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Evolution on the Global Stage

by Edward Tse, Andrew Cainey, and Ronald Haddock

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Evolution on the Global Stage

Their raw potential is clear, but Chinese companies will have to master the imperatives of "soft power" to reach the next level of international growth.

by Edward Tse, Andrew Cainey, and Ronald Haddock

One sign that a country has a dynamic industrial base is its ability to produce companies that lead their fields worldwide. The United States has Google and Microsoft, the United Kingdom has Virgin Group, Germany has Bayer, Japan has Toyota. What can we expect to see out of China?

Despite achieving astonishing growth rates, few Chinese companies have developed brand names that are recognized beyond Chinese borders. The problem is that Chinese companies lack "soft power," an asset that every big international company exploits in one form or another. Hard power and soft power are concepts originally applied to countries by Joseph Nye, former dean of Harvard University's Kennedy School of Government; in that context, the former refers to countries' use of military and financial might to impose their will, whereas the latter indicates an ability to gain influence based on culture. In business, hard power refers to the use of scale, financial might, and a low-cost position to win business, secure acquisition targets, and gain distribution access. By contrast, soft power is the capability to attract and influence customers, employees, and, indeed, stakeholders of all kinds: to make them want to be part of the company's mission and business activities. It is based on a deep understanding of what different stakeholders value and how the company can fulfill those needs — whether through a seductive and aspirational brand, a heroic mission, a distinctive talent development approach and company culture, or a willingness to be a genuine part of the community.

This proposition is crucial, especially for companies that want to grow in the global marketplace. Customers, for instance, do not just buy the technologically superior or lowest-cost product; they seek out brands that offer emotional or aspirational connections, such as BMW's link to the U.K.'s swinging 1960s in the launch of its Mini (and enhanced by the option of putting the Union Jack on the roof or even the wing mirrors). Similarly, top-notch managers want more than stellar compensation; they want to work with the best people, enjoy personal development, and be part of a grander design. Regulators and governmental officials look at businesses not simply for their profit-making potential, but for the contribution they can make to national and local policy objectives, such as the development of the local economy and infrastructure, improvement of the environment, or creation of new jobs. Finally, even investors are increasingly incorporating perspectives such as corporate social responsibility into their investment decisions. In short, soft power embraces a company's values, whereas hard power deals with its market muscle.

In business, soft power has four dimensions. Companies can:

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- **Establish themselves as technology or innovation leaders**, as the South Korean electronics manufacturer Samsung has done with cell phones.
- **Cultivate a management/leadership mystique**, as Toyota has done in manufacturing with the 14 principles of "the Toyota way."
- **Develop a reputation as a responsible and influential citizen**, such as General Electric's emphasis on environmentally friendly products or Burger King's promise to treat animals more humanely.
- **Appeal to customers' aspirations and sense of themselves**, as Apple did in turning the iPod into a status symbol.

Most Chinese companies are still figuring out which levers of soft power to pull — and how to pull them.

They are also in the early stages of their efforts to demonstrate *values-based leadership and management*, the platform of soft power that underpins the four dimensions and is especially critical to international expansion. As companies expand overseas, they need to manage effectively in different cultures, where, for example, the importance attached to hierarchy and to personal relationships compared to that of professional relationships varies widely. Japanese and Korean companies have found this transition especially challenging as they've expanded overseas. Toyota, for instance, has announced initiatives that focus on adapting and strengthening its values in far-flung business units, such as in the United States — where Toyota's core internal processes of continuous improvement, partnership with suppliers, and incremental design are not necessarily ingrained in the local culture. Chinese companies are just starting to face that challenge.

Values-based leadership involves finding ways to motivate and inspire workforces that are as diverse in their cultural backgrounds as they are geographically. It does not require the abandonment of the home country's culture, but it does require a fresh look at management behaviors that have worked well in the home market and a reemphasis on common human aspirations, concerns, and behaviors. Companies that don't inspire their employees will find themselves challenged to keep their staff — as Japanese companies learned, to their detriment, in the 1980s and '90s when they first expanded abroad. Nomura and Daiwa, for instance, paid high salaries to attract Western talent but suffered the cost of turnover when they couldn't keep their new employees for more than a year.

Compare those missteps to the approach taken by British bank Standard Chartered: When it purchased Korea First Bank, it declared a "Korea Day" across its network in Africa, Asia, the Middle East, and the U.K.; in each country, staff took time out to learn about Korean culture and welcome the new Korean employees to the organization. The company repeated the exercise when it bought Hsinchu International Bank, a Taiwanese bank. This sort of welcome needs to be supported by the establishment of new, shared norms that take multiple cultures into consideration; these must be reinforced through senior management communication, promotion decisions, training, and incentive schemes. Companies such as Nestlé, HSBC, and GE have built this capability over decades. Chinese companies can look to such examples as models.

The Elephant's Soft Power

In their attempts to quickly establish soft power, Chinese companies might learn from their counterparts in another emerging market: India. Although the two countries and their economies have much in common, the differences are substantial. China, on the one hand, has had great success in deregulating industries at the macro level, drawing in vast sums of foreign and domestic investment. India, on the other hand, has been a leader in driving innovation, resulting in the massive growth of its software and offshoring sectors. Contrasting peer companies across the two countries indicates where Chinese companies can find sources of soft power that Indian companies have used successfully in international expansion.

For instance, consider two companies that make paint and other home decor products in emerging markets: Asian Paints in India, and Huaren in China. Although not cognizant that it was applying soft power, Asian Paints, which is more than 50 years old, has been successful at exploiting every aspect of the concept. It became a *technology leader* by building information systems that let the company do in-store tinting and offer custom colors to customers. It developed a reputation as a *management leader* by adroitly addressing some difficult marketplace challenges. For instance, when the surging Indian software sector emerged as competition for its best employees, Asian Paints launched competitive compensation and performance policies.

Asian Paints addressed *customers' aspirations* by introducing a line of paint products that came in smaller packages and had lower prices. Finally, Asian Paints has shown that it understands the tenets of *values-based leadership*. Almost from the beginning, the family-run company understood the importance of giving managers assignments in foreign countries; it now routinely brings in nonfamily members to serve as executives and board members. These traits have made Asian Paints the number one seller of paints in India and the second most recognized brand in that country, after Tata Steel. Furthermore, it has been able to apply this formula across 28 countries in various regions, including the Middle East, South Asia, and Australia, taking into consideration their diverse market needs.

Huaren, by contrast, has made few strides on the soft-power front. In its 15-year history, it has made several preliminary moves toward management leadership by recruiting foreign technology experts and sending some workers abroad for training. And it has produced its share of innovations, including a paint that is heatproof and environmentally friendly. However, the company has not considered how those innovations might be applied to markets outside the mainland and has not made the effort to sell these products globally. As the number three paint company in China (behind two foreign competitors) and a new player on the international stage, Huaren could benefit from the lessons that Asian Paints can impart.

If history is any guide, China's up-and-coming companies won't remain unknown forever. The best Chinese companies will do what American and European companies have long done and what Japanese and South Korean companies have done in more recent decades: use their strengths in the homeland to expand internationally.

For instance, companies can leverage the positive reputation that their home countries have developed as a consequence of their economic success. For U.S. consumer product companies, this has often meant international associations with the "good life" of affluent

Americans that has been reinforced by Hollywood. In recent years, many Asians, especially younger ones, have started to look to Korea as a fashionable, leading-edge country, based on its technical leadership in mobile communication and its soap operas and movies.

Similarly, China's continued growth has already started to attract attention. In Africa and Latin America, China is becoming a major foreign investor and alternative source of financing for governments and is sending many Chinese employees to work overseas. As the global community's focus turns to helping drive economic growth for the people at the bottom of the pyramid, China offers an alternative to the traditional Western model of economic success. If they act wisely, Chinese companies have a strong base from which to build soft power, combining an empathy with consumers across emerging markets, technological sophistication inspired by the world's largest mobile phone population, and cultural attraction based on a many centuries-old civilization. +

Resources

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