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Can Jack Ma Survive in MNCs?

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January, 2016

Preface

For the longest time, multinational corporations (MNCs) operating in China and hoping to capture the China prize have been saying that their top priority is on recruitment and development of human capital. Most have underscored this belief by committing to "localization." Since the early 1990s, MNCs have been the employers of choice for China's bright, young talents. However, that is now changing. Would MNCs still be able to attract, recruit and retain top Chinese talents going forward? What should they do?

Nowadays in China, Jack Ma is a household name and globally, his name is increasingly carrying greater weight. When foreign heads of state want to meet with a Chinese business leader, they are most likely going to reach out for Jack Ma. Over 15 years ago, Ma built Alibaba from scratch and today it is one of the largest internet companies in the world. Last year, Alibaba's IPO smashed all records as the largest IPO ever to list in the U.S., and today, Alibaba has already ventured out from its core e-commerce business to dabble in different industries. Ma himself now counts as one of the richest, if not the richest person in China. While different people may have different views on Jack Ma's business approach, his ability in guiding his company to exponential growth is legendary.

Many multinational corporations (MNCs) have for years possessed an acute interest in China's market. This interest took off in 1992, when Deng Xiaoping's then "southern visit" speeches spurred on a large influx of foreign MNCs to dive into China. Back then, many of these companies had a simple notion and that was, "Because every Chinese person needs a toothbrush, entering China will give us a 1.3 billion toothbrush market." Of course, in hindsight, such a mindset is overly simplistic and rather naive. Yet, it was this simplistic belief which prompted the entry into China for many MNCs.

Foreign companies, especially larger corporations with storied legacies and successes in the global market often harbored a rather unsophisticated – and sometimes, even an arrogant view on China.

This perception is understandable considering the economic and political climate of China at the time – the unrest in 1989 and an economy just starting to get on its feet after four disappointed decades of planned economy. Deng's ideology of "socialism with Chinese characteristics" and the entire economic system being built around this ideology left many foreign executives at a loss.

The MNCs that came to China at this time were generally global giants and power players whose CEOs were well aware of China's huge potential as an "emerging market." They recognized that differences existed – some big, some small – between markets where they already had businesses and China. Some of them hired consulting firms or market research firms to help them better understand the market. But generally speaking, the "China market entry strategy" of MNCs was to emulate their existing global operational model in China without making (much) changes to adapt to the local market needs. Basically, the mentality was "this has worked for us everywhere else, so it's going to work In China".

This type of perspective is understandable. If a company has developed an approach that has served them well, why change it for a new market? Naturally, the more established a company is, the more successes it has under its belt. The more recognized its executives are in their respected fields, the more inflexible the company becomes, especially when it comes to international expansion to places like China.

China has certainly given many MNCs (and many locals too) its share of surprises. Every foreigner accepted as a fact that China's population was huge, the nation was vast, and the economy was developing fast. However what they often overlooked was China's incredibly long history, unique culture and deep civilization, a burgeoning private sector sprouting from a previously entire planned economy, a market that has been reforming and liberalizing, as well as swift fundamental changes to the nation's human resources. China's transition from a planned economy to a market economy has created numerous discontinuities in multiple dimensions in both opportunities and threats that are manifested in a speed, scale and manner that are not seen in the rest of the world. This process has been continuing for several decades and is still proceeding in an intense manner.

Years ago, when MNCs started pouring into China, they were the dream employers for China's youths. Compared to other options at the time, foreign companies' salaries were higher and they provided better training, often accompanied by opportunities to go abroad. Using English daily gave the young Chinese people a sense of glamor and cosmopolitism. If the company they worked for was an elite brand like Coca-Cola, Procter & Gamble, or Microsoft, just mentioning this fact to others would bring them a sense of pride and accomplishment. At that point of time, employment at MNCs was without a doubt the goal that China's best and brightest strived to attain.

In the wake of their growth in China, foreign MNCs find their standing with China's youth in a constant state of flux. Many foreign companies discovered that their development in the Chinese market was not the walk in the park they had originally assumed. There are many reasons for this, but generally speaking, it was the ignorance, and in extreme cases the arrogance, of these companies that thwarted success for many. Some CEOs would come to visit China once or several times a year and every time spend anywhere between one to a few days on the ground. Some may have spent some of their past careers at other so-called "emerging markets" such as India or Brazil. Often these become self-justifications of knowledge and insights on China. Unfortunately, these conditions by themselves fail to give a CEO real insights about China. As a result, their reliance on their past experience in other parts of the world and subsequent extrapolation into China would not enable them to capture the maximum success in this highly evolving market.

Through the years, MNCs have been pandering to the western media and American/European Chambers of Commerce that China's business environment is the key reason for underperformance. To be sure, China's business environment is not without its problems. Yet over the past couple of decades, in those sectors that were open or partially open to foreign participation, we have seen both companies who have "got it" and others who have not. Given that these companies had access to similar market data, how is it possible that decisions and resulting outcomes could sometimes be worlds apart?

In parallel, a wave of Chinese domestic players has emerged, going head-to-head against foreign companies. Compared to traditional MNC players, local players especially those coming from the Chinese private sector, are fast and nimble with a high degree of resilience, strong ability to learn and adapt to the local market. These players are particularly strong in sectors where speed, agility, and adaptability matter most, e.g., the internet sector, fast-moving consumer goods, etc. Compared to these local players, MNCs, especially the global giants, are typically slower to adapt to market changes, if they adapt at all. There are many reasons for this but inadequate local leadership is often the key reason.

For the past couple of decades, many MNCs would often claim that China is their (most) important and strategic market, and that in China they need to “localize”. However, for many, “localization” simply means hiring some token Chinese managers or in some cases, expatriates who have lived in China for a long time. These roles would have nice sounding titles like “China Chairman” or “China CEO” but they often lack full business authority or decision making capabilities. In almost all cases, these local executives are not placed at the core of generation of consistent thought leadership at the largest levels of the company for driving China’s strategy, organizations or business models, and for that matter, those for China’s role in the company’s global strategy. These considerations and decisions are, typically, in the realm of the global or regional headquarters. In most cases, the so-called “local management” is only doing execution.

Many local talents who work for MNCs after a while would find the job unfulfilling. Some of them query the MNC employers’ lack of “higher-order purpose” about while some find the relatively slow speed of decision making and a general feeling of “the HQ people just don’t get China” a real source of frustration. To be fair, there are many MNCs that are genuine in their desire to hire and groom local talents. Some even make it a strategic imperative. And, at least some MNCs really want their best Chinese managers to eventually make it to the top echelon of their global organizations. However, some MNCs are also frustrated by the locals’ inability to transform themselves into real business thought leaders and by their lack of loyalty, rightly or wrongly. For a handful of MNCs who have had the good fortune of recruiting some real outstanding Chinese talent, their CEOs or HQ senior executives often become defensive after the Chinese executives repeatedly tell them that “China is different.” For the very best Chinese, the opportunities in China are just overwhelming. As innovation and entrepreneurship are becoming more and more mainstream in China, MNCs are no longer the best employment option. If Jack Ma had joined a typical MNC 15 years ago, I doubt if he would stay for the long haul.

Gao Feng Advisory Company (www.gaofengadv.com) is a pre-eminent strategy and management consulting firm with roots in China coupled with global vision, capabilities, and a broad resources network. We help our clients address and solve their toughest business and management issues -- issues that arise in the current fast-changing, complicated and ambiguous operating environment. We commit to putting our clients' interest first and foremost. We are objective and we view our client engagements as long-term relationships rather than one-off projects. We not only help our clients "formulate" the solutions but also assist in implementation, often hand-in-hand. We believe in teaming and working together to add value and contribute to problem solving for our clients, from the most junior to the most senior.

Our senior team is made up of seasoned consultants previously at leading management consulting firms and/or ex-top executives at large corporations. We believe this combination of management theory and operational experience would deliver the most benefit to our clients.

Our name Gao Feng is taken from the Song Dynasty Chinese proverb Gao Feng Liang Jie. Gao Feng *denotes noble character while* Liang Jie *refers to a sharp sense of integrity. We believe that this principle lies at the core of management consulting – a truly trustworthy partner who will help clients tackle their toughest issues.*

About the Authors

Edward Tse is founder and CEO of Gao Feng Advisory Company. A pioneer in China's management consulting industry, Dr. Tse built and ran the Greater China operations of two leading international management consulting firms for a period of 20 years. He has consulted to hundreds of companies – both headquartered in and outside of China – on all critical aspects of business in China and China for the world. He also consulted to the Chinese government on strategies, state-owned enterprise reform and Chinese companies going overseas. He is the author of over 200 articles and four books including both award-winning The China Strategy(2010) and China's Disruptors (2015) (Chinese version «创业家精神»).