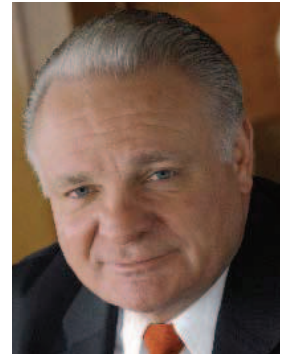


# Counting the True Cost

Finding local managers who can manage an organisation with the degree of financial transparency and integrity expected by multinational companies can be difficult. This is particularly true in a country where the concept of treating management as a science is relatively new. Once it is understood why having strong local management is so important, the next obvious question is how to build such a team.

By Jack Perkowski



“What is the most important thing that you’ve learned in fifteen years of doing business in China” is one question I’m always asked. With most subjects, it would be very difficult to boil down fifteen years of effort into one simple takeaway. In the case of my experiences in China, though, it’s surprisingly easy. Without a doubt, the most important thing that I have learned is that, if a company hopes to have any chance of long term success in the country, it must build and empower a strong local management team.

Most people assume I say this because of the language and culture. Certainly, China is a complex

country to have a strong local management team. The fact that the Chinese have a fundamentally different, and lower, cost perspective than their foreign counterparts is the real reason why it is imperative.

Let me explain with a simple story. A good few years back I took an American friend of mine to visit one of our factories in a rural area. We were fortunate enough to find a decent hotel in a city of that size. The next day, as we paid our 240 Yuan bill, I could see my friend doing the mental arithmetic: 240 divided by 8 (the approximate Yuan-Dollar exchange rate at the time) = USD 30. He exclaimed, “Wow. 30 Dol-

lars for this room! Now I understand why overhead costs in China are so low.”

lars for this room! Now I understand why overhead costs in China are so low. In other words, when my American friend looked at the 240 Yuan, what he really saw was 30 Dollars, and he concluded that the room was cheap. At the same time, my Chinese managers would have seen the same bill and come to the opposite conclusion, that it was too expensive. Same amount; fundamentally different cost perspective.

If a foreign company does not localise its management, it runs the risk of importing a higher cost perspective into the country. The factories it then builds in China may be lower cost than its factories at home but will be higher cost than those of its local competitors – factories built by managers with a much lower cost perspective. The bottom line is: If a company wants to have any chance of long-term success in China, its managers must have the same cost perspective as its customers and competitors.

Over the years, the joint venture format has fallen out of favour with most international companies, often due to

## “If a foreign company does not localise its management, it runs the risk of importing a higher cost perspective into the country”

country shrouded in mystery for many newcomers and its language presents a very real challenge to anyone allured by its vast market. But, as important as it is to have managers who implicitly understand China and are native Chinese speakers, those aren’t the most important rea-

sons for this room! Now I understand why overhead costs in China are so low.”

I didn’t say anything, but as I thought about the Chinese managers who were then running my factories, I knew that none of them would dream of staying

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problems with local partners. Instead they choose the wholly-owned company route. In this way, disagreements as to the future direction of the business can be avoided, and the company can run its China business in much the same way it runs its operations in other parts of the world.

This is unfortunate. Despite the inherent difficulties of managing joint ventures, joint venture partners typically bring with them a pool of local workers and managers that can be a good starting point for building a

or two Chinese managers, I recommend hiring two or three. Given the uncertainties of hiring managers based upon a résumé and a round of interviews, don't expect better than a 50 per cent success rate. Individuals who look great on paper may not pan out in practice or may not properly fit with the culture of the company. As the team begins to grow, word-of-mouth is the best way to further expand the operation. If employees believe in the company and its strategy in China, they will not recommend a friend unless they believe that the individual

## **“The advantage of a joint venture is that it begins with a pool of local human resources waiting to be mined and developed”**

local management team. To be sure, old habits and ways of thinking need to be broken, and the loyalties of the managers must be shifted from the Chinese partner to the joint venture. But the advantage of a joint venture is that it begins with a pool of human resources waiting to be mined and developed.

If a company eschews the joint venture route and goes the way of a wholly-owned operation, it must start building a team from scratch. How does it go about the process of finding local managers? There are no easy answers, but there are a number of steps that should be followed.

The first is to identify someone relatively senior at headquarters who is willing to relocate and take on the responsibility for China. As simple as it sounds, finding such a person can be a challenge, and sending the wrong person can set the company back. If the person from headquarters is too junior or does not have sufficient credibility with senior management at home, the company's confidence in its team on the ground in China will be low.

The principal objective of the person taking on China is to build the local management team, and this can only be done in small steps when prepared from scratch. If a company needs one

they put forward can make a solid contribution.

Assembling a team with individuals from different backgrounds is a challenge in any country. As a result, an important second step is to unite the newly built team around a common vision, values, and goals, creating a culture that the company's Chinese employees and managers can identify with.

Although the company I built in China had no global prestige to leverage at the time and was built for the local market, the management team was united through a different vision. Our vision for China was our global vision, and the culture we created in China extended to wherever we went. For a company with a long history and many operations around the world, developing a strategy and culture that is tailored to the China market is even more difficult.

The last and most important step in the process is to truly empower the local management team. When Chinese managers believe the company trusts them, and that the responsibility for building the business rests with them, loyalty skyrockets. When our hypothetical person from headquarters develops this level of trust with the company's China manag-



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ers, the job of building a strong local management team in China is well on its way. ■

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