

# **INTERIM MANAGEMENT TO RESOLVE CHALLENGES IN CHINA OPERATIONS**





Since the first COVID cases hit the news, China has taken rigorous measures. Travel restrictions and quarantine requirements have restricted foreign business people from visiting their China operations and complicated expat assignments. At the same time, the local market environment is more challenging, with slowed growth, disruption in the supply chain, and geopolitical uncertainties.

Under these circumstances, we have seen overseas head offices and shareholders facing the following issues in their China operations:



### **TENSION WITH JV PARTNERS**

We've observed tensions between Chinese and international shareholders more frequently than before the pandemic. This sometimes results in delays or even blocked new investments. Root causes are, among others, diverging business interests in the JV operation or cultural misunderstandings. As the Chinese and global markets have all suffered from the pandemic, businesses are not performing as well as before, which exacerbates the tension.



### **LACKING TRANSPARENCY**

Many international shareholders used to communicate primarily with two or three top executives of their China operation. Regular business and financial reporting formats do not always contain sufficient information. Critical information may even be held back.



### **MISMANAGEMENT**

We've also seen cases where the in-country management team fails to provide enough financial transparency or make reliable forecasts. The financials show a significant deviation between budgets and actuals. The returns on investments are unclear or far away from business cases, and operational efficiency doesn't seem to be satisfactory.



### **IRREGULARITIES**

Past incidents may cause head office management concern about the professionalism or ethics of their in-country management team. Or maybe there are signs of potential compliance issues coming from whistleblowers. Overseas head offices could not necessarily perform regular internal audits in the last few years due to travel restrictions, and it is unclear whether the internal control system is still working.<sup>1</sup>

1. While the cat's away... [https://insights.alixpartners.com/post/102gzcr/while-the-cats-away?\\_ga=2.137825968.1068573993.1668416187-1761804574.1652679426](https://insights.alixpartners.com/post/102gzcr/while-the-cats-away?_ga=2.137825968.1068573993.1668416187-1761804574.1652679426)

## OUR EXPERIENCE HAS TAUGHT US FOUR GOLDEN RULES IN DEALING WITH THOSE SITUATIONS.

### 1 Stay focused and act quickly to achieve tangible changes

Maintaining business operations is a top priority. We use an initial hypothesis/assumption-based approach to remain focused on the key issues instead of a boiling-the-ocean approach, whether it's about e.g., acquiring transparency in specific incidents or facing difficulty in moving a strategic project forwards. Our senior team performs interviews, reviews documents, and digs into financial reports to verify the assumptions based on our local market know-how and experience. As time is usually critical, targeted measures are better than perfect solutions with lengthy analyses. Our clients always rely on our hands-on support to quickly take actions and relief their stress.

### 2 Safeguard high-value investments first

China often plays a critical role in international companies' global strategy. The market is huge and changing rapidly, requiring companies to constantly make high-value investments in the local supply chain, production facilities, or IT infrastructure. We know well that it's important to pay special attention to those projects and ensure their successful implementation.

### 3 Communication is key

We've seen many issues originate from misunderstanding or lack of trust. Whether it's about aligning understanding with JV partners or gaining support from the in-country management team to fully implement the global strategy of the overseas shareholders, our clients need us to act as a mediator between the parties to help achieve mutual benefits. In addition, we support our overseas shareholders in building direct communication with other local stakeholders such as financial institutions, customers, or suppliers.

### 4 Knowledge of local market practices is invaluable

Having unique political and cultural backgrounds, business practices in China differ from western countries. One major issue lies in the transparency of rules and regulations. Our clients often hear from their JV partners saying that "things don't work this way in China." It is, however, hard for them to judge whether or not this is true. Our clients often appreciate hearing our views as an independent advisor with deep knowledge of the local market practice.



AlixPartners have helped boards of directors and overseas head offices overcome those situations with seasoned professionals who don't just consult but deliver operational execution. Our interim managers bring a wealth of experience to the table, gained from in-house management roles and years of sector-specific advisory work. Moreover, our deep expertise in business turnaround enables us to support a full transition from old to new management. With our focused and hands-on approach, we quickly get to the core of the issue and quickly help fix the major concerns for our clients.

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## ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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