

HEIDRICK & STRUGGLES

Multinational Companies Remain Optimistic about China Operations Despite Fierce Competition in a 'New Normal,' Heidrick & Struggles' Latest Survey Finds

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HONG KONG, Oct. 7, 2015 /PRNewswire/ -- Multinational company leaders remain optimistic about their operations in China and expect good profitability there, but that they also anticipate the rate of business growth will continue to slow down—according to a new study by [Heidrick & Struggles](#) (NASDAQ: HSII), the premier provider of [executive search](#), [leadership consulting](#) and [culture shaping](#) services worldwide, in cooperation with AmCham Hong Kong.



The study, "[Managing in China's 'New Normal' 2015](#)," included input from 119 multinational senior executives responsible for China operations with 58% of respondents' companies having a workforce of more than 1,000 employees.

"Business operating conditions in China are more challenging than in previous years. Apart from rising costs and direct competition, the game is getting tougher as multinational companies (MNCs) see a continued improvement in the manufacturing quality of domestic Chinese companies, which have begun operating in global market sectors and offering competitive pricing," said [Seth Peterson, Partner in Heidrick & Struggles' Industrial Practice](#). "The Chinese companies are benefiting from immature capital market, allowing them to establish practices without government intervention, or to simply benefit from government support."

According to the report, MNCs remain confident about operating in China, yet the market conditions remain challenging and they are anticipating slower growth:

- **Stiffer competition:** Fierce competition is a concern for almost 90% of respondents, with 93% reporting that market conditions have become "increasingly challenging." Contributing factors include the increase in labor costs, and despite the recent devaluation of the renminbi, an increase in the cost of sourcing.
- **Sales growth continues, though at a slower pace:** 82% of respondents had an increase in sales during 2014, and 75% expect their sales to increase in 2015. More than 50% said their profitability had grown so far this year, while 63% expect to increase their manufacturing and operating capacity (compared to 83% in last year's survey).
- **Long-term strategies paying off:** Organizations with a well-established presence in China report seeing their long-term strategies paying off – despite the higher salaries and more competitive sales environment, factors which are being mitigated by higher productivity.
- **Diverse view of the 'new normal':** 53% of respondents think that the 'new normal' policies have improved business sentiment and have encouraged further investment in China. They anticipate fresh opportunities will result from expected growth in consumer and service markets, increased emphasis on innovation, greater urbanization, and a more level playing field within China, strengthened by the government's ongoing anti-corruption drive. Others think it is too soon to tell what impact the 'new normal' policies will have on their business; a small number of executives feel that their business may be somewhat threatened by the policies.

In addition, two trends emerged from the survey:

- **Moving up the supply chain:** In terms of manufacturing base, the majority of respondents believe that there is no other option to China in Asia, though manufacturers continue to evaluate and many invest in additional manufacturing in countries such as Thailand, Vietnam and the Philippines. Also, 47% of respondents have established R&D centers in China. For those enterprises without R&D centers, 9% plan to establish one in the next three years.
- **Half of MNCs will continue to increase headcount:** Fifty percent indicate their companies are going to stay on track with

recruitment objectives, down slightly from last year (50% in 2015 VS 58% in 2014). Meanwhile, with the growing pool of high-caliber local talent, the localization of expatriates is high on the agenda for those interviewed in the survey.

"As China has entered into a new paradigm, foreign companies and their leaders need to get used to heightened competition, greater complexity and increased uncertainty, requiring them to think and act more quickly," Peterson said. "The 'new normal' environment will lead to increased competition for talent with domestic Chinese enterprises, but measures designed to steady economic growth could reduce the level of job-hopping, especially among key talent, creating room to develop talent pipelines."

About Heidrick & Struggles

Heidrick & Struggles (Nasdaq: HSII) serves the executive talent and leadership needs of the world's top organizations as the premier provider of leadership consulting, culture shaping and senior-level executive search services. Heidrick & Struggles pioneered the profession of executive search more than 60 years ago. Today, the firm serves as a trusted advisor, providing integrated leadership solutions and helping its clients change the world, one leadership team at a time. www.heidrick.com

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