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Three Steps to Laying the Cornerstones

Many foreign companies think that they manage their Chinese partners, but it’s often a different picture on the ground in China. This chapter proposes a “Build in Three Steps” approach – namely, strategic mindset, strategic objective and added value, and corporate resources and commitment – for a more effective management of Chinese partners.

Step 1: Strategic mindset. The first step is to ascertain, and acknowledge, the need to change the status quo strategic mindset. In the case of the subject matter, this refers to what can be appropriately described as the strategic mindset of “winning in China.” The extent to which this strategic mindset is entrenched is reflected the Google search for “winning in China” where close to half of the first 100 hits relate to doing business in China. This begs the question: Is doing business in China really all about “winning”? Striving to win in China is still essential, but given today’s competitive landscape, this may not be sufficient for sustained success in China. A foreign company should also broaden its strategic mindset to think of “building” in China. Sure, winning brings quick results but it’s building that will ultimately bring lasting success in China. In looking to win, a foreign company’s strategic focus is on the management of the joint venture but in building, it needs to build on this to also include the management of its Chinese partner.

This first, and all important, step is really about assessing why there is a need to change, and move forward, from an entrenched strategic mindset.

Reality check: The often-used foreign corporate tagline of pledging a long-term commitment to the Chinese market, or the likes, suggests
that many foreign companies have indeed moved to the strategic mindset of “building.” Think again. It seems every other foreign company is committed to China these days. Therefore, the acid test for the strategic mindset of building in China lies in Steps 2 and 3, where the corporate tagline translates to actionable steps. If a foreign company stumbles here, the corporate tagline will remain as nothing more than corporate rhetoric.

**Step 2: Strategic objective and added value.** A foreign company should ascertain gaps between its strategic objective and added value against those of its Chinese partner. Gaps are widest when a foreign company’s efforts are targeted at winning, and narrowest in the case of building. Typically, the gaps are reflected and evident in a foreign company’s Chinese approach in four ways. First, a foreign company that is looking to win will manage its joint venture with a view to selling its products in the Chinese market; but a foreign company that is building will also manage and sell its strategic added value to the Chinese partner. Second, a foreign company that is looking to win will manage its shareholder and investor expectations back home; but a foreign company that is building will also manage its Chinese partner’s expectations in China, and typically over a longer timeframe too. Third, a foreign company that is looking to win will integrate its resources and core competencies with that of the Chinese partner; but a foreign company that is building will also look to align its strategic interests with those of the Chinese partner. Fourth, a foreign company that is looking to win will deliberate upon the question of control in crucial areas such as shareholding, management and brands, solely from its own perspective; but a foreign company that builds will also consider the impact of control on its Chinese partner’s strategic objective and added value. This, the second step, is about assessing areas where changes are required in order to move forward.

**Step 3: Corporate resources and commitment.** It is action time and a foreign company must commit resources to become a builder, that is, it must “lay the cornerstones.” Managing Chinese partners is more than an interpersonal cultural exercise in giving “face” and keeping “guangxi” – much more. Long-established as important for business in China, “face” and “guangxi” remain as important as ever, but laying the cornerstones also requires a foreign company to allocate corporate resources, and equally important, the steadfast commitment of its shareholders and top management over a long-term time horizon. Therefore, the new, expanded, boardroom