

CDG: Managing in China's Economic Transformation

Late on a cold Friday evening in the autumn of 2008, as Roc Yang, the cofounder and CEO of China Data Group (CDG) waited for his flight to take off from a Shanghai runway toward Beijing and CDG's headquarters, he found his phone finally quiet after a day of urgent conversations with CDG's executive members. That morning, CDG's executive team had exploded in an argument over CDG's policy for acquiring, developing, and maintaining client relationships. Ming Chen, CDG's VP of sales, was the company's integral lead in building strong, personal relationships with clients and had recently used company funds to buy a cell phone for a potential client. This gesture was an effort to help CDG win a bid for the client's project, valued at over US\$1 million. While some senior CDG executives felt Chen should be promoted for taking the initiative to win this important deal, others felt such actions had hurt CDG's reputation as a company grounded in professional quality service.

Yang knew that Chen's contributions and the key clients with whom Chen was associated had been critical to CDG's success. The local Chinese way of building relationships that Chen subscribed to had initially been necessary to gain traction in CDG's target market in mainland China, but these same practices might now be hurting the professional culture Yang wanted to build at CDG. Yang had hoped the company's fast growth would provide alternatives for Chen in his conduct as client relationship manager; yet as debate catalyzed by the cell phone incident escalated among CDG executives, Yang knew he had to come to a decision quickly—where and how should he draw the line between building a company culture based on professionalism and quality service and the deeply rooted local practices of relying on personal relationships to do business.

The Cell Phone Gift Incident

Yang's cell phone rang unusually early that Friday morning. Samson Yuen, CDG's chief operating officer, was on the other end. Yuen had just learned that Chen's team had given a cell phone to the manager of a potential client firm over dinner for the manager's personal use. Yuen was direct with Yang:

I absolutely do not understand why Chen is doing this. CDG is the market leader and we can win clients through our quality and brand. Such actions seriously risk our reputation.

Moreover, as a VP of the company, Chen is a role model. You must see that compromising CDG's professional qualities sets a harmful precedent for CDG employees.

Yang was taken aback. Although uncertain about Yuen's conclusion, Yang was surprised to hear this report of Chen's latest actions. In CDG's early days, Yang had constantly reminded Chen of CDG's priorities, telling him to always put the company's reputation first.

Yang called Chen immediately after Yuen's phone call. Chen was surprised that the cell phone gift was an issue and strongly defended his team's actions:

This was for a million-dollar deal and you know it is the largest one ever in our company. We have bought small gifts for clients or treated them to dinner. It is very common in the industry and our market especially. Yes, I should have reported to you earlier but it was simply not a big deal to me. My job is to get the deal done and I did it by paying a very small price compared to what we will get in return. Moreover, this cell phone is nothing compared to what our key competitors offered. In fact, it would have been offensive *not* to give something.

Yang knew Chen was right. Although CDG management had repeatedly emphasized to all employees that such behavior was not permitted, there was no formal written policy forbidding it and this was not the first time CDG had bought clients gifts. Moreover, the practice was not unusual in the local Chinese market and in the business-process outsourcing (BPO) industry in which CDG operated. CDG's five main local competitors often used relationships and gifting tactics to acquire deals. Nevertheless, Yang was uncertain if it was time to draw the boundary for CDG and, if so, where the boundary should be. Twelve months ago, this incident could perhaps have been smoothed over, but particularly when the company was approaching a new stage in its growth toward global markets (targeting the United States and Japan as a start), the issue had to be addressed. Yang called his CDG co-founder, Lei Wang.

Wang recounted the deliberations the two founders had gone through that afternoon and evening:

Chen's great connections and relationship-building skills were particularly invaluable when we were starting a new company. He was a hero. Chen not only initiated discussions with potential clients but also helped the company learn *how* to do business with our target state-owned clients, who expected us to engage in traditional Chinese business and relationship-building practices. Since then, however, we may have reached the point where clients are coming to us not because of personal connections but because they truly value our services. Going forward, we can and should uphold our founding principles to completely ground CDG on professionalism and quality rather than personal connections. Chen and his team's established method of approaching client relationships conflicts with that goal.

It was a particularly sensitive and uncomfortable discussion because Yang and Wang viewed Chen as their close partner. He had been an early and key player in building CDG and was also a close friend.

Yang sought feedback from other colleagues. When he asked another executive about the latest bid and the cell phone gifting, she was surprised it was even an issue:

Chen should be promoted or at least receive a large bonus for this! I cannot believe how challenging it was for us to win this client! They have five different departments involved in decision-making and all the persons in charge were very difficult to deal with. I was amazed, on speaking with our sales team, by how Chen was able to make everyone happy.

Another VP agreed:

I have heard from a friend that our competitors for this bid also have people in charge of client relationships but none of them are as effective as Chen. In a market like this, we would be shooting ourselves in the foot without someone in Chen's role. To have someone even half as good as Chen is a fortune.

Not everyone agreed. One VP pointed out, "We are hoping to move into global markets in the next three years. If we intend to expand CDG globally, we cannot have any behavior that can be interpreted ambiguously. Chen has done an impeccable job so far, but in this next step of CDG's growth, things have to change."

Tony Lin, another CDG executive, was adamant:

I've seen the way Chen's team has done business. Yes, it's highly effective in the short term, but it doesn't outweigh the downside. Mixing too much of the personal and 'casual' into business only leads people to mistrust the basis of our company's success. We are undermining ourselves. If we compromise our professional principles, how can our international clients be sure we aren't compromising on our quality? Chen needs to change his tactics.

Yang was not sure whether this was the right time to give Chen's team a new role or even to remove the team completely. Although CDG had successfully built a reputation in the industry, Chen was still the main person in charge of most of CDG's key client relationships. When clients needed to talk to someone in CDG, the first person they would call was Chen. In addition, Yang knew that many competitors had been trying hard to recruit Chen from CDG. In China, it was not unusual to lose clients just because the key manager of those client relationships left.

Did prioritizing professionalism necessarily mean putting limits on establishing personal relationships with clients? With his executives disagreeing, Yang could not also help but wonder how much of his discomfort with Chen's actions was objective and how much was due to Yang's own attachment to the international perspectives and values gained from his past experience.

Roc Yang

Yang studied at the University of International Business and Economics in Beijing. Upon graduating in 1990, he started his first job as a professional English translator in the Chinese government's Ministry of Commerce. This position, which required travel to over 50 countries in four years, exposed Yang to the economic gaps between his home country and the developed world. It ultimately stirred him to want to learn more about how business was conducted in global contexts. In 1994, Yang left China for Australia to pursue an MBA at the University of New South Wales. When he graduated, Yang accepted a position as management consultant for PriceWaterhouseCoopers in Philadelphia to gain firsthand knowledge of best practices among global companies and to obtain international work experience.

In 2000, Yang returned to China to cofound a technology startup. Through this experience, Yang learned a lot about the needs, weaknesses, and strengths of the Chinese market. Importantly, he had also witnessed firsthand how personal networks played an integral role in Chinese business and foresaw the danger of overdependence on these relationships as Chinese businesses expanded into the global context and quality became more important. It was at that time that Yang reconnected with his past colleague and friend from the Ministry of Commerce, Wang.

Wang had also moved into business entrepreneurship and had started a company called CyberSky Technologies, providing systems-integration solutions. Although the company was

successful, Wang shared Yang's feeling that the relationship-dependent model would not be sustainable in the long run. Combining Yang's overseas experience and Wang's local know-how, the two friends decided to collaborate on a new business area within Wang's company, one that would ultimately win and keep clients because of brand equity, professionalism, and service quality rather than solely because of personal relationships.

Founding and Growth of China Data Group

In 2003, Yang and Wang put together their first research and development team to establish a new business area within CyberSky Technologies. This business area would provide integrated services for Chinese banks interested in using more sophisticated IT systems without having to hire a large number of employees for basic data input and processing. At that time, CDG was a pioneer in the Chinese BPO industry. Its Beijing-based research and development team worked 80-hour weeks to develop processes and system solutions that would fit the specific needs of Chinese clients.

The parent company, CyberSky Technologies, had limited cash flow to invest in the new business area and could only afford a very small room for its data center. This did not help convince potential clients, large financial institutions, that the fledgling business could meet their massive process needs. Wang found a partial solution by negotiating with their landlords, to whom Yang and Wang's new business was but a minor lessee, to allow them to hang their business logo at the entrance of the corporate building when potential clients came to visit.

It became particularly challenging in the first year when, with the new business already struggling to meet rent payments, some of the original internal investors pulled out their money. Even at the toughest times, however, the business did not compromise its principles of product and service quality.

"Our team believed in the vision we created and, although the opportunity existed to lower our product standards to push out services for financial reasons, our team didn't give in. We wanted to build a culture that emphasized integrity and professionalism. This was a key reason we survived."

Financially, the new business made it through its challenging start with help from Yang and Wang's social networks. Yang's family took out their savings and invested in the yet unproven business. Some early clients, with whom Wang or Yang had strong relationships, also helped the new business get through by making early payments.

As the business pushed past its early obstacles, its financial situation became more viable and its client base began to grow. Seeing the feasibility and growth potential, Yang and Wang decided to spin off the business from CyberSky Technologies. In late 2005, CDG was founded as an independent company and Wang sold CyberSky Technologies to wholly focus on CDG with Yang.

Business outsourcing had been growing very quickly globally since the 1970s. With the significant gap in labor costs between developed and developing countries, many companies chose to outsource their non-core services, often categorized as back-office outsourcing, abroad. India had been a global leader in the offshore outsourcing business with its large IT-savvy workforce and language advantage. Unlike Indian companies, that mainly served companies in North America and Europe, Chinese companies such as CDG chose to target domestic banks for their outsourcing services. Although CDG could not provide direct labor-cost advantages for its domestic clients, its business strategy was to create value for clients by improving their back-office efficiency and changing their cost structure.

In 2006, CDG closed its first round of external financing with China DingHui Investment, a leading Chinese private equity firm. Between 2006 and 2008, CDG's second- and third-round financings were completed. As the first Chinese BPO company to receive external funding, CDG was able to strengthen its first-mover advantages over its competitors and speed its national expansion.

Within three years, CDG was among the fastest-growing companies in China, with annual revenues 100 times higher than at its year of inception, and had expanded from Beijing to cover all major cities in China, including Shanghai, Guangzhou, and Kunshan. By 2009, CDG was the clear BPO market leader¹ in the insurance and healthcare, credit card, and corporate banking sectors, providing services ranging from data entry and customer-care calls to insurance-claims processing and credit-card-application processing (see Exhibit 1). CDG employed over 3,500 employees and served over 30 clients (see Exhibits 2 and 3). In 2008, CDG was recognized as the number-one China BPO brand by *ChinaSourcing*, a prominent BPO online portal, and since then, consistently ranked top-of-class in many influential industry media outlets. In 2009, CDG won the "Best Call Center Service Award" accorded by the China Call Center Service Outsourcing Association.

To cope with rapid growth, Yang and Wang set goals for CDG to apply more discipline and control over its daily operations. As a result, quite a few senior executives came on board with many years of international experience and overseas education. Among them was Yuen, an industry veteran born in the United Kingdom and educated in Australia. In his mid-40s, Yuen had held many executive positions with many multinational companies in Australia, Hong Kong, and mainland China. He had also been a senior manager with one of the largest Indian outsourcing companies before joining CDG as chief operating officer. Yang and Wang believed Yuen's professionalism and global industry experience would be a great addition to the team.

Yuen's mission was to build a professional operations team to help CDG incorporate international best practices. The aim was to help Yang and Wang achieve their vision of making CDG a world-class BPO provider. At CDG, where process and discipline were critical to ensure the stability and consistency of service delivery, Yuen placed very high emphasis on the professional integrity and conduct of all of CDG's managers. He soon established himself as a respected role model within the company, working long hours and, above all, enacting the company's founding principles of quality and professionalism.

Guanxi in China

Although Yang and Wang had a clear vision of building CDG as a professional BPO company in China, educating and convincing target clients through professionalism and service quality was more challenging than they had thought. Although CDG was able to receive support through Yang and Wang's personal and professional connections, the business had to work hard to win new clients. CDG's early target clients were all large state-owned banks without experience in outsourcing their business operations and the many levels of hierarchy within these companies resulted in a decision-making process that took months. In addition, the complexity among functions and levels of management within different companies made CDG's sales process difficult to control or anticipate. Oftentimes, CDG could not even find the right key people to talk to.

"Because many Chinese banks were not yet familiar with the outsourcing concept," Wang recounted, "they were doubtful about the outsourcing model we were selling. In particular, many strong concerns arose when they heard that outsourcing meant existing jobs would be cut to save

cost. Moreover, the data we were proposing to process for clients were highly personal and sensitive, ranging from people's financial information in credit-card applications to medical information in insurance claims. Under this situation, it was difficult to persuade clients about the benefits of our services. We realized that we must first build trust with the key persons in charge."

"We tried to build into our company various indications of our trustworthiness, even if it was symbolic. For example, even today, the windows of our buildings are frosted to symbolize how seriously we take the confidentiality of the information we are entrusted with. But first and foremost, what we realized in the early stages of CDG was that we needed to be clients' friends before becoming their business partners."

Yang and Wang also faced a unique local business culture that demanded emphasis on strong, personal relationships. These personal ties, commonly known in Mandarin Chinese as *guanxi*² were considered necessary for the competitiveness and survival of companies in China.

Yang commented on the role *guanxi* played in China: "People trust friends they have known for a long time. These relationships are built on a day-to-day basis where you 'hang out' together and became familiar with each other gradually. In contrast to Western culture, where people often embrace each other upon first meeting, Chinese people are more cautious and conservative at first. On the other hand, once the relationship is built, it remains very close and supportive for a long period of time."

An example of the quality of supportiveness common in *guanxi* relationships was demonstrated when CDG was still under CyberSky Technologies and facing financial difficulties. At one point, the business struggled even to meet payroll costs. Immediately upon hearing of CDG's financial dilemma, a friend and contact of one of CDG's early clients offered to *personally* lend Yang and Wang the money to help them through. Wang explained that, although he and Yang eventually managed without accepting the generous offer, "Such a genuine indication of emotional, financial, and personal support was very moving for us in such a time and, while deeply appreciated each time by the recipient, such gestures are symptomatic of *guanxi* networks where the lines between social, personal, and professional relationships are blurred. Chinese people see these relationships as intertwined and inseparable."

Among the most important *guanxi* social activities in the business context were dining and drinking. It was not unusual for people to discuss important business deals and even to sign contracts during dinners. These dinners and other business social events regularly involved heavy drinking. In contrast to social drinking in Western business contexts, Chinese businesspeople often encouraged each other to drink as much as possible. "People like the relaxing and informal environment. And they believe you become more real and sincere after getting drunk. The more you drink with your business partner, the closer your relationship becomes," said Wang.

Gifts were also common in *guanxi* networks. At holidays or milestones, it was common to give or receive gifts. Gifts were an indication of good will, of gratitude, or of a growing relationship. In closing business deals, gifts were particularly common, but these were not the only ways to win deals. Oftentimes, deals could be closed simply because clients were persuaded that CDG offered the best service in the industry.

In growing CDG, Yang tried to find ways to build *guanxi* that were outside the usual social or gifting activities. He hoped to prove CDG's value by leveraging its resources and industry leadership to help clients. "We organized BPO-related conferences and invited industry experts to share expertise with our clients," Yang said of CDG's efforts. "We also worked closely with government officials to gain their support. This helped increase positive media coverage and public awareness of the financial-service parks where we were operating." Yang even co-authored books and published in industry journals with some clients and government officials, becoming close friends with his co-authors in the process. These efforts were well received. On their own, however, these methods were not enough to win clients who were still used to traditional relationship-based approaches of conducting business. Yang and Wang came to realize that a strong sales team composed of industry experts and professional sales representatives was not convincing enough for a company to gain a foothold in China. Strong client relationships to support company growth had to be built at least partially with local *guanxi* culture in mind.

A Different Type of Sales Team: The "Middle Way"

In the early days of CDG, Yang and Wang evolved their sales team³ into one that not only understood CDG products and services, but was also sophisticated in using *guanxi* to handle clients still rooted in traditional Chinese business practices. Chen was the significant lead in managing strong and deep client relationships. Especially in the early stages of CDG's development, Chen and Wang spent a lot of time socializing with clients. Having graduated from a well-known Chinese university with a major in finance, Chen had worked in several domestic banks before joining CDG and had become well-known in the industry for his great personal and professional connections. Yang and Wang believed that Chen, with his background and track record, was the right person to manage client relationships at CDG.

As Yang described him, "Chen was young, very energetic, and smart, with a particular knack at building personal relationships. He likes to help people and enjoys social occasions. A great friend."

As the VP of sales, Chen's role was different from that of customary professional sales. While CDG's professional sales and industry experts focused on solution development, Chen's responsibility was solely to take care of client relationships. Each time CDG approached a new potential client, Chen would be the first person to contact key persons on the client side before the official bidding or negotiations. When the relationship had been built, the professional sales team would then work with the clients to go through the formal process. Meanwhile, Chen continued to maintain a close relationship with clients through regular social events. When professional sales met with obstacles, such as difficulties getting in touch with key personnel or collecting overdue payments, they would turn to Chen for help. Chen was able to resolve many of these sensitive issues by talking with clients in a more relaxed social environment.

The two-approach structure was what Yang called the "Middle Way" of building client relationships. During the day, the professional team worked at clients' sites to give product presentations, discuss projects, and provide technical support. A key objective of this "day" team was to build confidence and a good reputation regarding the reliability and quality of CDG's service. In the evenings, Chen and a couple of his subordinates would hang out with clients after work. Chen's "night" team would invite clients for dinner and drinking regularly, or to social events such as late-night karaoke or golf weekends. In these casual environments, Chen was able to build close friendships and rapport with each of the clients.

Recalling the reasoning behind this model, Yang commented:

Ideally we wanted to win clients based on our brand equity and high-quality services. But this would not work in the beginning because clients had never heard about our services before. It was easier for clients to trust Chen because they knew him or had heard about him. Chen's extensive social network gave people the impression that he could easily get things done through his friends and social contacts. Although this was not what we wanted our clients to come to us for, it was a way to get our foot in the door. It greatly reduced our entry barrier in accessing new clients.

"Interestingly," noted a CDG executive, "we found that clients behaved differently in offices compared to more casual places. Quite often, Chen would be able to receive more candid and direct feedback on our products during his dinner with clients in contrast to our industry experts who interacted with clients in the daytime. He would then share this important information with daytime colleagues to help improve our products and services."

Qiang Liu, a CDG account manager who worked closely with Chen, described Chen's effect: "Each time when Chen was present, the whole discussion with the client was so much easier. He had a touch."

Another CDG account manager familiar with Chen's work adds, "Chen somehow knew how to mingle with all these guys. He knew their jargon, he knew their jokes. He even knew their wives' names and knew whose children attended which schools. We technical people could not handle clients the way Chen did."

At the same time, however, Yang was concerned about the implications of Chen's role and his impact on CDG's culture. "Chen's style was very different from us, particularly from those who had been working abroad like me. I was very cautious in attending social events with clients and tried to manage the relationship under a professional context only. Chen was able to be personal friends with most of them."

The tension within CDG between relying on *guanxi* and the company's founding principles began to surface when a particular incident caused Wang to decide to withdraw from social activities in building client relationships. At a business dinner in 2007, Wang had to drink till midnight with a new client. He missed the next day's flight and had to cancel an important meeting with another client as well as an internal staff meeting with colleagues. This incident triggered Wang to revisit the starting point from which CDG had been founded. He wrote an email to the entire company afterwards:

"Dear Colleagues:

Last Thursday night I got very drunk having dinner with a client. As a result, I missed my flight the next day and had to cancel important meetings. I feel extremely upset and guilty. This incident and its consequences have made me rethink what it means for us to 'do business.'

In our sales process, it is inevitable to socialize with clients. My previous business required lots of socializing and drinking with clients. It was a case of 'no drinking, no deal,' particularly because our products back then relied little on sophisticated technical competence or knowledge. However, it was because of being tired of this relationship-dependent model that Yang and I determined to create CDG as a company based on products and services that truly bring value to clients. In our current industry, our products depend on skills and sophisticated techniques, and I am so proud that CDG has been able to win clients by out-thinking rather than out-drinking our competitors.

And yet, with the practices I have been engaging in, I wondered whether it was an indication that we are going back to the old way again? With more clients, broader services, and sophisticated technical skills, would we risk losing clients without drinking?"

The email⁴ was a reminder to the company not to lose sight of the founding principles of professionalism and service quality.

The Challenges Ahead

It was already past midnight on Friday when Yang's flight began its decent into Beijing airport. Yang's mind was still unsettled. During the eight years since his return to China, Yang had seen many returnee-led business successes and failures. Some returnee-led companies did not succeed because they tried too hard to imitate local firms' business models and lost the advantage of their international experience. Other returnee-led companies did not succeed because their founders and CEOs were unable to reintegrate and learn the relational nuances of the local market after being away for too long. Returnees were increasingly being labeled as outsiders in their fast-changing home country.

At the same time, however, there were major changes facing the Chinese market. Local companies were now increasingly aggressive in developing new products, reducing costs, and expanding globally. As clients began to care more about strengthening their core competencies and became more similar in their business practices to their foreign competitors, Yang predicted that quality and professionalism would eventually take precedence over personal relationships in conducting business. Yang wondered whether this meant that CDG could finally abandon its "Middle Way" approach. Yet the current cell phone incident made him wonder: Was it wishful thinking to pursue a professional service model within a local business culture so rooted in practices that emphasize *guanxi*? Where was the line to be drawn? Could it be drawn? As it was now, he did not see a clear path forward, but he knew he needed some answers before his meeting with Chen on Monday.

Exhibit 1 CDG Market Share and Sample Services Provided by Sector

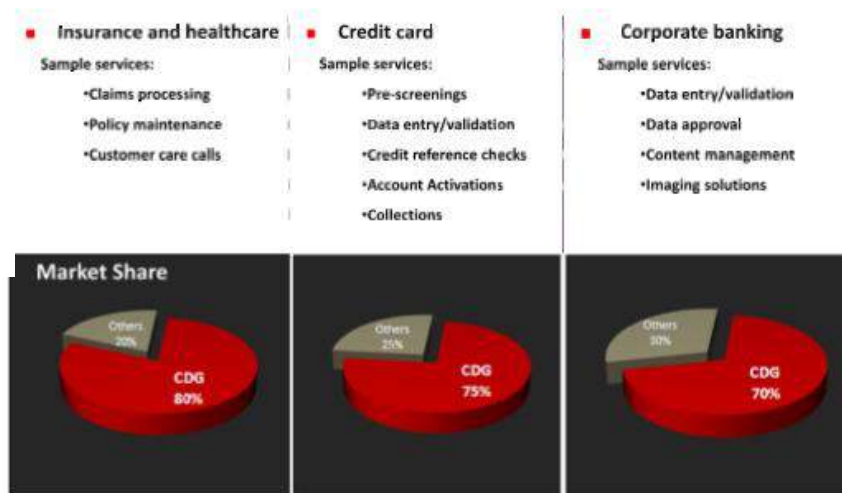


Exhibit 2 Key CDG Clients

Healthcare and Insurance Clients

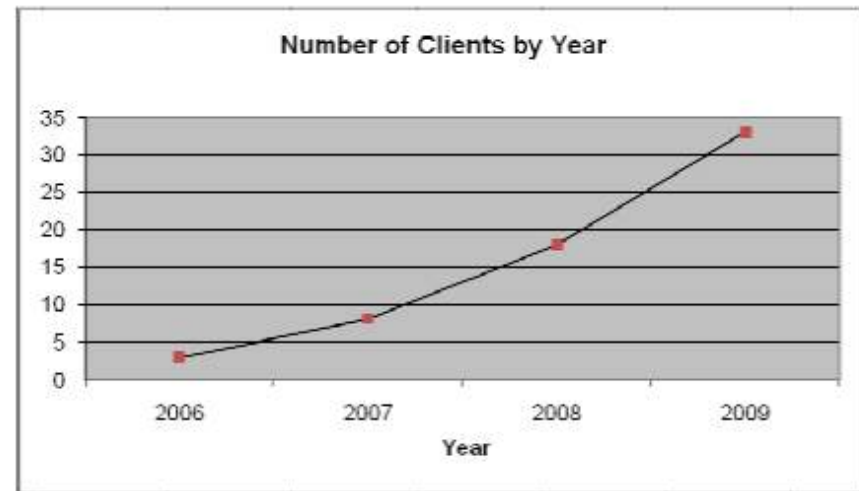
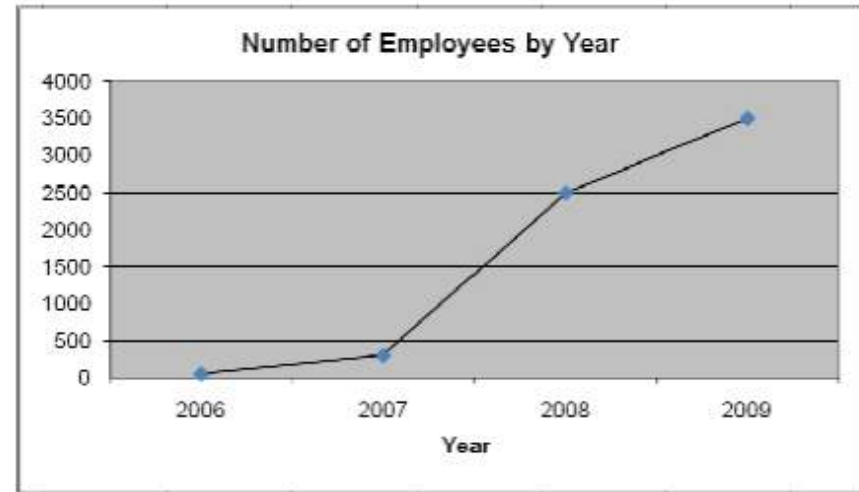


Banking and Credit Card Clients



Source: Company, 2009.

Exhibit 3 CDG's Growth, 2006-09: Employees and Clients



Answering the following questions in your opinions by reading the article above in 1 ½ to 2 pages (>=600 words).

1. Do you believe the cell phone incident is a big deal? Why or why not?
2. Why is Roc Yang experiencing such a dilemma regarding the cell phone incident? What are the root causes for his dilemma?
3. How would you handle the cell phone incident and the upcoming meeting with Chen if you were Roc Yang? Where should he draw the line between upholding CDG's company culture based on professionalism and quality, and adhering to the local business culture that relies on guanxi? Discuss the risks and consequences of your decision.

