

## Six Keys to Profiting in China

For foreign companies doing business in China, the country's booming economy by no means guarantees success

By [Erik Fyrwald](#)

*(Edited to correct information about the departure of two Alibaba executives)*

China's robust economy makes business success look easy. But the Asian country has rules, mores, and costs that multinationals ignore at their peril, as Hewlett-Packard ([HPQ](#)), Google ([GOOG](#)), and Yahoo ([YHOO](#)) painfully learned.

HP, the leading personal computer vendor worldwide, stumbled in China when it produced a line of faulty laptops and didn't fix them quickly enough. Google ran afoul of China's censors in a standoff that made international news and stopped the company's growth in China in its tracks. Yahoo relied on the parent company of [Alibaba](#), China's eBay, to run its Chinese operations. But Yahoo's business and reputation have suffered in China because of trouble at Alibaba, whose chief executive and chief operating officer resigned amid an internal fraud investigation.

These examples underscore the need to adapt to Chinese culture in order to achieve long-term success there. My employer, Nalco ([NLC](#)), as well as such corporations as IBM ([IBM](#)) and KFC ([YUM](#)), have spent decades in China learning its nuances. All multinationals in China must deal with the government's "Buy Chinese" policy, which favors domestic manufacturers. The American Chamber of Commerce in Shanghai notes China is a difficult place for foreign businesses—companies are profitable, it says, but regulation, bureaucracy, and variable enforcement standards remain big challenges.

For 30 years, Nalco has provided technology and services to Chinese industries that want to reduce water pollution and consumption and cut energy use. Our sales typically have grown 25 percent or better annually. What's the recipe for success in China? We've identified six factors: experience, flexibility, clarity, patience, employee development, and relationships. Each requires supportive actions.

### 1. Experience

Chinese culture values continuity and age. And business in China requires two kinds of experience, a deep understanding of the company and industry and seasoned Chinese leadership with political and cultural savvy. The "multinationals that have performed well in China have tended to leave people in place in the country for years," noted Edward Tse, Booz & Co.'s chairman for China, in *Strategy + Business* magazine.

Nalco's China managing director, an American, has worked in Shanghai for seven years, following 25 years of increasing responsibility for multiregional growth. His successor likely will be native Chinese. Most of his managers are Nalco veterans of Chinese origin, with an average tenure of 10 years. We have trained and developed the workers and given them increasing responsibilities.

China's regions have widely varying demographics, regulations, resources, and cultures. For example, water is scarce and of poor quality in Shandong Province, so we understand the key needs are improving quality and efficiency there. But Jiangsu and Zhejiang provinces have abundant water supplies, and the key issue is meeting a strict zero-discharge phosphate standard. In addition to experience working with officials at the national level, foreign companies need skilled and knowledgeable local teams that understand markets and competitors and that can build relationships with government officials regionally and locally.

### 2. Flexibility

Trust your experienced China team to adapt your business model to local conditions. Chinese employees can thrive when their employer balances global business cultures with local practices. KFC arrived in China in 1987 and spent 10 years molding its menu and operations to local tastes. In China's KFCs, in addition to fried chicken, one can purchase a thick rice soup called congee as well as egg tarts, a dessert long favored in Hong Kong and [Macau](#). KFC now has nearly 3,000 restaurants in 450 cities. Succeeding in China often requires giving local managers unusual autonomy.

### 3. Clarity

Rapid growth requires clear roles and lines of authority; otherwise it can breed confusion and anxiety. For example, we told employees our five-year sales target was \$100 million in China. We exceeded that in three years and more than doubled our employees in two and a half years. As a result, employee confidence and enthusiasm grew dramatically. With all this new talent and progress, however, employees were confused and anxious about who their bosses were. We had to provide more clarity about their roles and place in the hierarchy. Dotted-line relationships did not work well. Many companies that succeed in China—IBM, Coca-Cola ([KO](#)), Honeywell ([HON](#)), and Goodyear ([GT](#))—have integrated their Chinese businesses into worldwide operations. Chinese employees have well-defined career paths in these companies and an essential role in their growth.

### 4. Patience

Effectively managing employees in China can require more patient communication and guidance than elsewhere. Our workers in China tend to be younger and less experienced than those in other countries, and China's rapid growth means we must conduct business faster. Still, we must resist the temptation to give direction in the management shorthand suitable for more seasoned staff. Language barriers necessitate careful and complete explanations. For instance, we told our Chinese sales force we must "drive top-line growth," and we got more sales—but not more profit. We refined the message to "drive profitable and sustainable growth." The result was 15 of 16 quarters of consecutive sales and profit expansion, while reducing overall sales-force attrition. It's not what is said that matters. It's what is heard.

### 5. Employee Development

Competition for staff is intense in China. Companies in the American Chamber of Commerce survey ranked talent acquisition just below sales growth as a key challenge in China. Chinese employees are highly focused on development and advancement and want training to further their careers. China's robust economy gives them many

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## Six Keys to Profiting in China - Business...

options if they are frustrated. Nalco has employee schools for technical consulting and sales to the paper industry and for industrial water, a management and leadership curriculum, and rotational mentoring by global experts. Training, promoting from within, aggressive development, and communication have combined to keep our attrition rate in China less than 10 percent, well below the market average.

### 6. Relationships

Developing relationships matters greatly in a country as focused on trust and preference for domestic business as China. A company needs credibility that it can deliver the skills and products the Chinese need and that its solutions are better. Two years ago, Nalco created a public and government affairs team to help build our brand and create relationships. We have substantially increased our business with government-owned and government-influenced enterprises, largely because we understand better their key business drivers and how their expectations differ from those of multinationals. A key difference is that government-run companies try to do everything themselves in order to provide as many jobs as possible. Through relationships with senior leaders, we were able to get Nalco's patented technology tested in one of China's leading state-owned iron and steel companies. The test worked, and we won substantial follow-up business. Our offerings fit well with national objectives to use water more efficiently in industry and reduce pollution. We, like other successful multinationals, invest to show our commitment to China, recently opening our largest new plant in more than a decade in Nanjing and a new technical and training center in Shanghai.

Prospering long-term in China requires sensitivity to national interests and cultural expectations. And, by the way, we at Nalco are still learning every day and have a lot more to discover about China.

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