FIVE WAYS TO MAKE YOUR CHINA BUSINESS SUCCESSFUL

Insights from Technology Industry Leaders

Western technology companies have built substantial businesses in China, but many remain dissatisfied with results to date. Plagued by intellectual property issues, the rise of national champions and the difficulty of attracting and retaining talent, many MNCs are frustrated. While there is no silver bullet for resolving these issues, there are steps technology company leaders can take to make their China business more successful.

SpencerStuart

1. Treat China as more than a market for products developed elsewhere.

Companies that simply drop products into China with little modification may be sabotaging their own success in the country — and globally. Because China is such a massive market, other domestic and international companies are already building products with features tailored for China requirements. Products that are not customized for the country will not be as competitive. If the R&D is conducted in China, it is more likely the company can adapt the products more rapidly to changes in the market, as well as create them at a lower cost locally. In fact, some companies find that products originally designed for China become big sellers elsewhere, including developed markets.

In addition, as labor costs have continued to rise in the country, the Chinese government has made it a priority to ascend the value chain. As a result, technology companies that bring good jobs to the country and inject valuable skills into the local workforce will be looked upon favorably. The government and the state-owned enterprises (SOEs) still account for a huge part of the economy, making it vitally important to be well-regarded by the government.

2. Recruit the right leader.

This point is obvious, yet bears mentioning given the unique approach to recruiting the talent that the Chinese market requires. Most companies are going after the same type of leader: an executive with the outstanding business and leadership skills required in every senior executive role, the ability to bridge the two cultures of headquarters (HQ) and China, fluency in both languages, and an equal degree of comfort and effectiveness at the top levels of government/SOEs and the executive suite. These extensive requirements narrow the talent pool significantly. In order to attract the best leader amid such a short supply, companies need to do the following:

> **Fit the job to the individual.** Don't design the job and find someone to fill it. That person may not exist or may not be available. Instead, it may be necessary to think in terms of multiple roles rather than a single leadership position. For example, hire externally for a strategic executive with good government contacts who could take a chairman of China role, and supplement him/her with a COO-type executive who might come from HQ or an internal promotion. Or hire a COO-type executive externally and deploy a Westerner to China to ensure close linkage with HQ.

> **Be prepared to pursue the right person for years.** There may be only a handful of people who meet your requirements, and not all of them will be interested when you first approach them. Identify the person you want and pursue them steadily and strategically, rather than settling for second-best.

> **Open the checkbook.** The law of supply and demand is very evident in the China talent market. The best senior executives have many choices, and companies need to be prepared, if necessary, to pay China leaders significantly more than their bosses in the West.

> **Make the company as attractive as possible.** Companies that have a clear and deep commitment to the China market perform better in the war for talent. The attractiveness of the company can also be increased by delegating more decision-making responsibility at the country level, increasing the number of functions and the importance of the work being done in China, and having China report to a senior level within the company.

3. Position China appropriately within the organization.

Given the size of the opportunity, some companies will increasingly look at China as a second home market. There are two implications to this. First, it means that China will often report at a more senior level in the organization than its current contribution to the business might justify. This is appropriate for different reasons: perhaps because the market potential is huge, or because it is becoming an R&D center, or because of the need to watch competitors that will be expanding beyond China. Second, it may mean creating country-level leadership with broad scope, spanning multiple functions. The presence of the state in China is so pervasive that the activities of an MNC benefit enormously from internal coordination and a clear direction. Thus, the establishment of an R&D operation can drive sales, while the connections of the senior sales leader can ensure tax benefits from the establishment of manufacturing operations. Without a single senior leader, it is difficult to leverage investments.

If the China leader is provided with a broad scope, reporting relationships can become complex. Having China report to a sales leader at HQ is natural for many companies, but often limits their focus on non-sales activities. The structure below this individual is also important — without even a dotted line reporting relationship, the ability of the China leader to influence various functions is limited.

4. Build China muscle in your HQ.

Gone are the days when MNCs could view China from afar and "let the local team deal with it." Given the size, complexity and global aspirations of domestic companies, MNCs need to have senior, trusted executives at HQ who have on-the-ground experience in China. When MNC leaders lack confidence in their knowledge of the market, it can slow down decision-making. Much time can be wasted persuading HQ executives to take actions that are clear to in-country leaders.

5. Use the "guanxi" of your leader appropriately.

It is a truism that relationships are especially important in China. However, hiring a well-connected executive does not mean that the Chinese government will become more accommodating to the company's business objectives. The government has national objectives that cannot be influenced by corporate lobbying. However, a skilled leader will have the connections who can provide a fuller understanding of those national objectives, and can find ways to align the interests of the company with those objectives, while possessing the access to political leadership to make such a partnership work.

A realistic definition of success

The China market is challenging, and when things do not go as well as planned, it is tempting to blame the country's leadership team. Even when there are missteps, it is important to have realistic expectations. The lack of deep leadership talent is as limiting to a company's growth in China as a lack of infrastructure in other countries. Additionally, big investments in China do not necessarily result in equally big sales growth in the short term, so be sure that whatever investments the organization makes can be sustained until the results show, perhaps years later. Companies that understand the time, patience and resources necessary for a prosperous China business ultimately poise themselves for long-term success.

We thank the following leaders for sharing their insights into the five tips for article:

Frank Meng, president of 21ViaNet, China's largest independent data center provider. Frank previously was senior vice president and president of Greater China at Motorola Mobility, and senior vice president and president of Greater China at Qualcomm.

Kao Ruey Bin, CEO Greater China of Telstra. Ruey Bin has also served as president of Applied Materials China and president of Motorola China.

Alex Yung, vice president and managing director of Amazon Web Services China. He previously served as vice president/general manager at Dell China.

Amsterdam
Atlanta
Bangalore
Barcelona
Beijing
Bogota
Boston
Brussels
Buenos Aires
Calgary
Chicago
Copenhagen
Dallas
Dubai
Frankfurt
Geneva
Hong Kong
Houston
Istanbul
Johannesburg
Lima
London
Los Angeles
Madrid
Melbourne
Mexico City
Miami
Milan
Minneapolis/St. Paul
Montreal
Moscow
Mumbai
Munich
New Delhi
New York
Orange County
Paris
Philadelphia
Prague
Rome
San Francisco
Santiago
Sao Paulo
Seattle
Shanghai
Silicon Valley
Singapore
Stamford
Stockholm
Sydney
Tokyo
Toronto
Vienna
Warsaw
Washington, D.C.
Zurich

About Spencer Stuart

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 56 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

About our Technology, Media & Telecommunications Practice

Our global Technology, Media & Telecommunications Practice has helped build the leadership teams and boards of a number of preeminent companies around the world, as well as emerging players beginning to make their mark in the industry. Over the past five years, we have conducted more than 4,100 senior-level executive searches and board director assignments worldwide in the technology, media and telecom sectors. Our specialized knowledge, coupled with far-reaching access to the most sought-after leaders and rising stars in the sector through our personal contacts and global network, has made our consultants the industry's preferred advisers on leadership issues.

Social Media @ Spencer Stuart

Stay up to date on the trends and topics that are relevant to your business and career.

@Spencer Stuart