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What you need to know about working for a Chinese company

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Foreign executives working for Chinese bosses at Chinese businesses sometimes encounter challenges they don't anticipate.

Over the past decade and a half, I've advised many expatriate executives working for multinational companies in China. I've also advised Chinese executives working for local companies in China. But increasingly, I'm finding myself counseling a new breed: foreign executives working for Chinese bosses at Chinese companies. Most of these are privately held, and many have been founded and operated by an entrepreneurial chairman.

One thing I've observed among the multinational executives I've worked with is just how surprised they are by the very different way Chinese companies operate. Even executives who have been working and living in China for several years are still unprepared to deal with the many nuances of how Chinese companies really work.

Much of this gap in understanding is driven by the incredibly fast pace of business in China, as well as the intuition and experience (mostly successful) of the Chinese entrepreneur. It's an environment that rewards quick decisions and the agility to grab opportunities before the competition gets there first. Companies are constantly revisiting their business plans and projections. Priorities change as frequently as schedules. Change is the only constant. Here are four of the most challenging themes that multinational executives encounter when they work for Chinese companies:

1. The chairman always sets 'unrealistic' business targets.

Nowhere is the difference between Chinese and Western companies more salient than in their target setting and annual budgeting.

In Western firms, executives might look at the growth rate over the past year and then assume they'll grow by a reasonable increment—10 percent, for instance—the following year. A bottom-up analysis of microsegments and trends backs up these targets, which finally add up to the eventual one. A process between business-unit heads manages expectations, and then units strive to outperform the target so executives can earn their bonuses.

In many Chinese companies, the process goes something like this: first, let's call a brainstorming meeting (usually on the weekend) and then announce that we'll double our business over the next three to five years and enter the Fortune 100, 500, or 1000 (depending on the ambition of the chairman) by 2020. The planning department then tries to figure out how to achieve these numbers.

A lot of Western-trained executives would argue that target-setting processes like these prove that Chinese companies still have a long way to go on their path toward professionalization. While that may be true, my experience in the fast-changing environment in China today has taught me that these "unrealistic chairmen" are precisely the entrepreneurs who are making it big.

Looking back over the past decade, I'm still amazed to see what otherwise look like unrealistic plans actually come to fruition. I have concluded that setting these incredible aspirations forces a lot of Chinese teams to think out of the box and work with an entrepreneurial spirit. One very successful chairman once confided, "They told me they could go from 10 to 15 percent. I told them they needed to do 100. At the end, they managed to do 60. That's still a lot more than 15. When they start thinking about how to get to 100, it gets them out of the mind-set of just aiming for 15."

Obviously, plenty of shoot-for-the-moon ideas will never have a chance of succeeding. Equally, the way companies achieve their goals may involve quite a bit of risk taking and massive investments. But some of these ideas *do* work, and when they do, they can become incredible success stories.

2. Successful Chinese entrepreneurs believe that they can enter any line of (unrelated) business and compete—everything is up for grabs.

In the West, companies that try to get into other industries or lines of business are accused of fragmentation. Strategy departments are tasked with analyzing whether companies are the "rightful owner" of assets and need to assess potential synergies and risks thoroughly before they enter an adjacent line of business. Investors may slap a conglomerate discount on such companies and are generally skeptical toward those doing business in areas where they have no prior experience.

In China, by contrast, diversification goes by a very different name: here it's called "building the ecosystem." The best example can be found in financial services. In the past couple of years, a lot of companies that never had any previous experience got into this business in China. Tencent started WeBank. Alibaba created the largest money-market mutual fund in the world, with over $160 billion in assets under management. New Hope, a leading animal-feed company, and Xiaomi, the mobile-phone maker, started a digital bank together.

And it doesn't stop here. Wanda made its fortune in real estate but now has a huge entertainment and media business, including AMC movie theaters. Ping An owns several "unicorn" Internet companies, including Lu, the peer-to-peer lender, and Good Doctor. Several large conglomerates are developing electric cars. Alibaba, Baidu, and Tencent are competing in many verticals, from entertainment content to rental housing.

To an outsider, these moves may seem very counterintuitive, but for the Chinese entrepreneur, this is simply business as usual. While the jury is still out on these ecosystem plays—and I believe that many may not work out—for visionary and well-resourced players the Chinese landscape is a once-in-a-lifetime land grab.

3. Career paths, dictated by opportunities, are not a game of musical chairs but more like musical ladders.

Executives moving in and out of companies are not a new phenomenon. In China, however, this is taken to an entirely new level. There's a lot of executive turnover: people get promoted early, and whole teams move across industries, something we see in almost all of them. People have unprecedented expectations of moving across companies and industries for promotions, of jumping a level every year and a half. At many companies, new jobs and positions are being created every month.

Many multinational companies coming into China have a difficult time adjusting to this. They typically have more stable organizational structures, with standardized HR guidelines and processes across geographies, and have a hard time creating career opportunities that can meet the lofty expectations of Chinese executives.

The other thing that few people grasp is compensation. Chinese companies are in such a rush to grab new opportunities, they're willing to pay a premium for talent. Executives moving to new companies aren't just getting 5 to 10 percent raises. It's not uncommon for them to *double* their salaries when they jump to a new employer, because companies have become desperate for top talent.

This trend has reached unprecedented—and, many would argue, unsustainable—levels. Of course, it cannot go on forever, but it highlights the urgency that Chinese companies place on capturing opportunities. The potential for massive value creation far outweighs temporary "over-compensation" costs.

4. Chinese chairmen are obsessed with market share.

In my experience, Western executives find it very difficult to understand the singular obsession of Chinese companies with market share. Conventional wisdom tells us that companies must engage in value-creating activities to have a sustainable business. While this may be true, in today's vast, fast-growing, and ultracompetitive Chinese market, the "go for market share" strategy has been proven to work in many sectors.

Of course, companies need sources of capital that are willing to fund them during this brutal war for market share. But in sector after sector, companies that have played the market-share game have at least guaranteed their survival, if not success. This is a particularly painful game for companies that don't have deep pockets or investors willing to fund them. The "ticket to play" is an expensive one. But companies that don't want to play the market-share game risk becoming irrelevant in China. You can be right in the long term, but if you are not around then, that doesn't matter.

Chinese investors and entrepreneurs simply have a much longer time horizon for their payoffs, and perhaps a more intuitive belief in the value of brands, influence, and significance in the market. Over the past few years, investors (including many foreign investors) have supported this rather "brute force" strategy.

Of course, Chinese companies and entrepreneurs are a diverse bunch, and it's dangerous to generalize. Many of these entrepreneurs are taking on extreme levels of risk and "betting the bank" on their new ventures. As in any entrepreneurial environment, there are many more failures than successes, and we run the risk of selection bias when we read about these incredible stories. And yet, despite the bold moves and nerve-bending risks—or, perhaps, *because* of them—many opportunistic and aggressive players have been rewarded.

So you want to be a successful executive at a top entrepreneurial Chinese company? Aim for unrealistic targets; be courageous when entering new businesses; quickly create as many new roles in your organization as are needed; and aggressively go after market share. □

This article appeared on LinkedIn, and a condensed version appeared on scmp.com.

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