

# MULTINATIONAL COMPANIES IN CHINA

Navigating the Eight Common  
Management Pitfalls

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Management Pitfalls

BY

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## FOREWORD

Xin Guo has written a very insightful book and I am happy to be a part of it. While most of the content comes from him, I provide a Western perspective to the eight major mistakes he describes. I do not do this to make excuses for foreign companies in China, but as a counterpoint that may serve as rationale for why they have made these mistakes. In so doing, I hope to round out the discussion, and I hope to provide further insights into why these mistakes are sometimes made.

Certainly, many of the mistakes described herein are also mistakes that all multinationals make (including Chinese multinationals) when they go abroad from their home countries. However, this book is about mistakes made in China. Although some of these same mistakes may be made elsewhere as well, it does not diminish from the need to try to reduce these mistakes and minimize their impacts in China.

I have lived and worked in China for more than 15 years and have been a part to some of these same mistakes as I worked with multinational companies here, both as an executive and as a consultant. I hope I learned from these mistakes and would not contribute to repeating them. In fact, many multinationals have also learned how not to do these things any longer as they regularly did 15–20 years ago when they first arrived in China. Yet, much to my chagrin, I continue to see companies

new to China get off on the same bad foot as others before them did. Even though all multinationals in China are staffed primarily by Chinese they are often working in such an environment for the first time and are not aware that the foreign approach may be the wrong one. In other cases, Chinese professionals who work in these companies are powerless to correct them, even though they were aware of the mistake as it was being made and tried to convince their superiors in China and at corporate headquarters of the potential consequences of doing things the way they were doing them.

Since I retired from full-time work, I have been trying to add value to leaders in China, both foreign and Chinese. This has been my mission and my primary reason for continuing to work. By participating in the development of this book, I hope I am making progress on that journey.

Frank T. Gallo, PhD



## PREFACE

This book is the culmination of many years of examination of multinational companies coming into China. As a native Chinese professional who had worked in the United States for 10 years, I believe that this book offers foreign companies that are here in China now, or plan to be here soon, an opportunity to avoid some of the biggest mistakes that many of their predecessors have made here. I have observed firsthand, as an executive in multinational firms as well as a consultant in a major consulting firm in China, how companies come to China believing that they can simply tweak existing programs that worked at home and get them to work well in China. Nothing is further from the truth. Multinational companies have operated in China long enough to realize that China is a very promising market, with enormous potential. However, it is also a business arena with its own ordinance and precepts. The differences are greatly amplified however, if the decision-makers lack the awareness of contradicting mental paradigms between East and West. The eight common pitfalls discussed in this book are derived from not paying enough heed to the differences.

The book is intended for business leaders of multinational companies in China and at corporate headquarters. It will make them more aware of the common pitfalls that multinationals face in China. I think the book can be used by these foreign leaders as a mirror on their own

companies. The focus is on mistakes multinational corporations have made when setting up and operating in China. Based on the global interest for multinationals to operate in China the audience is huge. I collaborated with Frank T. Gallo, a longtime friend, a once competitor and later a partner on some projects, to make sure that my observations are not too veered off to the extreme by my personal bias. It helped tremendously from that standpoint. We hope that leaders will be interested to learn from the mistakes others have made in China so as not to repeat them.

Plenty of books are available on wheeling and dealing with the Chinese. Most of them are studies on the cultural or behavioral side. This book took a different focus, looking from the angle of human resources and talent management. It is not a manager's manual; rather, it tries to shed some light on how the differences come about, the cultural background, the market development level, and the talent environment. After completing the book, readers will have a much deeper understanding of how to operate successfully in China than if they entered the country blindly.

Xin Guo

## ACKNOWLEDGMENTS

I am an avid reader of books on various subjects. Invariably, potential authors of business books will make statements that, without encouragement and help from many others, their books will never materialize. Now, I can attest to that personally.

Most of all, I want to express my heartfelt appreciation to my partner for this book, Frank T. Gallo, who has not only reined me in on my propensity of making statements off balance but also tirelessly helped me to put the context in a format easier for native English speakers to apprehend. I am always emboldened to put my ideas in writing knowing that someone will help me keep the material legible for readers even before an editor takes a stab at it.

I want to thank Jill Malila, my colleague at Mercer, who took precious time to review the manuscript and provide valuable feedback and heartening encouragement. Her comments are very important, as she spent six years in the China market interacting with multinationals every day. Her observations and insights about China's talent environment and the challenges faced by multinationals are second to none.

I am very grateful to those who allowed me to interview them for the book. It would not have been possible to write it without them. These include Kathy Zhou, Mulan Zhao, Robin Gu, Lesley Zhao, Jack Lim, Richard

Wen, Xia Yong, Ma Qing, Grace Cheng, Christabel Lo, Grace Zhang, Maggie Shen, Alan Zhang, Li Qingsen, and many others. Peter Liu deserves a special note of appreciation as he did some background research on a few chapters. Most of them provided the anecdotes and testimonies related to companies they used to work for or are currently serving. Also for that reason, I put pseudonyms in the context while quoting their remarks and storytelling. Some of them were so kind that they even provided printed materials as supporting background information.

I am also appreciative of the great efforts in translation and early draft preparation by Pragadish Kirubakaran and Nancy Liu. My assistant, Judy Bu, has also provided help in lining up meetings and interviews, and in putting some of the Chinese transcripts of interviews in context.

Xin Guo

## MULTINATIONAL COMPANIES IN CHINA — AN INTRODUCTION

The world's economy is going through dramatic change. China's economy is very much a driver of this, as this fast growing second-largest economy in the world moves from an investment- and export-driven country, to a domestic consumption-driven country. Most multinational companies in China enjoy a profitable business. According to one of the latest reports by the American Chamber of Commerce in China Business Climates Studies, 71% of American companies are profitable here ([AmCham China, 2014](#)). Another latest report by the American Chamber of Commerce in China White Paper shows that 69% of American companies operating in China plan to increase their investment during the next year ([AmCham China, 2015](#)). In fact, for many of these companies, the China profit contribution continues to outdo their peers in other markets for total global profits. For some companies, the majority of their global profits come from their China operations. How to better manage operations and put them on a more sustainable growth

trajectory is increasing on the mind of executives who are running businesses in China or have global responsibilities.

## CHINA'S AMAZING ECONOMIC STORY

China is on everyone's mind these days. It holds over one-fifth of the world's population. While some of the populace is still quite poor, the growing economy has allowed a sizable number to become affluent over just this past generation. These *nouveau riche* are more optimistic about their future and therefore more willing to spend extravagantly than ever before, all adding up to a very comfortable future-focused lifestyle. However, this wasn't always the case.

While China has led the world's economies in centuries gone by, the last century has seen China being left behind. There are strong arguments as to why this has been. But no matter the reason, the reality is that only 50 years ago there were stories of people sucking nutrients from tree leaves in order to survive.

However, ever since the economic transformation led by Deng Xiaoping began in 1978, the economic train has not stopped running. A large percentage of the population has emerged from poverty. In 1978, China's GDP accounted for 1.8% of the global total. That number had changed to 12.3% after only 35 years ([China National Bureau of Statistics, 2013](#)). There is a large and comfortable middle class, and there are also many who, by any standards, are very rich.

Economic reform in China was carried out in two stages. First, it was the decollectivization of agriculture

lands. In this phase, farmers were allowed to operate their farms independently and strive for a profit. Their primary responsibility was to feed their families and then sell their surpluses for a profit. No longer were they entirely dependent on meeting impossible production quotas and losing nearly all of what they produced to the cities. Second, it was the opening up of the country to allow foreign investment, and that phase has never stopped. Today, in 2015, although global economic conditions have been leading many foreign companies to rethink how they manage their China investments, few of them are willing to abandon this enormously important market.

Owing to these successful moves, China has evolved to become one of the largest and most advanced economies in the world today. The country has provided perhaps the best example ever of how you go “from rags to riches.” China’s GDP has grown more than 10-fold since the early stages of the reform. Local farmers and entrepreneurs have been getting rich and a plethora of multinational companies have found their way here; all with the intention of fulfilling their own China dreams.

## OPEN AND REFORM

In 2015, China’s “open and reform” policy is in its 37th year. Multinational companies have been arriving in droves during the past 20 years. Rather as the China market has changed dramatically, so have the reasons for coming. Multinational companies’ business strategies for operating have gradually shifted as China has evolved. They began by tapping into the vast low-cost labor pool,