First Person: West Meets East

As Chinese companies begin their evolution into multinationals, Western professionals share their experiences

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In this second of an occasional series, Focus International president Trevor Rahill, an expert in advising new businesses in the flavor and fragrance and food ingredients sectors, provides his insights into the Chinese and North American markets and thoughts on the execution of international expansion.

My first article in the January edition of *Perfumer & Flavorist* magazine was titled "The Chinese Flavor & Fragrance Industry—Local to Global."[*] This article shed light on the infancy of the local industry and its rapid growth, and hypothesized about the potential for global expansion of some Chinese companies. In conclusion, it was not a matter of *if* a Chinese company would take the next step to become a global player, but rather of *when*. My article also acknowledged that there were a number of hurdles that need to be overcome before this can happen.

The rise of a global Chinese flavor and fragrance company could come through some combination of organic growth, strategic acquisitions and new investments. As this global expansion unfolds, we can reasonably expect to see more and more Westerners finding themselves working for a Chinese acquirer of their smaller private company or being approached by recruiters looking to hire them to work in business units being set up in different countries. In anticipation, this article attempts to provide some answers to the questions that many people would have about working for a Chinese company:

- What would it be like?
- What should I expect if my company is acquired?
- How would I communicate with my boss? Is the management style that different from Western management styles?
- How are decisions made?

It quickly occurred to me that those best qualified to provide answers about working for emerging Chinese global players were the people who are already working for them. To find some of the answers and gain some additional perspective, I conducted a recent survey to obtain feedback from Westerners who have built their careers working for the Western global companies. They are now working for, or have in the past worked with, Chinese companies either in China or elsewhere in the world.

Of course let us not forget the many highly educated Chinese people who are working for the big Western companies. I am not downplaying their role in the future global expansion of Chinese flavor and fragrance companies, but their thoughts and insights will be the subject of a separate survey and article, as they will also be critical to the future of the Chinese industry.

Westerners Working for Chinese Flavor and Fragrance Companies

The professionals included in this category are at the vanguard of a movement that could play a very important role in helping Chinese flavor and fragrance companies as they turn their sights toward global expansion. Savvy owners already realize the importance of gaining Western expertise and are recruiting from the global industry to provide them with capabilities and Western knowledge and experience. The Chinese are very hard workers and keen to learn—and they are catching up fast. At present the number of Westerners working in the country's industry is relatively small compared to the number of Chinese people working for Western companies, but even so, their thoughts and perspectives are important.

One thing that I found was that everyone who answered the survey or whom I have met in my travels has enjoyed the experience, despite the cultural differences and frustrations from working in a different country. In privately owned Chinese companies, the boss calls the shots even at a micro level, which can create a lack of transparency to the decision-making process. On the other hand, a flatter management structure and rapid decision-making

[*] *T Rahill, The Chinese Flavor & Fragrance Industry—Local to Global.* Perfum Flavor, *36(1), 22–25 (2011);* www.perfumerflavorist.com

creates a dynamic culture that is very appealing to many respondents. Compared to most Western companies, there is a lot less nonessential activity or clutter in the day of a Chinese company. Meetings are fewer and instances of analysis to the point of paralysis are far less frequent. Not surprisingly, though, systems and procedures are not as well defined, which will hamper any Chinese company from building a global organization as the complexities of the company increase.

More than 70% of respondents saw the eventual emergence of a global Chinese flavor and fragrance company, but the top three areas that respondents see as hampering the Chinese industry from expanding are quality, lack of technology and management inexperience. The main areas of expertise of respondents is, not surprisingly, on the technical side, followed by sales/business development, but these respondents are usually not based in China. The top three areas of focus by respondents were: (1) improving the technology of their company, (2) winning new business with Chinese customers and (3) being the Western face of the company. This last point is well understood in China and is a way for Chinese companies to impress upon their Chinese customers that they have the necessary technical capabilities.

The majority of respondents relocated to China for their jobs, and more than half of them have lived in China for two to five years. The remainder lived in the country for more than five years and have made China their home—obviously this approach is not for everyone. Despite the length of time most respondents have spent in China, the majority speak very little Mandarin and so get by through translators provided by the company, or communicate through the younger Chinese staffers who speak English well. Needless to say nearly all are studying Mandarin, but it is a difficult language to master in order to converse in a business setting. The biggest issue for most is communicating with the head of the company, who in most cases speaks little English, which, as one can imagine, makes things more difficult. All respondents agreed that the experience would be much different if they were fluent in Mandarin. The respondents who are fluent in Mandarin are in a different position and can operate more effectively in a Chinese organization but that doesn't mean that there are no frustrations in the way things are done.

Respondents all have had more than 10 years of Western flavor and fragrance industry experience; greater than 60% have more than 20 years' experience, which supports the premise that Chinese companies are looking for expertise and experience to help them grow their capabilities. Good news for everyone is the fact that all respondents agree that their salary and benefits at a Chinese company are comparable or even better than at Western companies. Expat status makes a difference, and the Chinese realize that they have to pay Western salaries to attract these industry experts. In the case of overseas acquisitions, I see no reason why salaries and benefits would be adversely affected. It may even turn out that the entrance of Chinese companies may have a positive impact on industry pay.

A Lighter Touch for Post-merger Integration

I recently read an article from McKinsey & Co. (*www.mckinsey.com*) concerning Asian M&A outside the region's borders that showed that many Chinese companies were much less hands on with their acquisitions than other regions. I think this supports the view of the different cultural impacts in management style. The McKinsey study estimated that roughly half of all Asian deals deviated significantly from the traditional post-merger management model, which aims for rapid integration and the maximum capture of synergies, while many Asian acquisitions had an overwhelming emphasis on business stability. Asian acquirers often have priorities that are quite different from those of their Western counterparts. More accustomed to organic growth than to M&A growth, executives at Asian companies are understandably keen to minimize the short-term risk of failure. They trade the benefits of immediate synergies with the advantages of expanding into new and unfamiliar geographies, products or capabilities. Asian acquirers feel much less pressure to show short-term results to the capital markets than their Western counterparts, which also allows them to learn and take a more long-term planning view. It is not uncommon for Western companies that make an acquisition to put their own people in senior roles to control the acquisition and make sure the integration runs smoothly and quickly, but Asian companies tend to keep the existing management team and achieve effective oversight of its acquisition rather than to substitute its own judgment for that of the existing line management by micromanaging.

Difference in Leadership and Management Styles

I don't think there is any argument that there is a difference in management styles between Chinese companies and Western companies. While a lot of this has to do with culture, it also is a reflection of the stage of development of the economies and companies of China. Both management styles have their pros and cons and each could learn a lot from the other, but to say one is better than the other is not the answer. In an ideal world the best solution is somewhere in between, but it is difficult to reach this midpoint from either side of the management spectrum.

I have met quite a number of Westerners who are working for Chinese companies and bosses, and I have found that many of these people actually enjoy the experience versus that of their previous companies, where they felt they were too focused on short-term thinking and hence were risk averse when it came to thinking about the longer term. I would see this as a major difference between the China of today and Western countries in general.

The essential elements of Chinese management style are harmony, rationality and balance, which are based on Chinese traditional philosophy and culture. These qualities are deeply rooted in Confucianism and, when applied to Chinese management thinking, lead Chinese managers to aspire for business stability. Profit growth and return on investment, while the key drivers for Western managers and companies, would not be in the top three for Chinese companies. One only has to look at Chinese websites under the culture page to understand what underpins their organizations and what they see as important. Don't get me wrong, the Chinese like to see results—and quickly—but they are also focused on longer-term goals which sometimes defy logic from a Western perspective, which could be a definite advantage for a Chinese company to disrupt a market by a different approach. Through these three essential elements of management style in Chinese companies, one can see how these are not conducive to the Western style of changing management, replacing managers, restructuring, cutting costs, changing the strategy again, cutting headcount and so forth.

Leadership styles are more varied in the West, in particular in the United States, compared to China and Asia. The most common style of leadership in China is directive leadership. This is a well known style in the United States, but is declining in popularity. This style stresses the direction given by executives to others in the firm, so the leader is very much in charge. Of the nine key qualities that research shows people seek in a successful leader, I have examined a couple that stand out for this article. Decisiveness is common to effective executives in all countries. In this regard, European and Japanese chief executives are the most consensus oriented, while Chinese and American executives are more likely to make decisions personally and with their own accountability. Another is emotional resonance, being the ability to grasp what motivates others and appeal effectively to it, is most important in the United States and Europe but not so in China. It will become more important in China as living standards improve, knowledge workers become more important, professional management is in greater demand and CEOs have to compete for managerial talent. The final characteristic is self knowledge, which is important in avoiding the sort of overreach so common in the United States. This is a less common virtue in the United States than in China and so is a strength of the Chinese executive. As Asian companies rely more on professional employees of all sorts, and as professional services become more important in Asian economies, the less autocratic and more participative and even empowered style of leadership will emerge.

Conclusion

Overall, the emergence of global Chinese flavor and fragrance companies will certainly change the landscape of our industry, but at this stage it is difficult to predict exactly how. While working for a Chinese company will have its share of challenges, there will be a lot of benefits, as their dynamic approach could provide a superior competitive advantage in the West. The fastest way for Chinese companies to expand is to acquire Western companies, which will allow for a reverse percolation of quality systems and innovation that will ultimately help shape the Chinese companies to better compete against Western flavor and fragrance companies. As Chinese companies acquire assets in the West, the staff of these Western companies should not be concerned—I expect there will be no major changes. However, Chinese owners need to start building a professional management team and utilize the expertise of Western business consultants that the owner can trust to manage their global expansion. The current one-man decision-making process may work in China, but it will ultimately restrict organizations from a successful global expansion.

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