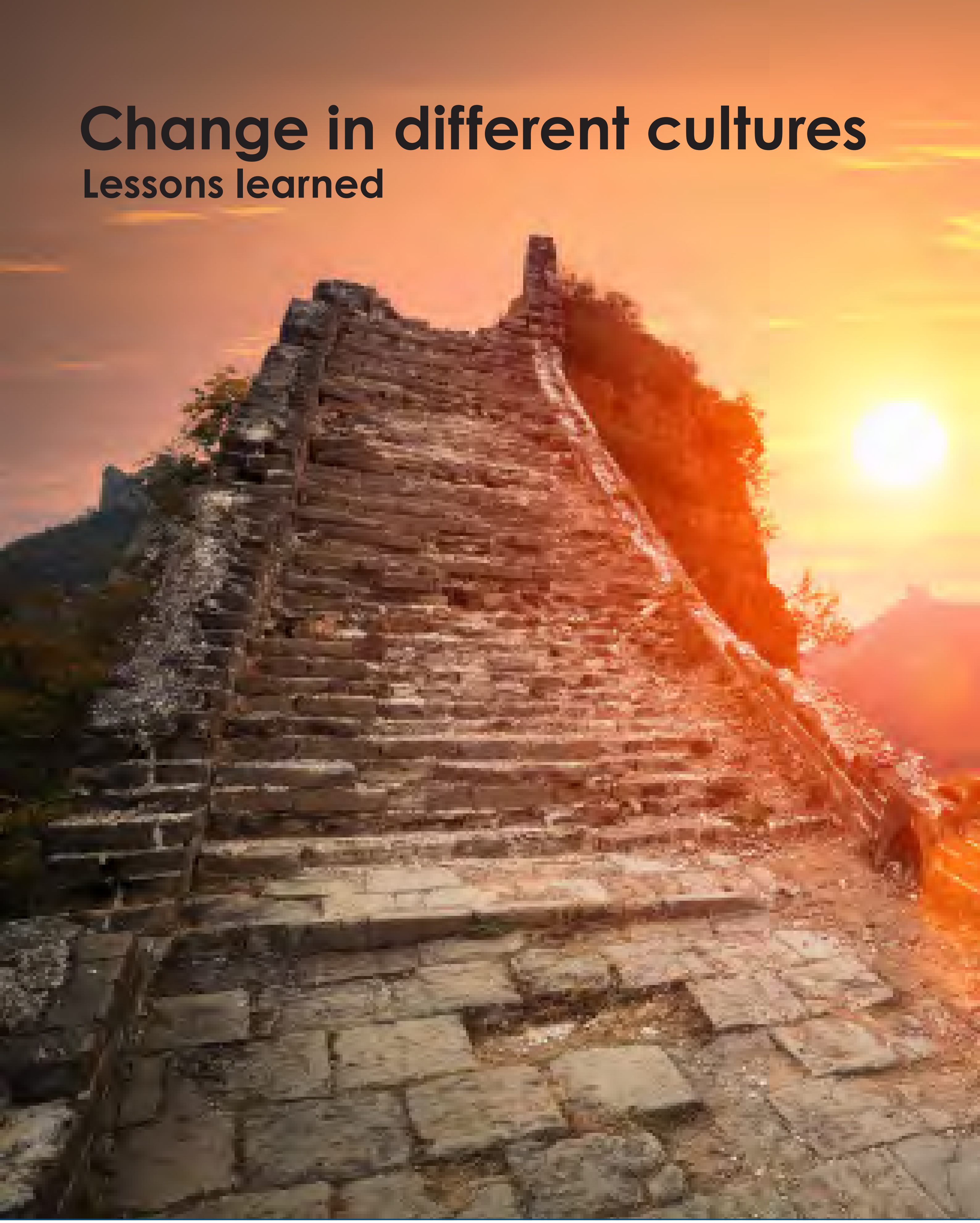
Change in different cultures

Lessons learned



A paper from Dalmau CONSULTING

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Change in different cultures: lessons learned

In this short paper I provide an overview of my experience in, and lessons learned, from my involvement in the emerging large-scale dairy industry in China. I do not claim to be a change management expert, rather a veterinarian who has found himself in a position to advise and to some extent facilitate organizations make changes that on the surface appear straightforward, but in reality mean challenging cultural norms and approaches that are not immediately obvious to an outsider.

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The changes whilst on one level may seem technically clear; on the other hand require engaging the hearts and minds of workers to get traction. It is these challenges and learning I offer here, in the hope that others whose strength and experience is in a technical discipline (no matter what that might be) can find useful.

Context

The task given was to assess the operational risks of a proposed $US100m+ investment by a well-known international Private Equity (PE) firm, into a large dairy company in northern China.

Large-scale dairy farming in China is relatively new. Traditionally diary production has been from small farms with 10 -15 cows, however, in the last 5 years, very large farming systems have been developed. Unfortunately there is a dearth of experienced people to manage and monitor these large entities.

The target company, a State Owned Enterprise (SOE), owns 28 dairy farms, with over 50,000 cattle and produces milk for a sister milk processing company to supply the market. Fortunately, the client company has not been embroiled in any of the milk quality and safety issues of recent times.

It presents a professional image, and has demonstrated a reasonable ability in company management and farm operations.

It seems true that in most communist and former-communist systems, operational procedures and practices are determined and dictated by central management, with limited ability for individual managers to make decisions and show initiative. This is true in this instance with the individual farmers quite constrained in what and how they can innovate.

Traditionally it has not been necessary for Chinese SOEs to make an actual operating profit, and this habit is proving difficult to break in some old SOE cultures.

After an extensive review of the company's production, and on-farm operational systems, it was easy to say to the Private Equity Partner

that this particular SOE was basically sound and worth investing in.

But there was a very important condition - that even though the SOE would be the controlling shareholder, it would nevertheless need to implement some operational and management changes in order to be profitable (i.e. address the abnormally high annual loss of adult cattle).

This and other conditions were agreed and a Joint Venture company established (JV).

This agreement included the creation of a change management plan to help steer the JV in the direction of reduced costs and improved productivity.

Change in the system: the story

A Change Management Plan was developed and seemingly accepted and agreed by the JV's, with the CEO of SOE accepting all areas indicated as needing change. The Plan's focus was more on what changes were required, and less on how they would be achieved. This proved to be an important point for reasons explained below.

When the chief executive of the JV was asked what he considered to be his measure of success in three years' time he answered, "to be the biggest dairy company in China and move to a successful IPO". He asked me what I would consider to be success, and I answered, "to be seen as the best dairy company in

China." I was asked what the difference was. Alarm bells should have rung at this point.

Consultants often make assumptions based on what are common approaches to change in their own culture.

This is certainly what happened here – it was assumed the "how" of change management in Australia could be transported to China. With the benefit of very clear hindsight, Australian approaches to change management were clearly not part of Chinese industrial culture or the thinking among executives at the top of the SOE.

This led to some immediate and visible consequences. For example, vital elements of the process were dismissed and barriers were erected to engagement with workers and key people who could implement change.

On reflection, the warning signs were there early on with the CEO clearly focused on profit and listing as a public company as the objective: at odds with the Change Management Plan focusing on improvements to quality of the herd as a priority. The western rationale of course is that if you pay attention to quality – financial success would follow.

In a similar vein, a western approach to change management often starts with providing information to operational and management staff on the new strategic directions and priorities that had been agreed at the highest levels in the organization.

Understanding and engagement with a common goal (from a western point of view) was vital, but for whatever reasons this JV Chief Executive deemed this unnecessary. This

represented another point in the journey when warning bells should have sounded.

Despite this, and with the agreement of the Private Equity Partner, I began by visiting all middle management staff and all farms, where I was well received and accepted by the farm managers, as someone who could help improve productivity.

However it soon became apparent that the Private Equity Partner had not received permission from the JV Chief Executive for these farm visits: all access was then denied and any implementation of change was halted.

Progress since has been slow: the main focus is now on the restructure of the JV company. There has been little focus on improving either quality or productivity.

It is taking a long time to repair the mistrust that developed: visiting the farms without direct permission from the JV Chief Executive was a key trigger, even though the Board had approved these visits.

Lessons learned

In retrospect, it was difficult to navigate a clear path through this situation.

One observer commented that as the change consultant I was caught in the middle of a joint venture whose partners had very different cultural and business backgrounds, extremely different expectations about how change is implemented and little to no shared understanding of their own strategic plan or direction, management structure, or agreed operational practices. In the western world, increasingly corporations place a priority on explicit assent to shared values – these were not visible at any stage in this change process.

To appreciate what a significant challenge western approaches to change management might mean to the those leading the joint venture it is worth recalling the SOE's journey.

History paints the canvas

This particular State Owned Enterprise was formed over 15 years ago, through the amalgamation of many dairy farms. Over this period it had developed a fairly strict and inflexible, government service hierarchy that had the same CEO and Chairman throughout.

The Managing Director had been one of the original dairy managers, and had grown with the system: he had strict and often good control over all operational management. The end result, however, was an a rigid and history-driven company with associated organizational structures and processes: an entity not that open to western approaches to change management, a system living in the story of its past rather than its future, despite avowing it desired this future

As one digs into this SOE the observer notices that the communist influence is still very visible, for example:

- The slavish standardization of SOPs and KPIs across *all* farms,
- Western technology copied, often without an understanding of the attention to detail required,
- Level of animal husbandry required to apply the technologies effectively.

Managerial and operation decisions are often based on what outcome has been achieved elsewhere (and especially in the past) more than the change management resources and processes actually required to achieve the outcome. For example the response has sometimes been "This has functioned in the past, as there have always been funds available to support the company to cover losses".

Things are never understood and appreciated

deeply until they are seen in a broader context and history is one such context. How great it is when this is painted clearly for the change consultant at the start, but alas this is often not the case in any country let alone China. One of the key learnings from this experience is to invest a large amount of time up front to truly understand the history and context of the client and target organizations when working in another culture – you can never have enough history !

The dominant culture

The CEO and Chairman of the joint vision is a person of vision. He is keen to modernize the company as quickly and dramatically as possible, and his ambition is to go to an IPO quickly, as many similar ventures have done in China.

His decisions are adopted without question and the operational side of the business must always adapt to try and conform to what outcome he requires.

This is one of the unconscious ground rules that drives all behavior in the company.

Yet the improvement in quality and productivity that is required to meet his goals cannot happen in a central office: it must occur out in the many farms the company controls in a location specific manner.

One size will not fit all. For example, the high annual loss rate of the herd cannot be fixed with company-wide mandates, it can only be resolved at the local farm level by educating the employees who work with the cattle. And whilst there are many similarities across these farms, there are also specific differences that change implementation needs to account for.

Perhaps even more serious is the disconnect between the change management resources and processes necessary to achieve his aspiration, and what is actually available on the ground to deliver effective change management.

If this had been understood at the beginning, a much less ambitious change management process would have been suggested, focusing on a very small number of highly effective and achievable initiatives.

Chain of command in China

By not ensuring that I had permission to visit the farms and have discussions with the farm managers and staff, I inadvertently showed great disrespect to the Chief Executive of the JV, despite it being approved by the Board.

This was received by him with quite a deal of misgiving. My assumption that the Private Equity Partner, the client, already had this permission turned out to be incorrect.

In China, one must never assume that actions normally considered appropriate in a western context are acceptable. Check first.

Contradictory measures

The westerner might easily assume a company's measure of success would be to deliver a profit to its owners or shareholders,

This turned out to be less than clear. The real measures of success held dearly in the SOE at most levels below that of Chief Executive were that all cows be fat: there is a Chinese view that well fed people will survive, and this is applied to cows as well.

Fat dairy cows however are unhealthy cows - they fall sick after calving at a far higher frequency than thinner cows.

Like parts of Texas, for many Chinese another common measure of success is to have or be the biggest. In this company, this is expressed

as a desire to have the highest milk production possible per cow, with little consideration of the real costs to achieve this. These real costs can include losses from cow health and heightened cost of production.

Understandably then, making changes to improve profit without understanding the traditional measures of success has proven to be frustrating.

The JV partners

The real relationship between the SOE and the Private Equity Partner took some time to emerge clearly: in truth the Private Equity Partner had little influence, despite maintaining it did.

The operational and cultural differences between the internationally based Private Equity Partner and the People's Republic SOE emerged to be far greater than could be initially imagined:

The SOE was focused on achieving a successful IPO, albeit hampered by

- Hierarchical mindsets and practices rooted in a shared story of the past,
- Strong command and control focus to both the change management decision making processes, and a
- Belief that one size fits all

In retrospect, it would have been wise to develop a strong and influential relationship with the Chairman and Chief Executive of the SOE, and not rely on the Private Equity Partner to manage the relationship and influence.

Knowing which horse to back is a key ingredient in good change management: the trouble is that in foreign cultures, the true nature of the horses and their capabilities emerges only slowly. In truth the Private Equity Partner had little real influence at the end of the day.

Change in China

For those contemplating supporting a change management process in any foreign setting, but China in particular, there are some key learnings

- Identity and engage the person/s who are really in control.
- Over-study and come to know intimately the history and social context of the target group
- Establish which party has the most and real influence
- In the case of a JV, never assume this can be done at arms length through another part, in this case the Private Equity Partner
- Ensure the executives of the target company have a clear understanding of what may considered normal practice in their world and modern western change management givens
- Be clear with the executives of the target company about what differences may exist between their own aspirations for both outcome and process versus modern commercial practice.
- Adjust and re-adjust again your expectations of how long the process will take, particularly to reach real agreement around both a plan for the change and the method of its execution

Reprise

In retrospect, it was difficult to navigate a clear path through this project, particularly when caught in the middle of a joint venture whose partners had very different cultural and business backgrounds, who had no clear understanding of their joint venture's strategic plan or direction, management structure, or company values.

A greater emphasis on identifying the decision maker and developing a strong and trusting relationship with them, although time consuming, is imperative in achieving

successful outcomes for a client in this scenario.

In the interim, the real measures of success for the SOE remain unchanged materially, despite what had been agreed by the JV Board. The company is still focused on quantity (ie being the biggest) more than the quality of their cows and product.

Now working on other projects in China and Vietnam, I now find myself both older and wiser, in a better position to understand that working well in chaos and accepting slow achievements are a real advantage in China, especially when working with State Owned Enterprises.

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August 2014

Photos: Pete Copley and Fotolia

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