

# What should be localized by multinational companies in China?

## Description

Wal-Mart was in trouble again. I am not sure of how many times this USA retail giant had appeared negatively in media for its problems. This time, local industry and commerce bureau in Chongqing found Wal-Mart selling fake “green pork”. News had it that Wal-Mart in Chongqing has been punished 20 times in the past 5 years. Isn’t it pretty unbelievable to Wal-Mart goes in the west?

I instantaneously think of an interesting and hot-debated discussion on the LinkedIn in which a Westerner in Shanghai felt shocked after he was refused of returning a piece of furniture bought by mistake from an Ikea Store which would be otherwise without problem in Canada. He cannot help asking and thinking “Do other Western stores implement a ‘Chinese policy’ by taking advantage of the fact that China does not have much of Consumer protection? And hiring Chinese managers to enforce this policy. In other words, when in China, do as the Chinese do”.

Obviously, the problem here is that multinational companies from the western world is behaving locally or in other words downgrading the quality and customer experience of their services. And Ikea and Wal-Mart are not alone in doing so.

Now, the question is “why those multinational companies’ service quality is degraded in China” and whether there is any reasonable rationale behind.

Basically I see two reasons for such degrading.

(1) Chinese consumer market is still an immature one with general lack of sufficient consumer protection. When a consumer falls victim during consumption, he is often left with not much he can do to rectify the wrong inflicted on him or her. Legally speaking, a consumer can seek help from “local consumer association office, which is affiliated with government. However, a consumer association office can do little to help as it is not even empowered to investigate a consumer dispute. The government agency in charge of consumer affairs is very often lazy and pro-enterprise giving little hope to consumers. The rest a consumer can do is to take the dispute to court. Unfortunately, Chinese courts are actually a boneless system affiliated to pro-enterprise governments. The powerful legal weapon of class-action for public interests in the west is yet absent in China. In reality, there is no effective way to check and punish enterprises engaged in misconducts against consumers.

In this environment, western enterprises have no need to maintain their consumer policies at the same level as back in their home countries, which incurs huge cost. Western enterprises as profit-seekers don’t have to maintain the same high service level to make profits in China, esp at a time that their Chinese counterparts pose no serious competition threat.

(2) Another reason may be because of the local management. International companies understand that they need local managers to navigate and penetrate local markets. On the other hand, those local managers may not fully appreciate the reason and strategy of upholding universal standards of service in the world when they find their local customers do not expect such high-level service. It is argued in

the case Ikea that the local manager at the store should be the one to blame, as they have not acted in line of Ikea's global service policy, though evidences disclosed in the discussion showed that Ikea's western managers were probably aware of the situation.

I am of the opinion that local managers in some cases may be the culprits that lead to diverge from the global standards of conduct of some international companies since local people tend to act locally esp when the local managers fail to understand the importance and strategy of maintaining a universal service policy.

So whether to localize their service standards remains a strategic question for multinational companies (esp those in retail market) when accessing Chinese market. The answer to that question should be clearer than ever considering the current conditions of the Chinese consumer market esp that China is in such an information technology era.

First of all, in the retail market, Chinese domestic players are growing fast whose competition may well cause pain to those international brands like Wal-Mart, Carrefour or Tesco. International players will have no advantages over their Chinese local counterparts if their services are lowered to or caught up by local services. Further in an era of information society, any negative event about a foreign brand can easily become a piece of national or global news, undermining the image and reputation of such foreign brands. As a result, Chinese people who believe that western moon looks brighter than the Chinese one are starting to disillusion their delusion about western products and services. I personally believe firmly that with so much negative coverage in the media about Wal-Mart and Carrefour, Chinese people are no longer having that much faith in these retailers and this will eventually result in less customer loyalty and gelling to such brands.

To continue their advantageous market positions and maintain a competitive edge in a long run, western companies shall not degrade but rather maintain a higher-than-local-level their services in Chinese market. This is probably the only way to distinguish themselves from their Chinese competitors and stand out in the market. Though it costs to maintain the higher-than-local-level service, in a long run, this practice will eventually plant seeds of trust and loyalty in customers allowing these companies to charge a premium over average price without pushing away customers.

To achieve that goal, international companies may find it desirable to strengthen the following aspects of their business operation:

(1) Instill corporate values and culture into each and every employee in all local markets. As human beings we act in accordance with our beliefs. International companies are especially in need of making their employees in other countries where societies are of different cultures and social values.

Make the corporate values and culture part of the work ethics of local employees who may in the first place feel alien about those ideas the company has taken as fundamental to its business success. Chinese people very often cannot easily fit themselves into western corporate culture because of cultural differences between the east and the west.

International companies may have to localize the management team in Chinese market, but it is important that they do not fully localize their service quality.

(2) Strict enforcement of corporate policies regarding employee behaviors. Code of Conducts shall be

well drafted and promoted and enforced within the organization. Employees directly dealing with end customers shall be given particular attention. Regular assessment and evaluation of employee performance shall be carried out to keep the labor force of high standards.

(3) Fine-tune the reporting channels within the corporate organization so as to ensure that communication between top and bottom is smooth and true, allowing the headquarters to be aware of the operation in local markets.

It would also be advisable to allow local end users to report misconducts of or maltreatment by local employees to headquarters so as to avoid local management blocking negative news from the top-level.

**Date Created**

November 2011

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