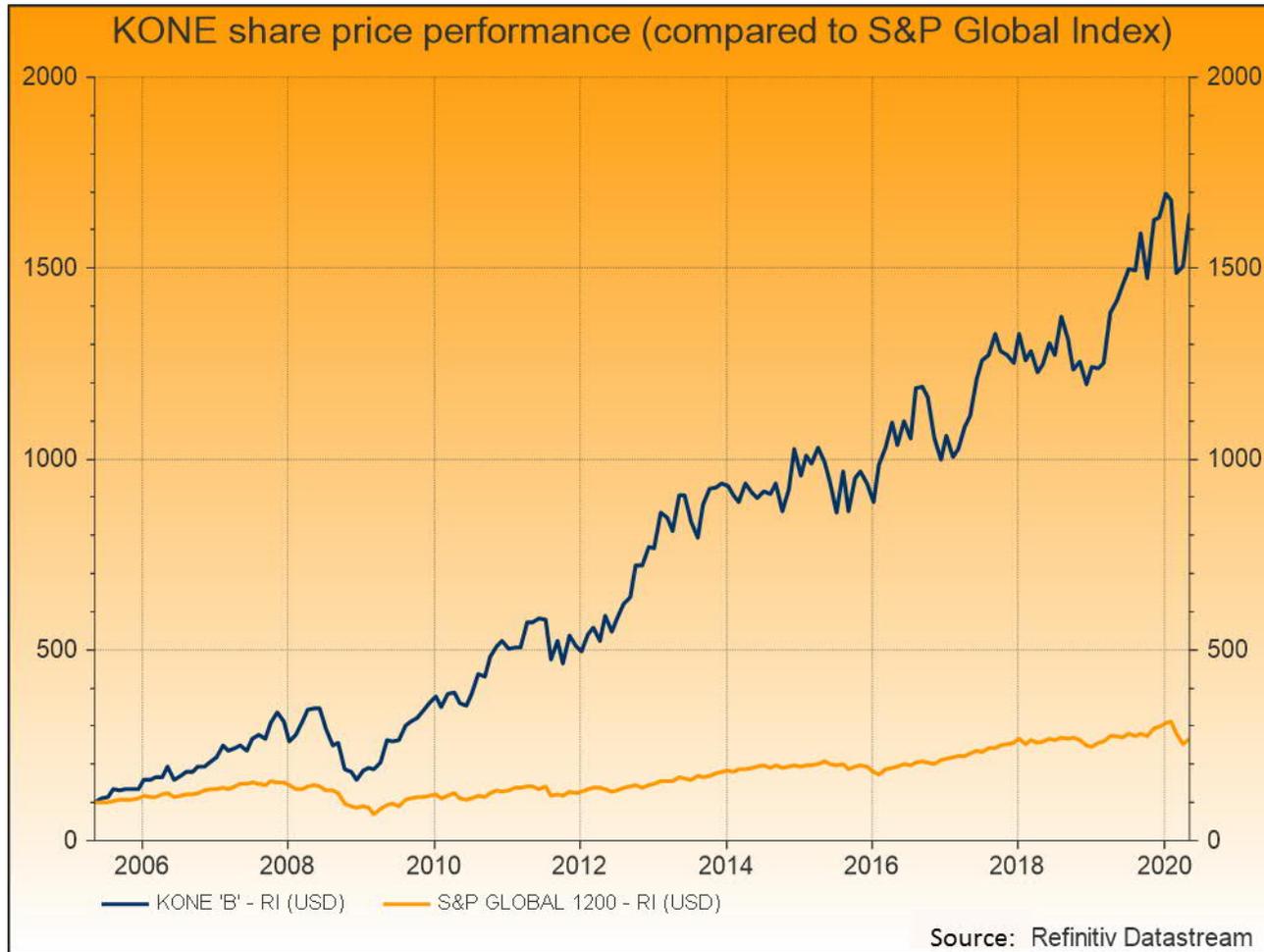
1) 2019, 2018 & 2017: Excluding significant restructuring costs arising from redundancy and other costs directly associated with the Accelerate program.

2) Items included are presented on page 29 in KONE's Annual Review (2019).

**Exhibit 2:** KONE Winning with Customers strategy 2017-2020 – big picture



**Exhibit 3:** KONE share price performance (compared to S&P Global Index, total return index)



**Exhibit 4:** KONE Offering



Exhibit 5: Overview of KONE People Strategy

# Our competence needs derive from our strategy, offering and business needs



Our business...



...needs these competences...

- Field and product competences
- Digital foundation skills
- Customer business understanding
- New services & solutions
- Solution selling
- Leadership

... and this is how we get them

- Attract
- Develop
- Engage
- Buy (subcontract/partner)

**Exhibit 6:** Talent identification criteria at KONE

# Criteria for Emerging Leader



**LOCAL EMERGING LEADER CRITERIA IS THE SAME, EXCLUDING MOBILITY AND LANGUAGE (DO NOT NECESSARILY SPEAK FLUENT ENGLISH AND ARE NOT GLOBALLY MOBILE)**

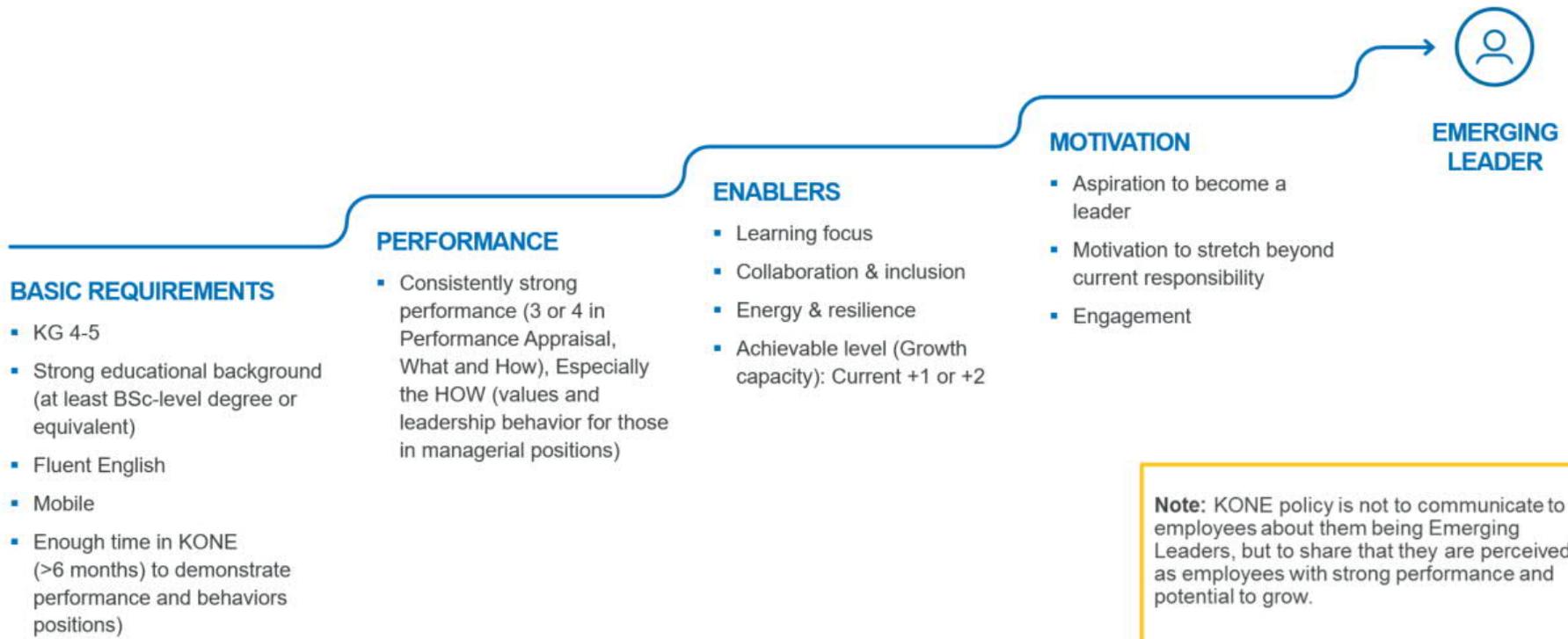
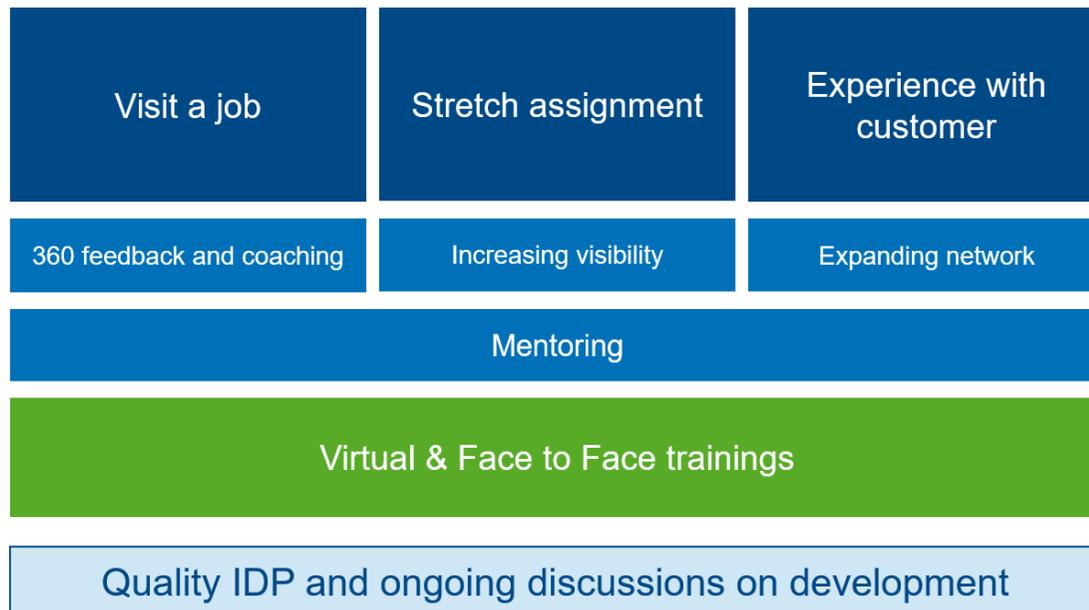


Exhibit 7. Talent development at KONE

# Talent Accelerator Curriculum



A READY SET OF DEVELOPMENT ACTIONS FOR EMERGING LEADERS IN KONELEARNING.COM



70 EXPERIENCE

20 SOCIAL

10 FORMAL

Exhibit 8: KONE coverage in China

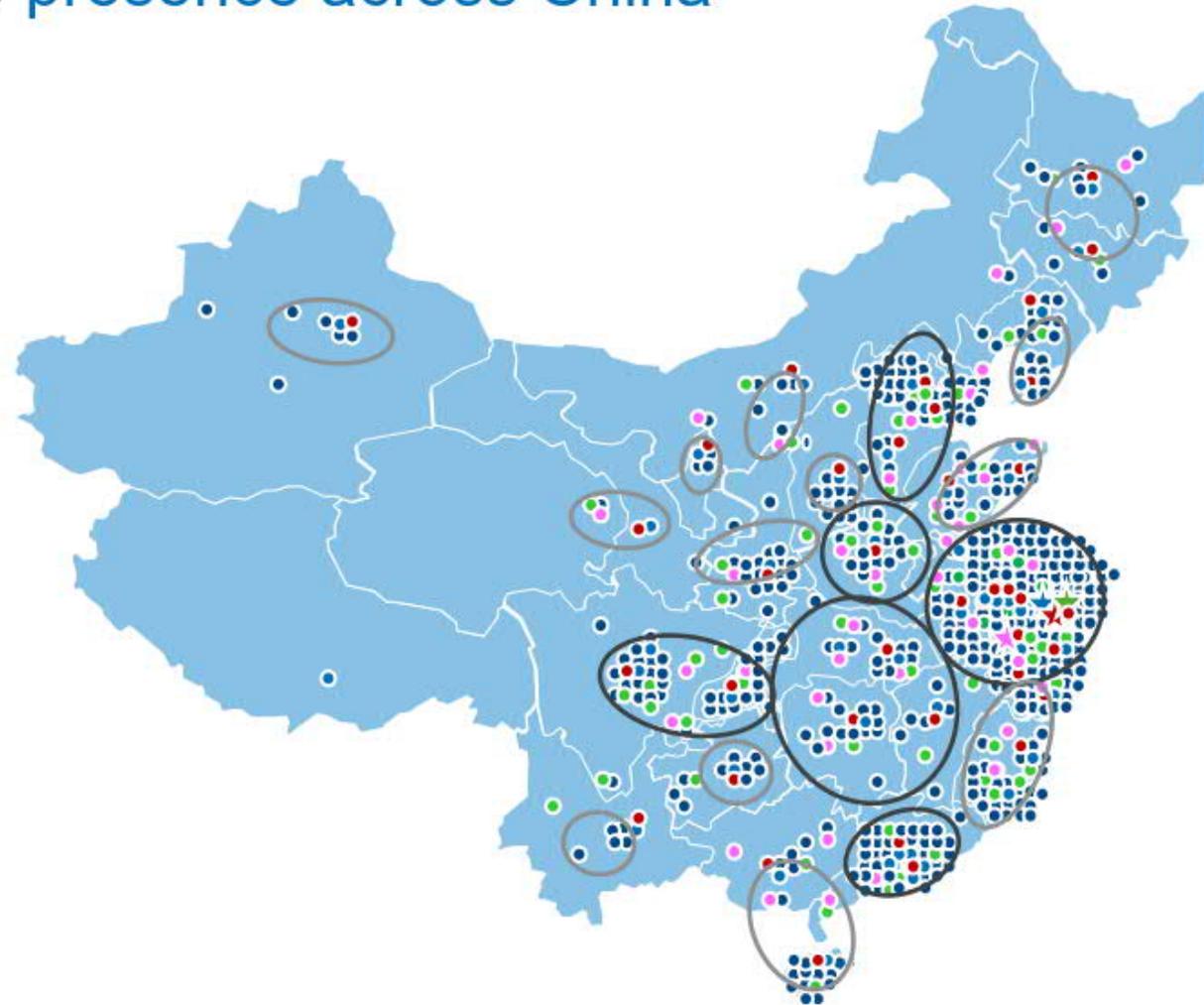
# KONE has a wide presence across China



**2018**

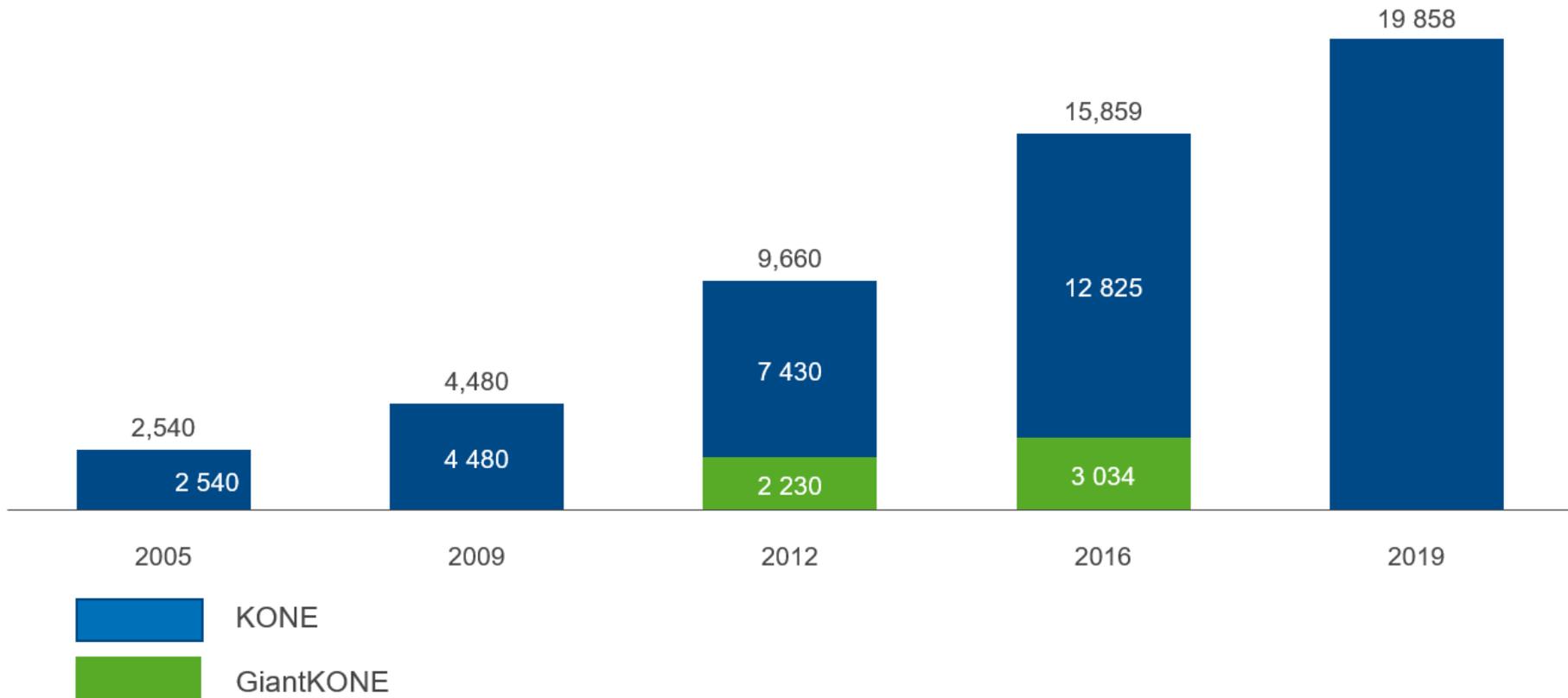
- 2 factories
- <80 branches
- <80 sales offices
- <450 service stations

- KONE Branch
- KONE Sales Office
- KONE Service Station
- Giant KONE Branch
- Giant KONE Sales Office
- Key city clusters



**Exhibit 9:** Headcount development in KONE China

# Headcount development in KONE China



## Talent management a priority in upgrading our organizational capabilities



- Keep developing our field capabilities with integrated solutions
  - Collaboration with leading technical schools; National and regional training centres
  - Field operations trainee programs
  - Career development framework
  
- Strengthening our learning organization & culture with an emphasis on key competence development
  - Key competences identified: e.g. consultative-style solution selling, digital skills to support new service solution (24x7) and new equipment businesses
  - Learning catalogue; on-line learning tools expansion triggered by COVID-19 pandemic
  
- Continuous focus on employee engagement, especially Critical Talent retention
  - Re-design employee incentive scheme to link individual performance to business performance: shift from “Quantity” to “Quality”
  - Develop strategies for Critical Talents at High Retention Risk level
  
- Leadership development at all levels with renewed focus on Talent Tracking
  - Concept transformation from ‘High Potential’ (Hipo) to ‘Emerging Leaders’
  - Individual Development Plan tracking for Emerging Leaders and successor talents
  - KONE leadership program and development of a local version
  
- Diversity & Inclusion
  - Local D&I strategy and roadmap; dashboard to visualize D&I status and tracking
  - Talent acquisition and talent management to contribute as integrated talent management team