

China : the third challenge.

The wave of major investment in China is now entering its third phase. In a first step, China was considered as the paradise of manufacturing sub-contracting. Then, in a second phase, people realized it was a huge domestic market. But they were confronted with the development in terms of sheer power and quality of a cutthroat domestic competition: problems with patterns and discussions between joint ventures. Partners seem to have remembered everybody that opportunities go hand-in-hand with risks and this has cooled down some enthusiastic postures.

With an expected growth rate around 10% this year, China has become a must for any worldwide business. The country already represents 5 to 10% of worldwide market according to the different business sectors and it reaches 40% of worldwide production in cement and steel. A new generation of managers have understood this and are now betting in different industrial sectors and manufacturing products everyday more complex in an extremely competitive environment.

Implanted in Hong-Kong since 2002, EIM has opened an office in Shanghai this year in association with BO-LE Associates, the leader of direct contact recruiting in China. This move is the result of two observations. First, the real field of production is today interior and continental. It is implanted in the 45 industrial cities which have a population over one million inhabitants. Second, all entry systems (Greenfield purchase of a company and joint ventures with a private or a public entity) appear to be delicate and require the resource which is the most difficult to find: experienced and competent managers, used to the local environment and speaking Mandarin. If the Chinese managers who have worked abroad are an interesting target, the best segment remain that of expatriates from Asian or Occidental origin who were attracted by the challenges of China and who came in the last 10 or 15 years.

The case of Shanghai describe what is happening today: among expatriates, 50% come from Asia (Taiwan, Hong-Kong and Singapore). In terms of internationalization management, strakes are already clearly defined. It is on the field of individual confidence that the third Chinese challenge will be met.

FIRST CASE

The successful set up of a Greenfield factory

The company is a well-known Italian supplier of highly technical components meant for a worldwide client base. It has three production sites: Italy, Eastern Europe and in the USA. It is not looking at the possibility of opening in the short term a fourth factory. But pressure from a US client force them into reconsidering their position.

Towards the worldwide production system

This client has already transferred some of their assembly plants in China. He insists that component that were purchased to the Italian company be now produced locally (for obvious economical reasons). The Italian company has no

other choice but to internationalize its production not so much by choice but to follow the general move towards globalization of some of its major customers.

It is decided to start from scratch...

The company signs an agreement with a Chinese partner who rents out a Greenfield in a change of cooperation and mutual control. The factory must staff 150 people. The development cycle for the products requires a very precise respect of production planning and quality requirements are very tough. The client has now experienced in China so they ask EIM for a transition manager who can start the operation before passing over the job to a local executive. The manager selected is an American who has lived for ten years in China where he has managed several industrial sites in a sector which is quite similar. The man knows the operations ways in a country which is difficult to penetrate. Engineer by trade, he knows how to fit up a factory and making work effectively.

Taking into account specific regulations

When the manager comes on board, the company tools up. They have for example organized to transfer production equipments that were already in operations for two or three years in their Italian plant to their Chinese plant.

The transition manager will immediately raise a very critical issue: to make sure its industry is up-to-date and its production is as sophisticated as anywhere else, China has enacted very strong control and in most cases clear prohibition for the import of second hand equipment. If the original plan had been followed, the equipments could have been in the best case stuck in the harbor of Tianjin for several months.

The manager suggests that the equipment is renovated completely. It is dismantled and sent to the machine tool manufacture who renews it completely, put it in original crates and sends it to China. In this way they enter into China without any problems.

Just for this, the full cost of the assignment is more than compensated by the savings resulting from that single decision.

Meeting deadlines in the second step

The manager organizes the recruitment of 150 employees. His experience in the field, his knowledge of the Chinese environment and his command of Mandarin will appear essential.

On his side, EIM counselor manages the reporting with headquarters, makes sure there is no misunderstanding as happens so often in this type of situation and follows the schedule to make sure the original timetable is fulfilled.

As he starts with his new team, the manager insists on training and puts in place a very strong system of quality control. He gets the agreement of international clients. After a period of eight months, the factory starts as plant.

The production is successful from the start. The quality standards are met and the activity has now reached a rapid growth. The manager is now in the process of leaving the company and passing on the management to a Chinese manager

who has a strong experience in industrial planning and production. He will have to manage a strong organization with a growing customer base and firm orders.

SECOND CASE

A transition manager helps in a joint venture partnership who could have gone sour

A French company is a worldwide leader of a product which is purchased at the same time by individual and consumers and professional installers. It has seven or eight middle-size factories in Europe and about fifty commercial subsidiaries in the world. Its yearly sales are approximately 400 million euros.

This group decides to purchase a small Chinese company manufacturing and selling comparable products that are sold for less than half a price. The objective is to strengthen its worldwide leadership and to get started in the developing Chinese market. It is decided to purchase only 70% of the equity to give the minority interest in the joint venture to the former owner who will remain the general manager of the entity.

The outside vision of a manager without specific links or commitment

The company contacts EIM and looks for transition financial manager who could take the assignment for one year. The candidate reads perfectly Chinese and he can then understand any small invoice. Because he is coming from abroad he is quite international and he clearly understands the expectations of the Europeans. He still is an outside Chinese who shares the local culture and the business practices.

He very soon makes a complete audit of the situation. Results are comforting. The lack of communication was not a sign of poor performances. Finances are quite healthy. Nevertheless, communication problems are very clear. But because the manager is there on a temporary basis, he is able to notice very clear misunderstandings.

Lack of trust amplified by cultural differences have developed on both sides. Headquarters mistrusts slowdown the development of the subsidiary. The local manager is maybe considering launching a different brand on his own.

Restore trust

The manager will concentrate his work in two main areas. First, he reorganizes the financial reporting, creating new benchmarks and systems. He tells the local partner that these reporting are not emotionally charged but are a good way to convey a neutral and automatic reporting. Because they are international, the company becomes a target for fast growth program.

Second, he tries to explain to the local partner that he has a lot of potential in the Group and that he would probably gain more in developing his 30% shares than in creating a competitive organization. Negotiations on that respect are held with headquarters and this requires discussions with headquarters. The transition manager negotiates and obtains a real support of the Group for the minority

shareholder so that his commercial activities can develop in the international network of the Group.

Stabilizing the new setup

After one year, the situation is much better. Most uncertainties are now out of the way, communications are trustful and the development of the activity is quite rapid. He leaves the company on a success note and to the satisfaction of headquarters and the local minority partner.

He is replaced in his job by an expatriate manager coming from headquarters. He recommends someone who was quite young but would spend at least three years in China to learn Mandarin so that he could maintain closed and trustful relationship with the Chinese minority partner.

THE POINT OF VIEW OF... LOUISA WONG

Chairman and founder of Bo-Le Associates, partner of EIM in China.

"Focus will be more and more on local human resources."

What are the challenges of the Chinese development for the next ten years?

The economic growth is still very strong and the goals of the Chinese people as well as of its government are very clear: the market will still go on opening up. China will become the first or second field of activity for a growing number of multinational firms. This is where the new generation of managers will have to be trained. It will become a necessary training group and management step for all high potential top executives.

What is going to change for the firms wishing to start activities in China?

The focus will be more and more on local human resources. People have been inclined to look at the growth rate and to forget about staff turnover. But management loyalty is the only key to long term growth. On this market which is changing very fast, you must keep your talents. This requires attractive salaries, a good social coverage and mainly a real international corporate culture. This is why the long term expatriate who have the necessary local competence are so much in demand. They can create that corporate identity. Today more and more senior expatriates working for multinational firms feel their promotion opportunities within their firm are limited or as they finish an assignment in China have no desire to come back home. These people will certainly end up one day in local Chinese companies. Managing senior top executive career is probably the highest challenge that multinational groups have to face in China today.

What is the interest of transition management in this context?

The stakes and the difficulties are so diverse that it is necessary to use all types of solution. Transition management has shown its efficiency in turnarounds, prior or post M&A, integration, closures and Greenfield... Such events will continue to take place.

Today, the largest part of the growth is slowly moving towards out of the way places or secondary cities. But time is very short for international firms. Transition management can offer made-to-order solutions taking into account the legal environment and an employment market with a very heavy turnover. Moreover, the aging of the population, the industrial consolidation, the flow of new expatriates are increasing the available resources. We therefore believe that the perception of transition management in China will change very rapidly.

After ten years, you open your fifth office in China, in Suzhou: how do you explain your success?

A very strong motivation, a strong respect of details at the level of the execution, a permanent contact with the field and, more than anything else, a very large and open-mindedness. We believe in local resources and we invest a lot in training, evaluation system and delegation of authority. Our company was created on the conviction that even the most complex services must be localized in the respect of the highest worldwide standards. This is why we are very happy with our partnership with EIM, the Chinese antenna of which is managed by Michel Chevalier.