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International Chinese enterprises: is reputation management a silver bullet?

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The Chinese companies looking to expand overseas can face a different reception compared to companies from other countries. Sometimes they are welcomed and at other times they are viewed with suspicion. Previously, host countries balanced their need for income with China's appetite for energy and raw materials they used to fuel industrialisation and urbanisation. Today, however, host countries are increasingly worried about whether and to what extent Chinese overseas investment decisions are influenced by the Chinese government's plans for its technology industries and political agenda.

Although many Chinese say there are only three international Chinese enterprises – Haier, Huawei, and Lenovo – the reality is more complex. Official statistics show there are approximately 8,000 Chinese enterprises operating internationally in 164 countries (almost every country in the world). These enterprises have created 2.8 million jobs, 1.2 million of which employ non-Chinese. In 2016, Chinese non-financial outbound direct investment (ODI) reached US$170 billion, a 44 percent increase versus the previous year.

But in 2017 Chinese ODI declined. This was partly caused by the Chinese government reining in what they considered speculative merger and acquisition activity. The political environment also influences Chinese ODI. This is especially the case in top destinations Australia, Western Europe and the US, markets considered 'sophisticated' by Chinese investors because consumers are willing to pay a premium for quality goods and services. In Australia, the current controversy over Chinese influence has made Chinese investors more cautious, and investments in 2017 declined 11 percent versus 2016. In Western Europe, Chinese automaker Geely's acquisition of almost 10 percent of Daimler Corporation's stock through derivatives and options – thereby circumventing disclosure laws – led to significant German suspicion of Chinese motives. And in the US, Chinese ODI dropped 92 percent in the first five months of 2018 versus the previous year as tit-for-tat trade discussions got underway.

In this environment, many international Chinese enterprises are paying more attention to identifying stakeholders and building stronger corporate reputations overseas. Some are doing better than others.

'Going Global': then and now

The modern origins of Chinese firms 'going global' dates back to 1979, when the Chinese government decided internationalisation would be an essential pillar of the country's own domestic reform and development. By the beginning of the twenty-first century, a new 'Go Out' strategy (*zou chuqu zhanlüe* 走出去战略) was launched. Three shifts began at this time and continue today. First, while state-owned enterprises (SOEs) still invest overseas, public and private enterprises are increasingly part of the mix. Second, Chinese ODI is diversifying outside raw materials and secondary industries. And third, to compete higher up the value chain, international Chinese enterprises are undertaking significant reputation and brand building exercises. They are trying hard to be 'liked.'

Huawei, the multinational Chinese telecommunications and consumer electronics corporation, is determined to be number one in the consumer electronics industry by selling its top range of smartphones. The corporation has hired leading branding 'gurus' affiliated with Harvard and Oxford Universities to help them identify and forge a new company mission and vision to show to the world. While their network business is under intense scrutiny by overseas governments investing in infrastructure, and the US remains closed to them, their consumer business is doing well elsewhere.

This focus on reputation is also observed inside export-focused manufacturers at the factory level. With orders drying up as customers source from markets like Vietnam – where labour costs are lower – many factories respond by embracing marketing. They outsource the task of creating company stories and mission statements to a new industry of consultants who funnel their goods to e-commerce ecosystems such as Amazon. This allows Chinese factories to woo the Western middle-class consumer directly.

The Chinese government is well aware of the benefits of international reputation management, and SOEs operating overseas are under pressure to do more. The State-owned Assets Supervision and Administration Commission (SASAC), a body responsible for managing SOEs, believes many SOEs are "large but not strong." Earlier this year, SASAC issued a call for SOEs to build their overseas reputations by better understanding their stakeholders.

Though SASAC did not originally name any corporations directly, ZTE, the multinational Chinese telecommunications and systems equipment company (that has majority SOE ownership) was later pulled over the coals following its fiasco in the US. SASAC's criticism of ZTE's violation of export sanctions – which ZTE lied about – was so scathing that the report's authenticity was questioned and later deleted from the Internet. In it, SASAC severely criticised ZTE's dealings with the US authorities as "stupid and passive", stating that ZTE not only damages the reputation of other international Chinese enterprises, but of the nation itself.

The Case of Australia

These trends can be readily observed in Australia, where research by KPMG and the University of Sydney shows that Chinese ODI is evenly split between SOEs and public and private firms. Moreover, in recent years Chinese investment has increased in tertiary industries, as well as agriculture, at the expense of mining and construction. Chinese enterprises favour Australia because of its more manageable commercial scale and see the country as a base to build their international brand while experimenting with various marketing approaches.

This has led to new commercial engagements. Alibaba's entrance into Australia in February 2017, for example, expanded opportunities for small and medium sized Australian enterprises (SMEs) by allowing them to sell directly to the Chinese consumer. Through a network of bilingual trainers and consultants, Australian SMEs learn about Alibaba's e-commerce ecosystem in China and gain insights into how they can market their goods. Then, working with Alibaba teams and other partners across

Australia and China, SMEs create Chinese language materials and navigate China's regulatory environment prior to launch. Businesses in food and beverage, health supplements, infant formula and skincare products have been among the first to get on board. Following lessons learnt in Australia, Alibaba launched a similar service in the US in July 2017.

Success is not guaranteed, though, especially when stakeholder environments are uniquely complex. The case of Moon Lake's AU$280 million purchase of Van Diemen's Land Company's (VDL) dairy farms in Tasmania is a case in point. The Australian government approved the purchase in 2016, but in April this year, five non-executive directors quit the board over disagreements concerning management structures, investment decisions, and environmental management. Rather than interpret this situation as part of the kiss-and-punch nature of business, a parliamentarian evoked what many consider to be outdated perspectives of how international Chinese enterprises operate, saying, "[VDL] has become just another Chinese mass production center for low-value products. No wonder the Australia board is bailing out." Moon Lake pointed out they have invested AU$14 million in VDL, are transitioning several farms to organic production, have maintained jobs despite a drop in milk prices, and are undertaking complex negotiations behind-the-scenes to access more capital in China. At issue, however, are environmental concerns unique to Tasmania as well as underlying trust issues.

Despite challenges like these, international Chinese enterprises are demonstrating a capacity to learn and adapt. In Melbourne, the entrance of oBike, a dockless bike-sharing company headquartered in Beijing, was a failure because, in their rush to beat Chinese rivals they did not recognise local councils as important stakeholders and instead "dumped bikes" throughout the city's streets. Didi, the large Chinese automobile ridesharing platform, by contrast, launched in Australia this June and has made an effort to build relationships with local technology firms and regulators.

In Australia and elsewhere, political and security concerns will significantly influence the ability of international Chinese enterprises to build their business and reputation. But Chinese ODI is changing; investment is more diversified and it comprises more public and private enterprises. And despite clumsy and awkward attempts by some firms, others are seeking deeper relationships with host countries and have learnt that building a strong reputation requires the ability to identify, understand, and engage with a stakeholder environment vastly different from China.