

**IMD Faculty**

Dan Denison  
*Professor of Management and Organization*  
Stewart Hamilton  
*Professor of Accounting and Finance*  
Jean-Pierre Lehmann  
*Professor of International Political Economy*  
Pasha Mahmood  
*Professor of Strategy and Asian Business*  
Howard Yu  
*Professor of Strategic Management and Innovation*

**Guest Contributors**

Ann Zhang

**Research & Development**

Michelle B. Noguchi

*In May 2012, more than 30 participants gathered at a Discovery Event to share IMD's latest research and perspectives on doing business in China. Participants included representatives from a variety of industries, ranging from finance to pharmaceutical, and a number of companies, ranging from small businesses just entering the Chinese market to multinationals with years of experience and thousands of employees. The event highlighted the opportunities and challenges of doing business in the dynamic setting of China and the associated social-political-economic complexities, and concluded with an insightful discussion on the "ins and outs" of working with Chinese counterparts.*

*Discovery Events are exclusively available to members of IMD's Corporate Learning Network. To find out more, go to [www.imd.org/cfn](http://www.imd.org/cfn).*

# Competing Efficiently and Effectively in China



## Corporate culture in Chinese organizations

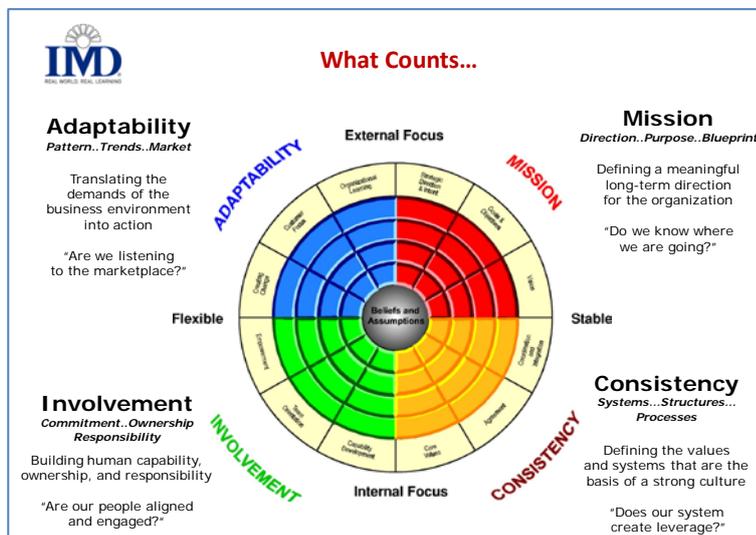
Differences in corporate culture do not only stem from geography, nationality, language or culture; corporate culture starts with the organization itself – its structure and its own unique characteristics. Professor Denison highlighted both the cultural similarities and differences between countries and emphasized the universality of difference at the firm level, stressing that China is no exception.

In organizational culture data, cross-cultural differences between countries are not significant. However, there is a huge difference between organizations. This has been demonstrated through surveys of almost 12,000 companies around the world, including 150 Chinese enterprises. Professor Denison and colleagues have studied the links between organizational culture and business performance, and specifically what makes some organizations perform better than others. They developed a model that characterizes culture at

the firm level and helps companies to diagnose cultural problems in their own organizations.<sup>1</sup>

The model represents four basic culture traits – mission, adaptability, involvement and consistency – and illustrates the contrast between internal focus and external focus, and between stability and flexibility. For example, a company's mission and adaptability are reflected in its external focus, and its involvement and consistency focus in its internal focus. Its involvement and adaptability show traits related to its capacity to change, while consistency and mission are more likely to reflect its tendency to remain stable. At the core of this model are underlying beliefs and assumptions. While these are not necessarily measurable, they are central to the organization's behaviors and actions. If a company does not understand itself, it will struggle when faced with a change or challenge such as a new competitor.

<sup>1</sup> Daniel R. Denison, Robert Hooijberg, Nancy Lane and Colleen Lief. *Leading Culture Change in Global Organizations: Aligning Culture and Strategy*. San Francisco: Jossey-Bass, 2012.



**To succeed in China, multinational corporations must turn the aphorism ‘think global, but act local’ on its head. Although they have to master the art of local operation, their behaviour must match their global standards, as expected by the Chinese.”**

**Park and Vanhonacker, 2007**

In China, the differences are most notable when comparing different types of organizations: state, private, entrepreneurial, Western. All of these types share some *similar* culture traits, but not the *same* traits. Studies in more than 50 countries, including China, have shown a lot of similarity in the change process within companies, for example.

Going beyond the research and looking at country-specific influencers, Professor Denison highlighted three well-known, but frequently not well-understood, elements essential to a manager's success in China: the importance of face, protecting your intellectual property and the influence of the Communist Party.

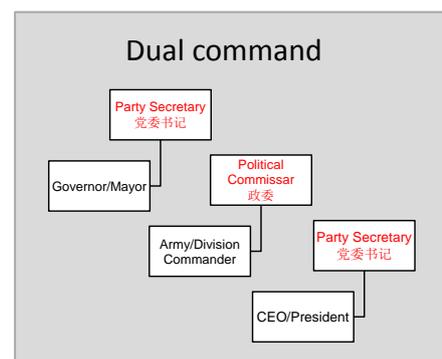
### Dealing with the Chinese government

In response to participants' expressed desire to gain a better understanding of the government's role and "the seemingly invisible hand" it has in business, Professor Mahmood took the floor. He highlighted how the Chinese government – renowned for its unique political and economic grayness – can sometimes act as a facilitator of businesses and sometimes as a competitor. China limits private enterprises to "strategic" industries such as machinery, automobile and chemicals.

He observed that according to the third clause of the preamble to the Constitution,

the leadership of the Communist party of China is central to its socialist modernization. "Under [...] the guidance of Marxism-Leninism and Mao Zedong Thought, the Chinese people of all nationalities will continue to adhere to the people's democratic dictatorship and follow the socialist road, steadily improve socialist institutions, develop socialist democracy, improve the socialist legal system and work hard and self-reliantly to modernize industry, agriculture, national defense and science and technology step by step to turn China into a socialist country with a high level of culture and democracy." In China's state/government structure, "the Party" is not a physical entity represented like the legislature or judiciary. It is embedded in the public and private sectors and is not merely present, it is an authority acting in parallel, as shown in **Figure 1**:

**Fig. 1: The Chinese government's "invisible hand"**



### The Chinese Pecking Order

Three articles in the Constitution explicitly reinforce the Chinese "pecking order": The Party first, the State second and the People as a collective last.

- **Article 1.** The People's Republic of China is a socialist state under the people's democratic dictatorship led by the working class and based on the alliance of workers and peasants. The socialist system is the basic system of the People's Republic of China. **Sabotage of the socialist system by any organization or individual is prohibited.**
- **Article 5.** The state upholds the uniformity and dignity of the socialist legal system. No law or administrative or local rules and regulations shall contravene the constitution. All state organs, the armed forces, all political parties and public organizations and all enterprises and undertakings must abide by the Constitution and the law. [...]
- **Article 6.** The basis of the socialist economic system of the People's Republic of China is socialist public ownership of the means of production, namely, ownership by the whole people and collective ownership by the working people. [...]

Making the distinction between state-owned and private enterprises, Professor Mahmood indicated that the role of the enterprise and the role of the state are also at odds when economic prosperity comes in the absence of political openness. He emphasized not just the role of the central government but also the consequence of the local. He cited Hyundai, the South Korean car manufacturer, as an example of "becoming an insider": Once it received the government's approval, Hyundai built its factory in China in six months, a process that normally requires two to three years. It attributed its fast entry to understanding policymaking procedures in China in order to prepare itself for the changes ahead of its competitors.

Even six or seven years before it ventured into China, Hyundai had had developed a pool of talented expatriate managers for future operations in China. These managers learned Chinese, and some were sent to study at major local universities, where they made connections with important stakeholders in Chinese society.

China's investment model is also unique – saving vs. spending. Household wealth is managed by state-owned banks, with the government backing its own corporations. The notion of state capitalism, however, varies significantly across the country due to local law, subsidy levels and access to credit (see **Figure 2**).

While Beijing and Shanghai have clearly prospered under this model and for a time this equation brought significant and positive growth, China's model now needs to change to concentrate on consumption not savings. Given the projected and exponential growth in China's urban population (more than 500 million in less than 20 years), could this present an opportunity or will it be a problem?

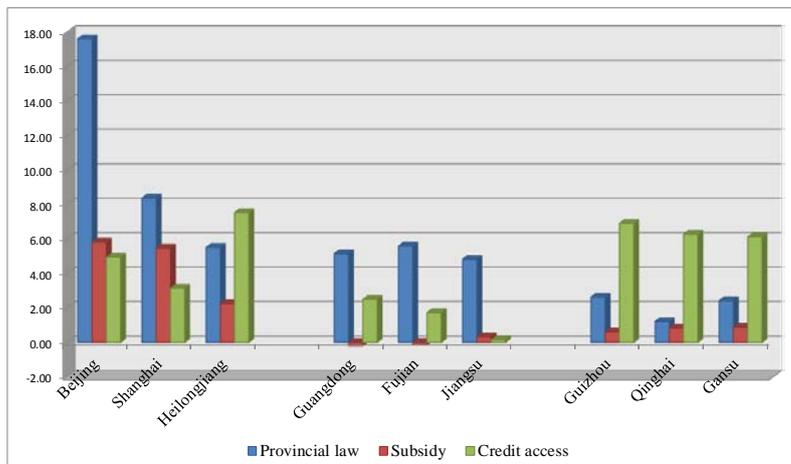
### Times and values in China's global paradigm

The International Monetary Fund's description of China's "triumphant trajectory" captures the fact that during its 30 years of reform, China's GDP has doubled every seven and a half years. However, as Professor Lehmann cautioned, although this is impressive – both in speed and in growth – it was relatively easy since the nation added capital first and then followed with labor.

China now faces its most daunting period, moving from a low- to a middle-income base. Many countries, like Brazil for example, have got "stuck" here. This is often described as the "middle income trap."

China is well aware of this potential pitfall and is shifting gear from a low-value to a high-value economy through its 12<sup>th</sup> Five-Year Plan (2011–2015). The plan strives to achieve balanced growth emphasizing social harmony and sustainable development and has the following goals:

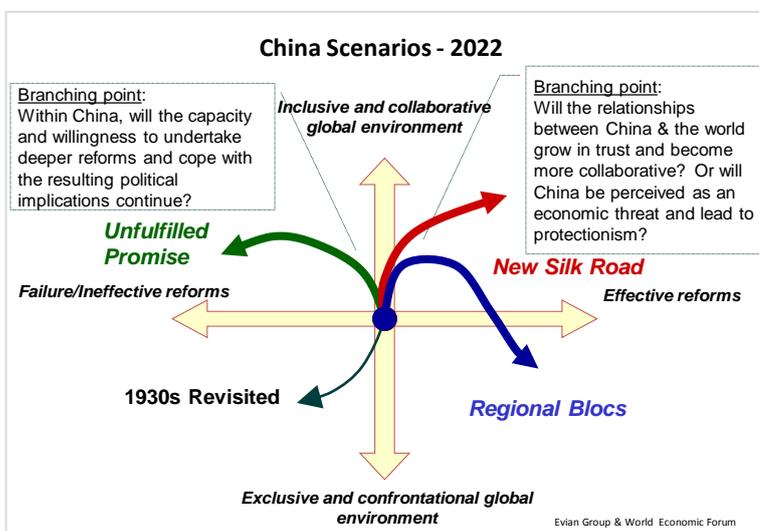
**Fig. 2: Institutional variations across provinces**



- Slowing growth
- Increasing domestic consumption
- Boosting "strategic emerging industries"
- Investing in environmental protection and energy conservation.

Even though the overall picture is encouraging, Professor Lehmann remains anxious about China's ability to reform and succeed. Is it possible to have an open economic system with a closed political system? China *will* change and move toward pluralism, but it will be a bit of a rollercoaster ride. There are two scenarios of what China might be like in 10 years' time: 1) if it repeats its past mistakes, and 2) if it learns from its mistakes and becomes a global leader (see **Figure 3**). Corporate culture can both help and hinder this process.

**Fig. 3: Potential scenarios for China in 2022**



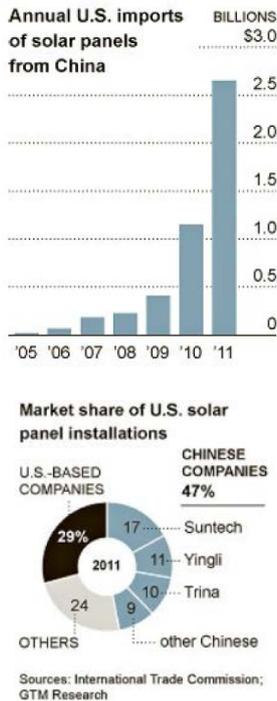
## From imitation to innovation

For his part, Professor Yu optimistically anticipates China's change-up and believes it has the ability to strike the right strategic balance through government, industry and regions. He explained the evolution of the Chinese business model from imitator to innovator through product commoditization and showed how modularity<sup>2</sup> drives commoditization. Modularity has enabled Chinese firms to increase their profitability and move up the value chain, giving them the opportunity to have their own brand.

Some industries have evolved from manufacturing-only businesses to service-based drivers of growth for Chinese enterprises. Suntech, the world's largest manufacturer of solar panels, is one such example.

In five years, solar panel imports from China into the US grew from about \$200 million to over \$2.5 billion. By 2011, Chinese companies had 47% market share for solar panel installations, compared with 29% for US companies.

However, as Professor Yu pointed out, there are vast differences across industries and "managers must be able to recognize the basic patterns of their own sectors... and not blindly follow others."



## Dealing with Chinese counterparts

In their session, Professor Hamilton and Ann Zhang addressed some of the concerns that participants had voiced about understanding counterparts, especially in joint venture situations where roles and responsibilities are not clearly mapped. Doing business successfully in China, like anywhere else in the world, requires investment – in time, listening and learning.

The main message was that Westerners should adjust their mindset and perspective and not just consider the negative images that news media tend to portray. "Like any country in the world, China has its problems and it is not an easy place to do business."<sup>3</sup>

Ann Zhang concluded by explaining that to succeed, you must "win hearts in China." To do this, you must open your mind, your heart and your door; build trust; respect your counterparts, compromise; seek and stay on common ground. All of which bring us full circle back to Professor Denison's opening premise and that corporate culture in China is not specific to China and is no different from anywhere else.

## DANONE & WAHAHA: A BITTER-SWEET PARTNERSHIP<sup>4</sup>

From April to December 2007, a public dispute had been going on between Wahaha and Danone. It was over their joint venture that had helped establish Wahaha – one of China's best-known brand names – and then unravelled over "allegations of double-dealing, mismanagement, and millions of dollars in profits being siphoned off by a network of secret companies". The dispute led to the Chinese president, Hu Jintao, and his French counterpart, Nicolas Sarkozy, calling on both companies to find an amicable solution.

The announcement came as the first sign of a truce that Danone had "signalled its willingness to end hostilities and try to bring Wahaha back to the negotiating table after losing several court rulings in China and facing pressure from the joint venture's [labour] union".

It was very hard to work with people who do not understand the Chinese market and culture. They only want to take the profits and benefits instead of taking on risks and carrying out their responsibilities. Therefore I decided to resign from the joint venture companies.

Zong Qinghou, Chairman and Managing Director, 2007.

<sup>2</sup> Modular products are made up of components that are able to connect, interact and exchange resources through a standardized interface.

<sup>3</sup> Hamilton, Stewart, and Jinxuan Zhang. *Doing Business with China: Avoiding the Pitfalls*. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2012.

<sup>4</sup> Hamilton, Stewart, and Jinxuan Zhang. *Danone and Wahaha: A Bitter-Sweet Partnership*. IMD case no. IMD-3-1949, 2008.