

WHEN TENDENCY IS CLEAR, CHANGES MUST BE MADE

By Zhang Zhaolin



"The existence of cultural differences makes it all necessary to achieve a balance between the seemingly opposite values" - many multinationals have the same thinking when they face cultural conflicts. What is more important, however, is to break the cultural frame and to begin to think from the perspective of management. Indeed, when we look from a different perspective, the so-perceived cultural barrier is not a problem at all.

In this case, Michelin has met with some resistance when it tries to transfer its global management approach to the

joint venture in China. This might be a problem at the first glance, but if we go deeper, we might find that this is not critical at all. What Michelin needs to do is to think about the following questions:

First, what is the strategy behind Michelin's drive to set up the joint venture with Shanghai Tyre and Rubber Co., Ltd.? What are the real benefits for Michelin?

Second, what in nature or in essence is the relationship between Michelin and Shanghai Tyre and Rubber Co., Ltd.?

Third, how can leadership and tactics help solve conflicts and realize strategic benefits?

The key to the above questions is strategic thinking, leadership and trust-

building.

The strategy for Michelin is to take advantage of the local partner's market share (5% in the Chinese market) and distribution channel to build its capability and reputation and to become a winner in this fast growing market.

For Shanghai Tyre and Rubber Co., Ltd., the marriage is a miserable decision, but it also creates a new chance for structural reform. By a number of unsuccessful "capital operations", Shanghai Tyre and Rubber Co., Ltd. has wasted its valuable capital financed through the market, and lost bargaining power with Michelin on the joint venture. Consequently, it is unlikely for Michelin to

meet with systematic resistance from Shanghai Tire for its strategic maneuver.

Another question is the nature of their cooperation. The sustainability of such cooperation depends on whether each side has its own unique and sustainable resources. In this case, Michelin has the advantage of technology, management and brand, while Shanghai Tyre and Rubber Co., Ltd. possesses the advantage of channel, market (i.e. existing customers), skilled labor and production capability. However, the sustainability of each side's competitive advantages changes asymmetrically during the process of cooperation, which in turn decides the direction of cooperative relations.

For Michelin, the success of the joint venture is largely dependent on the transfer of its organizational capability. The technology advantage is dynamic, so the real source comes from R&D and innovation. From this perspective, the critical challenge facing Michelin is to pump its "blood" to the body of the employees from Shanghai Tyre and Rubber Co., Ltd.

As a controlling shareholder, Michelin has adequate power and authority to implement its strategy. Through fast expanding its marketing channel, Michelin can grab more market shares, and attract people with aspirations and loyalty.

Leaders must understand that, in the case of cultural conflicts, any contradiction becomes simple when the tendency is clear. Behind the strong cultural conflicts is often the complicated game. In this case, if Michelin can realize its strategy as expected, and the tendency is changed, the observed cultural conflicts will not constitute resistance to Michelin's global integration endeavor. When the potential resistance disappears, the game is over, and people regain a peaceful mind. Consequently, the cultural difference should not be a big concern.

An opposite picture would look like this: leaders turn to compromise to power and realities if they fail to distinguish between the intrinsic cultural conflicts and the emotional factors of game mentality. Any compromise to mentality is an acknowledgement of the wrong tendency and practices. This should not be the response to the cultural difference - it actually goes against the cultural integration. Our experience shows that such a compromise will weaken the power of leadership and get the leaders in an awkward dilemma.

When the company realizes this, it should not be eager to seek the perfection of its management system all at once, nor to touch the nerve of cultural conflicts. What it should focus is its strategy where the real interests lie.

How can Michelin overcome the resistance in its strategy implementation? To my mind, to win the support of the Chinese management is the most critical. The joint venture is built on Shanghai Tyre and Rubber Co., Ltd., and 90% of the employees come from the old company. This implies that the new company will largely inherit the interpersonal relations, mindset and practices of Shanghai Tyre and Rubber Co., Ltd. Mr. Fang Xuan is an influential figure in the company, as he has wide influence in the old employees and connections with the local government. In this sense, to win his support is important to the Michelin's strategy implementation.

In fact, to win the support of the Chinese management is not as difficult as people might have imaged, so long as Michelin can focus on its performance target and grow its business. Fast growth can not only meet the government's expectation, but also fit into Michelin's strategic objective. The realization of this common goal needs the business expertise and knowledge, and production process and technology of Michelin. On this issue, Fang Xuan will give his full support and help eliminate the potential resistance to the change. However, there are some "reefs" in the company:

First, the French side ignores the role of the Chinese management. The Chinese management has a strong learning ability, and rich business experiences. They are committed as they shoulder the high expectations from the government. They would not allow to be excluded from the nucleus. In the meantime, they have strong affections for the national brand and are reluctant to see it fade out. Therefore, Michelin must win the trust and support of the Chinese management, and work with them closely to explore the best way of cooperation, including the art of co-decisions. If not, the company would meet "soft" resistance at all levels and its implementation would be weakened.

Second, on some knotty issues, Michelin should have sought the support and cooperation from the Chinese side. It must keep in mind that a prior consultation and consensus is important before any critical decision is made. In many cases, the Chinese side should

stand in the forefront as they can communicate with the Chinese employees more easily. The integration can be more difficult if new interest conflicts arise in the process.

Third, Michelin has isolated the introduction of management system from the performance target, and neglected the arrangement of key positions. The harmony between the two sides is based on the commitment to the common goal. If change is made for the change's sake, the low-level employees can not see the need or significance of the change. Michelin must combine the introduction of advanced management systems with the performance improvement, and in the meantime, put the right people in the right positions. This is the wisdom of a strategic leader.

Now let's sum up the strategy and measures that can be used by Michelin in this case. First, tactics is subject to the overall strategy. Actions should align with the overall tendency. The change management must rationalize all kinds of power, and get hold of the key. To this end, the change programme should be implemented within the larger framework of strategy and performance improvement, instead of being oriented towards a global integration. Second, put the right people in the right positions. In particular, the key positions should be occupied by people who are equipped with advanced management concepts and skills and who agree with Michelin's culture and change. Third, Michelin should size up the situation and adapt to the changing environment. It should take full advantage of the power of the Chinese management, and avoid direct confrontation with the Chinese side and being isolated.

Lastly, Michelin China needs to manage the headquarters' expectations. The organizational complexity, geographic and cultural distances typical in multinationals could lead to the disparity in strategic judgment and decisions between the headquarters and Michelin China. The latter needs to communicate with the headquarters the complexity of the integration process. For the headquarters, the best support it can lend is patience and understanding. **THELINK**

The author is EMBA1999 participant, and GM of HBC Consulting.