

How Chinese SOEs Can Overcome Communications and Cultural Barriers as They 'Go Global' – Part 1

If ten years ago, when the "go global" strategy was in its beginning stages, someone had suggested that Chinalco would invest in Rio Tinto, I am afraid no one would have believed it. Nevertheless, after 30 consecutive years of rapid growth, the rise of large-scale Chinese enterprises, especially Chinese state-owned enterprises (SOEs), combined with the 2008 global financial crisis, made it all suddenly seem possible.

However, whether it was CNOOC bidding for Unocal in 2005 or Chinalco investing in Rio-Top in 2009, SOEs' strategic acquisitions have unfortunately failed when on the verge of success. The root cause of this is neither a lack of capital or low bids, but rather Chinese enterprises - even China's "soft power" is not enough. If we say that a firm's size and financial strength are "commercial power", we must be aware that during the "going out" process, Chinese enterprises will encounter difficulties and challenges far beyond simple commercial factors. It is certain that non-commercial factors, which are more complex and in-depth, tend to play a more decisive role. This includes both political and institutional differences, but also communication and cultural barriers. More importantly, Chinese enterprises are not familiar with or capable in these areas. Compared to experienced multinationals, these are the "shortcomings" that we have to quickly make up for.

To summarize, the challenges for SOEs as they "go global" are listed as the following areas:

1. The international community knows very little about Chinese companies. For most Westerners, China is still a strange place, and Chinese enterprise and brand awareness is low. Take the Chinalco-Rio-Top-case as an example. Our research shows that before the merger, it was rare for Australians to have heard of Chinalco, let alone understand the strategies behind its development, its vision, its social responsibility and the contribution it would make to the local community. People are afraid of the unknown; a strange and powerful buyer is somehow disturbing. This explains why the majority of the Australians, on an emotional level, did not want to accept this investment. Moreover, Rio-Top is to Australia what Sinopec is to China. Would we so easily hand over our pillar enterprise to another country's buyer we hardly know?
2. The international community is still greatly prejudiced against SOEs in China; specifically, it is presumed that Chinese SOEs are involved with government. There is a major conflict between the nature of SOEs and the Western market environment. They have the financial support of state-owned financial institutions, which strengthens the perception that government activities are linked to corporate management and deepens concerns that SOEs represent the government's political interests, rather than enterprises' commercial interests. Especially when mergers and acquisitions involve energy, resources, manufacturing and other important core strategic industries, such concerns can easily turn into political pressure and a wider range of obstacles.
3. Cultural differences result in deep-rooted management problems. The ultimate goal of "go global" is not only "buy in", but also "control well". Cultural differences will be China's long-term challenge in overseas mergers and acquisitions. The case of Shanghai Automotive Industry Corporation (SAIC)'s bid for Korean-funded Ssangyong Motor is a good example. Despite the fact that SAIC took over Ssangyong in 2005 after five years of hard work and countless negotiations and restructuring, SAIC ultimately had to declare bankruptcy due to obstructions from Korean trade unions and a strong nationalist pressure. Years of financial investment and human dedication were in vain. Thus, from the pre-acquisition negotiations to post-integration, every aspect of the chain is restricted and affected by "non-commercial factors".
4. Chinese companies do not have enough "soft power". Over the years, Chinese enterprises have accumulated a wealth of experience in product development, market development, and capital operation among other aspects, but have failed in the management of "soft power". This can be seen in a number of ways, including Chinese SOEs' belief that pure expansion is enough, as well as their incomprehensive

stakeholder communications, inadequate risk assessment, and poor utilization of third-party and international consulting organizations. When large multinational companies launch a major overseas acquisition, they often hire hundreds of people from external professional institutions. These professionals manage not only legal, financial and managerial matters, but also human resources, public relations, political lobbying and other aspects of the transaction. The energy and effort of Chinese enterprises lags far behind.

How Chinese SOEs Can Overcome Communications and Cultural Barriers as They 'Go Global' – Part 2

In the last article, we discussed the main challenges that SOEs face in the process of "going global".

So, how to deal with these challenges? We believe that we should look at it from both strategic and tactical aspects.

First, from the strategic aspect, we need to strengthen the understanding of the following areas:

1. **Size up the situation and take precautions.** Full attention should be paid to "non-commercial factors". Before investing, the SOE should conduct comprehensive and detailed research about the country's politics, culture, legal system, civil society, nationalistic spirit, media landscape, environment and other areas. They should "know the enemy," predicting the various risks that may occur and thus make accurate decisions about whether they bid, when they bid, how to prepare back-up programs as well as predictions on the likelihood of success, so as to minimize risk in the demonstration phase of the project.
2. **"Food and fodder should go ahead of troops and horses" - be well prepared.** Even with full attention on "non commercial factors", if you wait until launch time to do the preparatory work for "going out," then it is already too late. Brand and reputation are the core assets of a company; they are a "soft power", a weapon for overcoming roadblocks from "non-commercial factors". But they are not built in a day. Chinese enterprises need to establish a long-term strategic vision. In order to establish truly multinational Chinese companies, they must shape their brands better in the overseas market going forward. Companies must make substantial contributions to the local community to build a reputation and gradually change the minds of overseas audiences, removing any bias. Chinese enterprises must establish "good corporate citizen" images as companies that are commercial, globalized and responsible, and will continue to be so in the long-term. Only then, after three or five years, or maybe longer, will a positive brand image be established, their own "soft power" be created, and a more favorable external environment for Chinese enterprises exist in the global market. Facts speak louder than words. This requires a long-term effort, and there is no shortcut.
3. **Integrate cultures, maintain prolonged stability.** "People" is the key to success. To maintain prolonged stability, they must win hearts and minds. This is evidenced by the fact that integration and management are especially important after the acquisition. The best cultural integration period is often at the beginning of the merger, so Chinese companies should take advantage of this time to establish a new, mutually acceptable corporate culture as the basis for long-term cooperation. This requires inclusiveness - the two sides should work together to create a "third culture". It requires managers to improve their cross-cultural awareness and cross-cultural communication skills, and it depends on sustained and effective training to build a stable, cross-cultural management team.

Secondly, the following tactical points should be focused on:

1. **Communicate via different channels and speak or act with a well-defined objective in mind.** In the expansion process, it is necessary to fully understand the role and impact of various stakeholders to avoid over-reliance on the government, board of directors or a few interest groups, and neglect direct communication with other interest groups (such as minority shareholders, trade unions, non-governmental organizations and media). It is also important to develop and implement targeted communication strategies for the demands of the different interest groups and to appoint a well-trained senior manager who understands the situation to act as spokesperson.
2. **Make the best of "third-party power".** Chinese enterprises should improve at finding and using the destination country's "third-party power" to help with communication; for instance, the local trading partners and suppliers who can benefit from the investment of Chinese enterprises or civil organizations

who have a better understanding of China and welcome Chinese enterprises. Their demonstration of the investment's benefits would have a much bigger impact and be more effective than just the words of Chinese enterprises. This requires professional analysis and planning of possible investment projects from a communications perspective. Furthermore, Chinese companies should make more friends in their daily interaction and brand communication process to gradually develop and strengthen local "strategic alliances".

3. **Build your team step by step.** Modern corporate communication is already a highly specialized field, just like law, finance and management. It is also the principal means through which a sophisticated multinational corporation creates its own "soft power" and overcomes "non-trade barriers". To meet the expectations of modern communication, in addition to building its own professional team responsible for corporate communications and brand building, Chinese companies also need to introduce professional counseling agencies that have a wealth of international experience to assist in the development and implementation of overseas mergers and acquisitions. This oversight resembles the difficulties SOEs face in creating "soft power," because it not only concerns the financial aspects, but more importantly, it is about rationalizing mechanics and changing corporate concepts. In this battle, if Chinese companies don't acquire the relevant information, knowledge and skills to minimize the communication gap, then they have almost lost the war before it has even begun. Therefore, training the team and gaining experience, step by step, are essential foundations for future participation in international competition.

Of course, Chinese enterprises have already made distinguishing achievements as they have "gone global", and in recent years we've noticed this is absolutely becoming the trend. But if we really want to obtain overseas assets and core resources, we need to follow the Chinese saying, "Enjoy a grander sight by climbing to a greater height." Only by making long-term strategic plans supported by effective tactics can SOEs win more successful deals in the future of "going global".