

Introduction

Why We Wrote This Book

This book is based on the experiences of two (very different) businessmen. In 1994, within a few months of each other, the two of us, Anders and Johan, arrived in China. Our missions, support and starting conditions could not have been more different: as the newly appointed 50-year-old boss of world-leading multinational toolmaker Sandvik, which ranked 650 on the Forbes 2000 list of global corporations, Anders was charged with building a profitable China operation for his company; Johan was a 30-year-old aspiring entrepreneur without any existing organization or support. Anders did not speak a word of Chinese; for him, China was yet another posting in a successful international career at a global corporation. Johan, on the other hand, was becoming fluent in the language and culture after having spent two years studying chemistry at “the Harvard of China”, Peking University, and traveling extensively around the country, meeting people in most of the major cities and even spending time among poor villagers in the rural hinterland.

China is a fascinating civilization, and a fascinating place to do business. For Anders, China was the chance of working with young, malleable recruits and shape an entrepreneurial subsidiary almost from scratch. In this process, Anders could leverage the experience, systems, structures, and financial resources of a leading multinational, but he also quickly came to realize that most management tools had to be adapted to some extent to be suitable for the Chinese market environment.

For Johan, China was the opportunity of a lifetime — a dynamic market with huge potential that would allow a young

entrepreneur enormous freedom in building a company from scratch. Building a business did not come easily. Johan started, and shut down, a music record company and a trading company before making his third venture, Eastwei, a local success. Johan's companies have had to rely on money generated from the businesses themselves. There were no senior managers to rely on, no home organization to finance local expansion.

Over the last 10 years, we have been able to prove, each in his area, that it is possible to succeed as a foreign businessman in China. Anders built Sandvik's China business from a 30-person affair with turnover of less than 10 MUSD, to a thriving, profitable group of companies with more than 600 employees and revenues exceeding 200 MUSD. Johan's PR firm grew to a local leadership position with over 100 employees in four offices across China.

When, at the end of the 1990s, our paths crossed as board members in the Swedish Chamber of Commerce, we therefore quickly discovered that we already had many experiences in common. As our friendship developed, we often discussed Chinese business and management and gradually came to see that there were similarities in the way we ran our companies, similarities that were independent of different industries and company particulars.

1. Understanding and Managing China-Specific Issues

We found it particularly interesting that despite the differences between industries and detailed management styles of our companies — professional services on the one hand and the manufacturing and sales of industrial products on the other — and the fact that we did not share many superficial similarities in systems, processes, and structures, our basic recipes for success were remarkably similar. We discussed these lessons with managers from other successful companies in China and found that they often agreed with our viewpoints.

In this context, it is worth pointing out that in global business, we believe that there are more similarities than there are differences, but if we had chosen to focus on the similarities, we would perhaps have chosen a title like *How to be a successful manager (anywhere)*. In our experience, there are unique characteristics of the Chinese market that need to be taken into account if one is to manage a China operation well. These are of two types: specific factors linked to local market conditions and Chinese business culture, and general aspects of working in an environment characterized by exceptionally fast growth and rapid change. The gaps in language and culture, as well as persistent myths surrounding the market, sometimes make it difficult to see these differences and similarities for what they are.

To succeed in China, we believe that managers need to

- Understand the fundamentals and characteristics of the China market; differences and similarities between China and other markets; differences within China; and the fact that China has changed and is changing fast.
- Adapt global business strategy to the Chinese reality while carefully maintaining integrity.
- Involve themselves directly in execution and control.
- Communicate effectively with head office to maintain understanding and support.

Some or all of these statements will be familiar; a few may even feel hackneyed. But we will try to use this simple framework as a backdrop for providing concrete and specific advice which we hope will help managers interpret the local business environment and support day-to-day decision making.

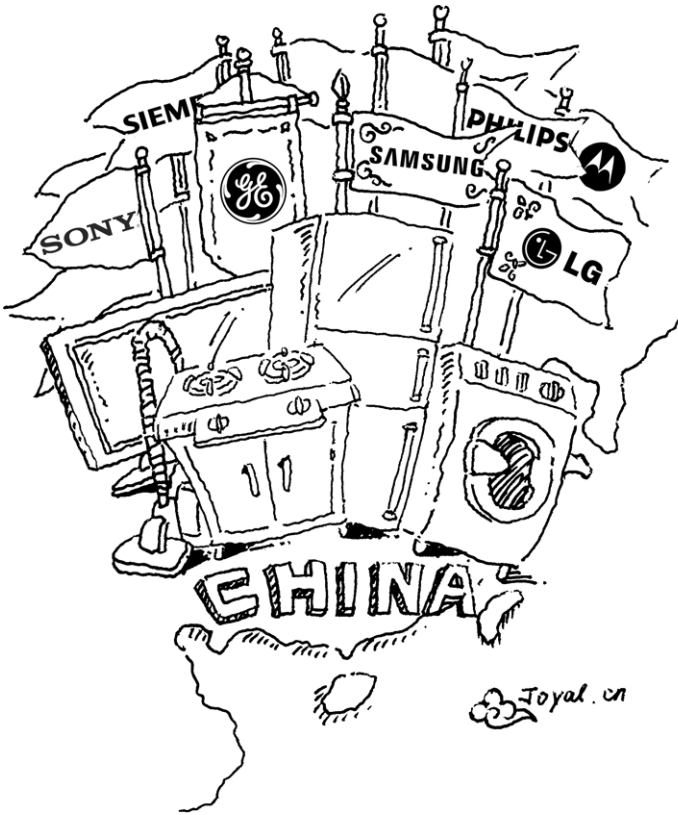
2. China Holds Lessons for a Globalized World

As we started writing the book, however, we came to another, even more interesting conclusion. We have come to believe that the

Chinese experience offers important general lessons for what it means to work in a globalized business environment.

Some areas in China are tightly regulated. But the majority of industries and segments of the Chinese economy are actually some of the most open, and therefore most competitive, markets in the world. Take, for example, household appliances. In developed countries, markets have been dominated by a few brands with strong, locally established businesses: Whirlpool and GE in America, Electrolux and Siemens in Europe, National and Hitachi in Japan, LG and Samsung in Korea. But in China, *all* of these companies are present — together with dozens of aggressive local competitors, formidable challengers by dint of aspiration, flexibility and locally entrenched markets as well as sheer hunger and determination to succeed at almost any cost. In banking, the major multinationals are slugging it out to get a head start while competing with burgeoning local giants. The car market typifies the experience of other industries: a prolonged period of heavy, loss-making investment followed by intense competition and then by oversupply as first Chrysler, VW, GM, Peugeot and Toyota, and finally almost everyone else, went head over heels to establish a presence and build market share under the intense scrutiny of hundreds of hungry, fast-learning local competitors, many of whom had international ambitions and some of whom had different ethical standards.

As markets around the world open up, these Chinese industries offer case studies that point the way to the future. We have come to think that China is a “time machine” that will allow industry leaders to better understand, and prepare for, the future of business in their home markets as they become increasingly exposed to competition from emerging countries. We also believe China can work as a greenhouse for training future corporate leaders in an increasingly competitive world — expatriate managers trained in the challenging Chinese environment as well as highly educated and hardworking Chinese employees being trained for positions abroad.



We believe China has profound implications for business in the 21st century — not only because of the direct effects the country is having on companies around the world, but also because China itself offers a case study in globalization and thus of a future, more competitive, business environment. We hope that you will agree with our conclusions — and that you will enjoy sharing some of the fun we have had, and the challenges that we have weathered, in this fascinating country.