The Rise of China’s Corporates

*A number of Chinese companies are investing and acquiring businesses across the globe. **Hellmut Schütte**, Vice-President & Dean of CEIBS, talks to Criticaleye about the leadership challenges they need to overcome*

A large number of Chinese companies are investing and acquiring businesses around the world. Hellmut Schütte, Vice-President and Dean of China Europe International Business School (CEIBS), reveals which companies are getting it right and how the rise of China's corporates is increasing competition for Western companies.

Why are Chinese companies looking to expand internationally?

Right now there is momentum to go beyond the country's borders and the Chinese Government is pushing that. But many Chinese companies are still hesitating. Why should they expand globally when the Asian markets are booming and Europe has matured?

Twenty years ago we had a similar thing with Japanese companies, there wasn't as much investment going into the country but all of a sudden the local companies began expanding.

I remember running executive programmes for senior managers and half of them were worried about being taken over by Japanese companies. It's difficult to say whether we will see something similar with this because the Japanese have, to some extent, gone home again; it hasn't been a great success story.

Which Chinese companies standout for you in terms of their strategy for global expansion?

Typically, I would say those companies which expand organically are the most successful. Companies often look at M&A to cut corners and move faster, but when they don't have the management capability, it can be lethal.

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The communications multinational Huawei has done quite a few acquisitions but fundamentally, it grows organically. It has around 5,000 people in the UK alone and many offices around the world, including extensive R&D activities in several European countries.

That said, I can think of very few other Chinese companies that are growing successfully and organically. Of course to properly judge this you need to watch a company for five or ten years.

There have been some acquisitions, such as when Sunseeker Yachts was bought by Chinese property developer Wanda. House of Fraser, one of Britain's oldest high-street chains, was also bought by China's Nanjing Cenbest under the Sanpower Group. To me these are trophy investments, as the companies have very little synergy.

How are Western companies responding to the increased competition?

The rise of China has brought along this phenomenon of powerful Chinese firms and the Western business community is wondering in what sectors they will become dominant. I can already see [Chinese companies] becoming competitive players in construction, technology and ecommerce.

It's particularly interesting when we look at internet companies, such as Alibaba, which floated on the New York Stock Exchange this year and with a record $25 billion (£15.7 billion) listing. So far it is very China focused, but could this become another Google or eBay?

Is this changing approaches to innovation?

When it comes to innovation I think the Chinese, in many industries, have been much faster to move. They focus on getting things good enough – they just want to get something out quickly and see if it gets any sort of market share and then improve. Typically, the West is too slow.

Taking Alibaba as an example again, the company is now moving into banking to the great horror of the established banks, which are very far behind in terms of technology. On China's biggest online shopping day, 'Singles Day', which is on 11th November, Alibaba had 402 million unique visitors to the site and prepared 152 million parcels for shipping. Now imagine what type of IT system that requires.

Speed alone is clearly a competitive advantage of the Chinese. [Many] stores are closed on Sunday in the UK; meanwhile it's teeming in Shanghai. It's the ecosystem; everybody in China is always in a hurry. There is a price to this though, because quality can suffer: we all know answering fast does not necessarily mean that you get it right. ▸

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Are Chinese companies underestimating the difficulties of M&A integration?

Yes. Many companies have a large amount of money and you can argue that having too much money is dangerous. That's pushed further by the intermediaries: the investment banks, consultants and so on, who are strongly engaged in the financial transaction. Buying a company is one thing: integrating it into your own operation is much more difficult.

To come back to Japan, when its corporates were making acquisitions there were some huge failures. It's something which is totally forgotten. If we go back to the early 1980s, eight of the ten largest banks in the world were Japanese. I imagine today people cannot even remember the name of a single Japanese Bank.

Are there concerns about global leadership skills in some corporates?

China is, historically speaking, a new player in international business. When you look at the inside of companies, especially the older leaders, they are people who may have never been abroad, let alone have international management experience.

The junior managers may be different because quite a few Chinese managers have been educated abroad. However, in Asian companies where hierarchy is important, those managers have little final say. Everything has to go back to headquarters but HQ doesn't really know what to do. That's something which is very difficult to overcome.

Let's just take a company like Unilever or Shell, these companies have been in Asia and China for more than 100 years. You would expect them to get this right

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because the senior management level in these companies will have worked in several countries. For Chinese companies operating abroad, this is unheard of.

What needs to change?

My clear statement is there are no shortcuts in internationalisation – it's a slow process.

When you look at multinationals there has been the conflict between global and local, in terms of how do we both integrate and standardise our operation, while at the same time responding to local needs. That is also reflected in the question of centralisation and decentralisation. Ever since multinationals have existed, there has been this tension between subsidiary and headquarters. I see something new coming, and I would call it re-centralisation.

For Western companies, you may have a member of the board who sits in Asia and I think that's a smart decision because it shows that these companies are aware not only of the market opportunities, but also of the competition which exists. General Electric now has its number two worldwide in Hong Kong, Unilever also has a member of the board that sits in Singapore.

The Chinese technology company Lenovo did something comparable. When they bought part of IBM and around 13,000 American employees, 95 per cent of Lenovo couldn't speak English. Can you imagine the challenge? The CEO then moved to the US – he didn't speak English – he took his family with him and stayed for three years or so, to really get an understanding of the company. ■

Hellmut Schütte was one of the keynote speakers at the 2014 Criticaleye Asia Leadership Retreat, in partnership with CEIBS. Find out more here

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Hellmut was appointed Vice-President and Dean of CEIBS at the beginning of 2013 after having served as Distinguished Professor of Management and holding the European Chair. For thirty years he was a faculty member of INSEAD and for some years its Dean of the Asia campus in Singapore. He has been a visiting professor at the University of Tokyo, Boston University and Harvard University. Hellmut is a regular contributor to the World Economic Forum and the author of multiple articles and nine books, including the best-seller, Strategies for Asia Pacific.

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