Jay Berry

CHINESE CHECKERS FOR YOUR PRACTICE

Where Do You Fit? How Do You Win?

Many consultants have been predicting a highly favorable environment for consultants who enter the Chinese market at this (still early) stage. All this despite some obvious reasons for doubt, such as a lack of sophistication among clients, a shortage of local talent, and a lack of professional standards so far.

At a recent consultant conference, International Data Corporation stated that 2004 revenues for consultants were US$2.2 billion, with a current growth rate of 23%. Nigel Knight of IBM China said that future growth is forecast as high as 66% per year. Klaus Schwab, one of the grand masters in the conference business (WEF), commented: "The proliferation of China meetings is natural. It is a good demonstration of the attractiveness of China!"

You may be wondering what sorts of opportunities exist in this "highly favorable environment." Let me give three examples.

Practical Business Know-How

There is a strong probability that a shortage of properly trained graduates could restrict the growth of the Chinese economy, preventing it from developing in some of the more advanced industries. So said a report from McKinsey.[1] A specific quote: "China could emerge as a base for IT and business process offshoring, but unless the country addresses its looming labor shortage now, the global ambitions of Chinese companies will probably be stymied."

That's where consultants come in, of course. They say a lack of practical skills and poor English-speaking accomplishments might make it hard for China to develop service-based industries such as information technology (at which India has achieved so much). McKinsey says that China has a pool of 1.6 million young engineers. Of these, it is asserted that about 160,000 have the operational and language skills adequate to work for a multinational. (And when some do become available, most of these are quickly gobbled up by local companies.)

The report bandies about the same figure I have seen elsewhere: In ten years, China will need about 75,000 managers with some kind of global experience. The truth is that the country has only about 5,000 such people at present.

McKinsey interviewed a large number of HR executives. They all concluded that fewer than 10% of graduates in China have the skills to work for a foreign company (compared to 25% in India). What's more, McKinsey says the type of education received in China does not really provide the practical and teamwork skills needed.

Now, I don't want to be accused of putting words into the McKinsey consultants' mouths. They did not say that the solution here necessarily is management consultants. That's me talking. I'm saying that if practical experience and knowledge of English are inadequate, the only source of this know-how plus language skills—in a hurry—is to be found in the management consultant profession.

New Counsel

A few months ago the Mengniu Dairy (Group) Co. launched a global search for new expertise. It said it is going through a major management "transfusion." In a statement, the company claims it is looking for a new "global perspective," because it is ready to "step out into the world arena." The company's advertisements appear in *Business Week* and the *People's Daily*, among other publications.

The problem was described in these terms: Mengniu is the second-largest dairy in China, and it hasn't done badly in its six years in business. But it recently experienced some slippage—the company's share value, after showing considerable strength in December 2004, dropped dramatically in June 2005 and then recovered in September—and at that time several senior executives were moved out.

Now company managers have launched "Phase Two," and they don't want to risk further disappointment. What do they need to ensure positive performance? They are being very bold about their hopes: to be one of the top 20 dairy companies in the world in only a few years. One stock analyst in Hong Kong said, "It's unusual for a mainland company to consider getting foreign help." Many investors cheer the move. Bank UBS, for example, gives Mengniu a clear "Buy" rating.

Old colleagues of mine *know* they could help—and so do I.

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Global Expansion

The Chinese government is sponsoring a "go global" strategy for Chinese companies. Chinese overseas investments were $5.5 billion last year alone.

Many Chinese companies clearly intend to increase their "outward direct investment" (ODI). One recent survey by the China Council for the Promotion of International Trade (CCPIT) showed that about 23% of companies intend to increase their external investment within the next 12 months, and this figure reportedly will increase to over 40% in the next few years. As you surely will have guessed, it's largely the bigger companies that have such plans.

Further, it is mostly publicly owned companies (not state-owned enterprises) that are planning this ODI. CCPIT identifies the areas that currently attract Chinese companies:

- 56%—Sales and representation offices
- 19%—Marketing facilities
- 13%—Manufacturing facilities
- 9%—Sourcing and distribution centers
- 3%—R&D centers.

Most investments are going into the automotive, food and beverage, and mechanical/electrical sectors.

Despite this broad-stroke list of priorities, close to two-thirds of the companies need help figuring out what their detailed operational priorities should be. (In short, they clearly have no idea.) A big slice (almost 60%) envisions mergers or acquisitions; only about 10% are thinking of upgrading existing overseas facilities.

What motivates Chinese companies in this regard? Jiang Wei of *Business News* told me they're looking for:

- Business potential
- Investment security
- Favorable tax structure
- Potential for targeting markets
- And later to come: government incentives.

So perhaps my message starts to be obvious: these people are probing the very areas my readers know best. And they are asking the very questions my colleagues are best prepared to answer! ■

Note

1. Diana Farrell and Andrew Grant (*McKinsey Quarterly*, 4, 2005).

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The Top Seven Legal Risks for Consultants

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activities and those of their employees. Any written information, whether formally or informally generated, can be considered documentary evidence if it is pertinent to an administrative proceeding or lawsuit.

When called upon to defend against a legal claim—copyright violation, discriminatory content, negligence, professional errors, or breach of contract, for example—consultants must be able to provide credible information to reconstruct events, to explain what occurred, or to substantiate their efforts to comply with applicable legal requirements. Haphazard record keeping, ambiguous commitments, or incomplete agreements are both frustrating and potentially devastating to the successful position in a legal dispute. ■

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