Why China Matters Now, More Than Ever

Stepan Motejzik | Nov. 11, 2017

Chinese firms continue to expand aggressively abroad, competing fiercely with incumbent heavy weights in a growing number of industries. China expert Shaun Rein identifies the key drivers, predominant sectors and human resource implications of unprecedented international growth by state-owned and privately held Chinese corporations in an interview with IRC Institute.

In your newly released book, "The War for China's Wallet", you talk about how the Chinese government is pushing state-owned enterprises to expand overseas with initiatives like One Belt and One Road (OBOR). How will that impact the Human Resource sector?

President Xi Jinping is looking to raise USD 1 trillion to invest in dozens of countries under the OBOR initiative. The scope of OBOR is audacious and aggressive -- while I think there is reasonable likelihood the Chinese government will succeed, it will be hard for many companies to manage from a human resource perspective. Right now, Chinese companies simply don't have enough management talent to operate across dozens of different countries led by diverse ethnic and religious groups. Most of the decision-making is still centralized at the CEO or founder levels. As companies set up shop in other countries, they will need to recruit and retain the right country heads and regional leaders.

Chinese companies, as well as corporations from nations like Pakistan and Malaysia that are part of OBOR, will need to rely on executive search firms to find the right talent quickly. I expect OBOR to bring significant benefits to the executive search industry if search firms successfully demonstrate they have access to the right talent pool.

Chinese state-owned enterprises, as well as their privately held counterparts, have been expanding abroad over the past several years. In which sectors are they investing? Is there a preference or trend in terms of the target countries for these investments? What does that mean for resource/talent building and leadership hiring?

Private Chinese companies have the capital and will pay for consulting services, especially companies in the tech sector. They understand they need top talent as they expand, predominantly into Southeast Asia and Africa. They also recognize they cannot do it alone so they will rely on executive search firms. State-owned enterprises are a tougher sell, and they are often unwilling to pay top dollar to external consultants, despite the benefits they provide.

What are the underlying reasons behind the international expansion of Chinese companies? Are they doing it organically or through mergers and acquisitions?

Chinese companies typically look to grow abroad for three main reasons:

1. To gain access to technology quicker than developing it internally. We have also seen examples in the construction industry where Chinese firms buy assets abroad. Zoomlion acquired Dutch crane maker Raxtar to move into the high-end hoisting sector, for example.

2. To acquire western brands to bring back to China. Building a strong brand can take decades, so it is easier for Chinese companies to buy brands abroad. A Chinese company bought Australian condom maker Jissbon, for instance.

3. To diversify revenue streams. Although China still enjoys strong growth, it is not at the 10% clip of years past, so Chinese companies are looking to buy assets abroad to diversify revenue streams away from China. Businesses like Alibaba and JD.com, for example, have been investing aggressively in Indonesia, for example.

It's well established that Chinese companies bring their own resources wherever they go, including people and machinery. Understandably, this is to ensure they have the same trusted skills and perhaps economies of scale in resource usage. Do you see non-

Chinese nationals being allowed into key management positions to bring strategic input to the business?

In some cases, China companies actively support promoting non-Chinese to senior executive positions. Take for example Lenovo. The company kept most of the management team in place when it bought the IBM ThinkPad Line. Similarly, Geeley automotive has injected capital and connections into Volvo but kept most of the leadership in charge of the famed Swedish automaker. In another example, Alibaba hired Michael Evans, formerly of Goldman Sachs, to be its president of international operations. Chinese firms acquire assets abroad to get brands, technology and management know-how.

What is Chinese corporate culture like and what are the common leadership traits among key leaders of Chinese firms?

Chinese corporate culture at private Chinese companies is characterized by fast decision-making with less bureaucracy than at most multi-national corporations. This allows them to adjust quickly to consumer needs, especially in fast-moving markets like China. Chinese firms like Mengniu and Yili were able to launch more new ice cream products more quickly than global competitors like Nestle, for example. These companies move very fast because Chinese entrepreneurs tend to be ambitious, aggressive and risk-taking, and will bet the farm on new products and services.

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Shaun Rein is the Founder and Managing Director of the China Market Research Group (CMR), the world's leading strategic market intelligence firm focused on China. He works with Boards, CEOs and senior executives of Fortune 500 and leading Chinese companies, private equity firms, SMEs and hedge funds to develop their China growth and investment strategies. Rein authored international best-sellers "The End of Cheap China" and "The End of Copycat China". Publishers Weekly named "The End of Cheap China" a top 10 business book for 2012, while The Financial Times called “The End of Copycat China " "Intriguing.”

Rein is regularly featured in the Wall Street Journal, Fortune and the Financial Times. His op-eds have appeared in the New York Times. He frequently appears on CNN, BBC, NPR, MarketPlace, CNBC, Bloomberg, PBS and MSNBC. Rein formerly taught executive education classes at Lon-

don Business School and was a weekly columnist for CNBC and Forbes. He also wrote a regular column for Bloomberg BusinessWeek. He holds a Master's degree from Harvard University and a BA with Honours from McGill University and sits on the Asia Council of St. Paul's School.

His new book “The War for China’s Wallet" was released on December 4, 2017, and is available on De Gruyter and Amazon.

Stepan Motejzik

Stepan holds a Master's degree in Marketing and Management from Charles University in Prague, Czech Republic.
Stepan has 15-year track record in business process management across multiple sectors. After his studies he spent five years leading nationwide projects and promotional campaigns in major Czech marketing and media agency. Then he extended his activities to a global level running global accounts in the luxury chandelier production before he felt in love with the HR industry where he remained until today, mostly being in charge of global process and project management.

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