

## Under New Management — Chinese Corporate Management Is Changing Fast

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“Five years ago, all I had to worry about was producing enough to earn a small profit. Now I spend time dealing with employment issues, environmental regulations, tax policies, trying to increase market share and staying ahead of competitors. The pressure is much worse. ”

Welcome to the suddenly changed and increasingly pressured world of Chinese corporate management.

This comment comes from the boss of a large, integrated chemical factory in Shandong. He and I were talking recently. He is still a relatively young guy of around 40. But, in his 15 year career as first an engineer, then a manager and finally as factory boss, he has seen the purpose, methods, scope, goals and responsibilities of Chinese management change from top to bottom.

Like much else in China, company management has undergone a lifetime's worth of change in a matter of a few years. It's a byproduct of larger forces at work in China's economy – the withdrawal of direct state planning and control, the ascendancy of the private sector, China's entry to the WTO and the opening of China's markets to imports, the rise of a vibrant consumer market. All of these have made planning and decision-making far more intricate and the stakes far higher for Chinese corporate managers, both in state-owned and private companies.

In the case of my friend in Shandong, he is working for a company majority owned by the state. In theory, that should make his management tasks far easier. In most cases, the Chinese government – whether at national, provincial or local level – is a very lenient shareholder. In fact, they would appear to be the ideal owner for any manager who is looking for easy ride.

In China as elsewhere, when the state is the owner, no one is really in charge. The Chinese government is not looking for dividends. Most profits stay inside the company.

Here's the paradox that Chinese managers all live with: as undemanding as the Chinese government is as a shareholder, they are increasingly demanding as a regulator and law-maker. That is a big reason why corporate management has gotten so much more complex in China. In a short space of time, China has gone from a more laissez-faire stance to one with strict environmental, tax and labor laws that rival those of the US and Western Europe.

True, these tougher regulations are not yet universally applied or enforced. But, any Chinese manager who chooses to act in total disregard of these rules will eventually find himself in deep, deep trouble.

Take labor laws. China continues to introduce new forms of workplace protection that give important new rights to hired staff and restrict the prerogatives of management. Any Chinese with a complaint over pay or conditions can complain directly to the Laodong Ju, or Labor Bureau, a quasi-state body that enforces labor laws.

The process is not without its hiccups. Management can still intimidate and threaten workers who seek redress. But, the system does work.

Example: a friend of mine worked for several years as a salesperson for an electronics company based in Shenzhen. She was paid part in commission. She did her job well. For months, then years, the boss held back the commission payments, claiming cash flow problems. This is old style China management: don't pay, offer excuses. This boss assumed he could continue indefinitely with this trickery, in part because the general view is that female workers in China are more easily cowed or mollified.

Instead, my friend quit without warning, went right to the Labor Bureau, which made one call to her ex-boss. No investigation. Just a phone call and a stern warning from the Labor Bureau. My friend got her money – about \$20,000 in total – within a week. The boss will now have a much harder time doing what he's always done – pad his own take-home by cheating workers out of what they are entitled to. Tyrannizing workers is no longer a workable HR strategy for a Chinese management team.

New environmental rules are, if anything, even more disruptive of old lax ways of managing business in China. Managers who choose to improve margins by ignoring pollution standards are risking an early unpaid retirement. Example: a client of ours is the leading environmentally-friendly paper manufacturer in Shandong. Two years ago, he had 29 competitors in Shandong. Today, he has only three.

The other 26 were shut down, virtually overnight, for violating environmental standards. The managers at those factories, most of which were around for many years, now likely understand better than most how much the craft of management has changed in China.

Elsewhere in Shandong, my friend the chemical company boss, is now making another decision that was unimaginable when he began his career: he is working on a plan for a management buyout of the factory. The business is now 65%-owned by a large local coal mine, which in turn, is owned by the provincial government.

The buy-out plan is still in its early stages. To succeed, he'll need to persuade several levels of government – no one is quite sure how many – and also take over some significant liabilities, including debts of about \$15mn. It's not clear if the current management will need to put up cash to

buy the government's controlling stake, or if, as preferred, they can pay in installments, using cash from the business.

Servicing debt and having most of one's wealth tied up in illiquid shares of one's company are other adaptations now being learned by Chinese management. Each year, their working lives grow harder, more pressured and, for the more talented and nimble ones, far more financially rewarding. Stride-for-stride with the modernization of China's economy, Chinese corporate managers have gotten better faster than anywhere else, ever.