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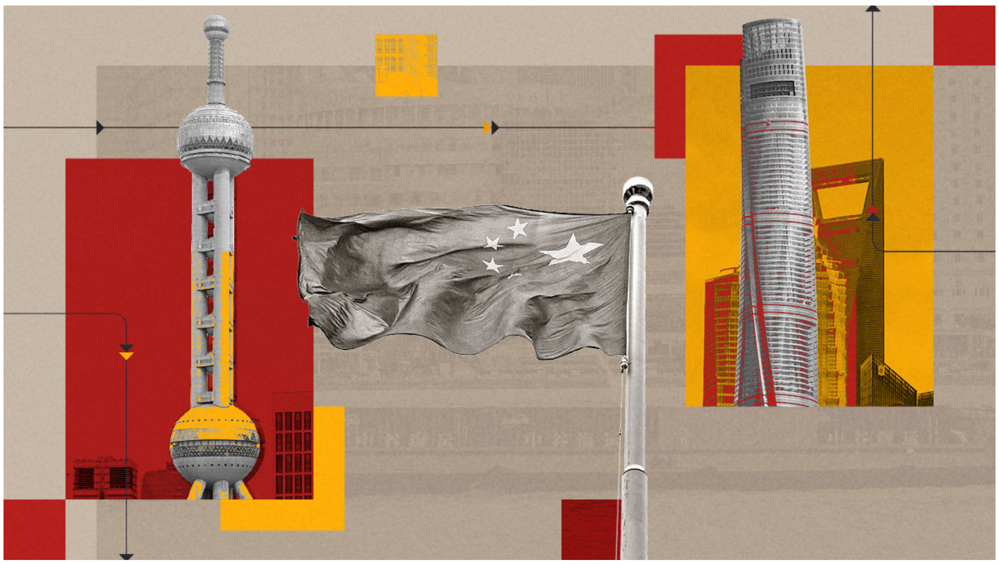
Leading Teams



Developing a Successful Business Strategy in China

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by Zak Dychtwald

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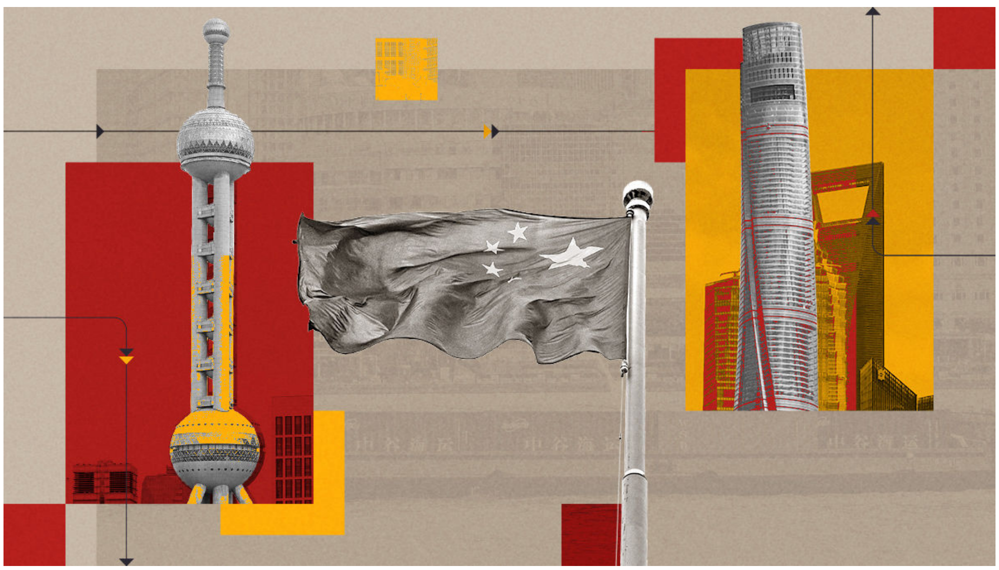

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Right now, nearly every global business is reevaluating its China strategy.

That makes sense. In an era of prolonged and prohibitive Covid policies, near-shoring and "friend-shoring," unpredictable regulatory risks, and new economic and demographic realities, it's wise to ask the question: Is it worth it for us to do business in China?

Despite the new challenges, for many businesses the answer remains "Yes." China, after all, is the world's second-largest economy and roughly the same size as the third, fourth, fifth, and sixth combined. The country will be the primary engine of global growth for the next five years, according to the IMF, contributing nearly twice as much to the global share as India, the global number two and increasingly popular China alternative. It's also the world's largest producer and consumer of electronics and electric vehicles, and the world's largest growth market for luxury goods. Sector by sector, the list goes on, with China always the global number one or two. Given all of these factors, many businesses will simply have to make China some part of their future.

Unfortunately, it's not easy to know how best to do that. China hasn't been this consequential to the global economy since the early 1800s, but the country is now more opaque than it has been at any point since global businesses really started to enter the market in the early 1990s. A lot of that has to do with the rapidly diminishing number of foreign journalists, businesspeople, academics, and executives on the ground. In 2019, there were roughly 3 million foreigners based in China, many working in the country's first-tier business centers and serving as cultural bridges between China and their countries, but today that number is said to have dropped to as low as 50,000.

The lack of on-the-ground journalism in China is particularly harmful to businesses. Thanks to visa bans and safety concerns, the three top global daily news publications, the New York Times, Wall Street Journal, and Washington Post, have had only tiny presences in China since Covid began. As a result, the world's "ground-feel" for the country has never been worse.

For China-based teams from global organizations, the implications are particularly precarious. Their trajectory for the coming three to five years looks to be increasingly decided by leaders from a global HQ who at best have been to China once in the last three and a half years, informed by information channels that provide less access and information than before the global pandemic.

So how best to proceed if you're a global business that has decided China needs to be a part of your future, or if you're on a China-based team that is supporting global HQ in that decision?

For years, I have served as an advisor to executives seeking to gain a people-first understanding of the consumer marketplace and their China-based workforce. Based in China and leading the Young China Group, I have spoken to culturally diverse executives on six continents to help bridge the gap between perception of China and experience on the ground. In this article, I'll describe some key steps that I've seen companies take to put themselves on the right track to develop the right strategy in China during this moment of opacity and flux.

Acknowledge the unfavorable perception gap.

Globally, perceptions of China are at an all-time low. These perceptions exert a continuously negative influence on global executives and teams, who feel more and more estranged from the country and market they're meant to be working in.

Most China-based teams I speak with don't understand the barrage of negative news that their global colleagues are contending with — or how that's affecting them and their country. If, as is often the case, China-based teams submit over-positive market reports, it appears to be irreconcilably at odds with the information HQ is taking in, which undermines trust. Acknowledging this perception gap will help both teams navigate it.

Global teams need recognize that there is a potentially large disconnect between how China is perceived abroad and what your team experiences on the ground. For China-based teams, recognize that though negative perceptions of China may not be your fault, they are your burden. If you do not integrate this recognition into how you advocate for your business within your global company, you will continue to lose out on resources and influence, with or without merit.

Transform general "China anxiety" into specific concerns, and then address those concerns as a global team.

Every headquarters we interact with right now has China anxiety — that is, a hazy, free-floating discomfort with China and the China market as a whole. This has been the case for years, of course, but it's more acute today than ever, and in many situations it's leading to decision paralysis.

For most of the teams we interact with, we've found that the way for them to get over China anxiety and the problems it creates is to get specific about their concerns.

Consider the world of medical devices. Global companies hold major market share in many product classes, including those that focus on the deterioration of the body. Those devices matter a lot to the Chinese, whose life expectancy has increased from around 51 to 78 in the past 70 years, opening the door for old-age disease, and whose hundreds of millions of baby boomers — the largest cohort in history — are rounding into retirement age. The government has explicitly labeled the sector a priority, but many executives we speak with are nonetheless feeling anxious about the Chinese market, where price controls, volume-based procurement, and privileging of local entities have threatened attractive margins.

Recently, to help a team of global executives address this anxiety, we conducted an exercise that we called "Anxiety Alchemy," borrowing a brainstorming tool we learned from Amazon. (For details about how we conducted the exercise, and how you can use it for your own purposes, see here.)

The questions we generated in this exercise with the global team were specific: How does the tendering process work in China? How much give and take is there with your partners in government relations? When talking to Chinese colleagues, how do you know when "yes" really means "no"? We then brought those questions to the China-based team, who had spent considerable time and resources working to educate their global peers on their market.

When we generate questions like these with global teams and then present them to China-based teams, they're consistently surprised. Often, they realize that in the work they've been doing with their global team, they've been devoting time, energy, and resources to answering different questions — ones that the global team is not concerned with.

Similarly, global teams are often surprised to learn of the frustrations of their China-based counterparts. One is that as global organizations have had precipitous drops in HQ to local in-person interaction — a major draw for top local talent — and instead have swapped in an ever-increasing calendar of Zoom meetings. What this means, as we often tell HQs, is that China-based colleagues now have to work two jobs: the first between 9:00 am and 6:00 pm, when they do their regular work, and then another from 6:00 pm to 11:00 pm, when they educate their global partners on why they're doing what they're doing during the regular day. We call this "the explanation burden" that most Chinese employees interfacing with global HQ invariably face. With increasing workload and decreasing global interaction, working at a foreign company is no longer immediately equated with better, and there's a growing (and underappreciated) risk that well-funded local competitors will poach these people away.

The lesson here is that global and China-based teams rarely know what the other needs to understand to make decisions — and they can only fix that problem by together identifying and then addressing their specific concerns.

Clarify and share your China strategy with your entire team.

Our work with the China Preparedness Index, a cross-geography collaboration diagnostic we've developed to identify and improve teamwork, has shown that team members with the highest clarity have the highest overall performance and job satisfaction. If you are committed to China, signaling to your team that the country remains a priority will reassure those who work on China initiatives. It will also help you attract and A players and keep them on your team.

The problem is that after a three-year gap in regular travel, and with such a diminished international presence in China, clarity is in short supply. So now is the time — before you set your new strategy — to lean on China-based teams to fill in knowledge gaps.

This often does not come naturally for China-based teams, who tend to be more comfortable with execution than explanation or advocacy. But if you're a China-based team, your numbers won't speak for themselves anymore, given an environment of rising macro-risks and looming regulatory clouds on the horizon. Instead, you'll need to create a clear, easily shareable vision — and then you'll need to harness the power of internal PR in making that vision known in a way that your global colleagues can understand, digest, and act upon. Only then will they be able to formulate and disseminate their own clear China strategy.

Harness the power of travel.

A decade ago, over noodles at the Cathay Lounge in Hong Kong airport, the head of strategy for a Fortune 500 organization said to me with a sigh, “You don’t truly think about a market until you wake up in it.”

That’s often true, though few would put it so bluntly. Despite the costs of our regular visits around the world, global executives have always understood the importance of regularly spending time in markets to put into place the puzzle-pieces of scattered information they receive in market updates.

This is especially true for China. Looking at China from far away, it’s easy to focus on risks, but to see it from up close is to have the potential to be excited by it. It’s that simple.

What does this mean for global teams? Expand your travel to China when possible — and go with an open mind. Whenever we’ve with global executives who are returning to China for the first time since the pandemic, we’ve found them surprised by the discrepancy between what they expected and what they see. Over breakfast, a leader of a billion-dollar public relations firm kept reiterating how surprised he was by the crowds in shopping malls, restaurants, and subways. The perception of China now, he said, is “essentially a failing state.” I asked what surprised him most. He replied, “I didn’t expect it to seem so normal.” China has plenty of problems, and doing business there has plenty of risks, but leaders need to spend time on the ground so that they can place the headlines and reports they read at home into a larger context.

If you're a China-based team, you need to encourage (and even fund) executive trips to China. This will directly impact your resourcing and influence on strategy. Remember that most global executives only truly think about a global market when they wake up in it. Bring them here and remind them of the opportunities that they're investing in.

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Any company thinking about doing business today in China is facing a number of tough decisions, made tougher by difficult geopolitics and a lack of visibility on the ground. Most often, the best tool you have available to you is your very own China team. But for China-based teams to play a larger role in your strategic process, they have to understand the overall perceptual climate back at headquarters, help make clear why your business ought to recommit to China, and know and then provide answers to the questions your team needs answered. Of course, seeing is believing, so returning to China in person after long years of absence is an essential step for global executives. That's the only way to make measured judgements on how to re-engage with the world's second-largest economy.

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