

Convergence & Differentiation

What is
success in
a connected
world?*

Interview transcripts of Meng Fengchao,
Executive Vice Chairman and President,
China Communications Construction Company Ltd,
China



Meng Fengchao is Executive Vice Chairman and President of China Construction Company Ltd

Meng: CCCC is currently the leading force in road, bridge construction and design, and the largest port construction and design company in China. It is also the largest dredging company in China and the third largest in the world. In addition, it is the world's largest port machinery manufacturer. Its success is attributable to several factors. Firstly, a good market, especially the China market. China's economic development has been progressing rapidly in recent years. The construction of infrastructure has also escalated tremendously. Therefore, the investments in emerging markets have also been increasing nationally and internationally, which is a favourable factor for our construction company.

Secondly, China Harbor Engineering (Group) Corporation ('CHEC') and China Road & Bridge Group ('CRBG') have merged and reconstructed into a new China communications brand-CCCC. This brand itself already carries a good international reputation. On top of that, with CHEC, CRBG and Zhenhua Port Machinery Co. Ltd ('ZPMC') forming a good platform, we continue to occupy a large international market share. As of 31 December of last year, CCCC achieved the largest IPO in the global construction industry, which means CCCC is the largest construction company by market value in the world.

PwC: Do you rely on a visionary ability when you make important business decisions? Also, when making decisions, to what extent do you rely on your own hunch or the advice given by your staff?

Meng: Credits should be given to our working team for the accelerating development of CCCC. Our team is very competitive. In 2006, the Central Organisation Department and the State-owned assets Supervision and Administration Commission of the State Council ('SASAC') appointed our team as the '4-goods team'. Among various state-owned corporations, CCCC is one of the six which gains this recognition which assures our competitiveness. We currently have more than 80,000 staff, over 40,000 of whom are at management or technician level. This structure is more reasonable for us. In making judgements of future markets and the direction our business should follow, I mainly rely on my team and our senior management staff. My own personal judgment takes up a small portion. We undertake thorough research and study before entering a new market or a new industry.

Take the example of the rail market. Before merging and restructuring, we did not engage in the rail market. We are a road and bridge construction company, yet, the share of that construction is continuously shrinking. As a publicly listed company, how can we enhance our strength, expand our market share and reward the investors? Expanding the business scope and enlarging the business scale is a must. So, before entering the rail market, we had done comprehensive research concerning the national economic and market situation as well as the rail market situation. First of all, we analysed that there was 70,000km of railway in China, divided by the 1.3 billion plus population, the length of railway owned per capita is only 4.6cm, which was shorter than one stick of cigarette. Our length of railway owned per capita ranks 100+ in the world; the ratio of railway length to country area ranks 60+. As a matter of fact, China's railway has strictly restrained the development of national economy.

As a result, the State Council made an important decision to accelerate railway development. Under such circumstances, as a top national construction company, we had to enter the rail market. In just over one year, we seized a construction share of RMB46.7bn. From a total beginner, we became the main force in the rail market in just one year.

This example fully demonstrates that our decisions are made by speculating on how the picture will look like after we enter the market, judged by market researches and the manpower, skills, capitals and facilities that we own. Our decisions have been borne out by the facts. My role in this team is a leader, making correct judgments on the future market with the team and other senior management staff.

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PwC: In a situation in which after reviewing the advice of your team, as a leader and CEO, you realise that their ideas and experiences are wrong, how would you let them know what you think, so that they would not feel their research had been wasted? How would you handle such a communication challenge?

Meng: If my team raises an idea about a new project and their ideas are not in line with mine, I will carry out research again. Because in my team, everyone is responsible for a sector of business, so in the regard to that sector, he should be qualified to make a statement. He raises his ideas based on the tremendous work he has done. Therefore, under normal circumstances, support should be given to them. Yet, if the ideas are really contrary to what I believe in, I will continue to work on that. It is because on the matter of manpower, my stance is always to work as a team with team spirit. I put people in positions where they fit in. Under the principle of 'Take the wisdom from the wise; take the power of the brave; take the physical strength of the mediocre; take the prudence of the alarmist', I assign my staff to positions which fully commensurate their abilities and mobilise their initiative.

Of course, the situation you mention has happened. For example, when I was transferred from MOR to CHEC, I found out that CHEC was rarely involved in investment business, especially like core business sectors such as BT or BOT. Works done on expanding the business chain and moving forward were not enough. I tried my best to convince everyone and studied with them in order to develop this direction. The first project that I was in charge of was the Desertification Control and Afforestation Barrier Construction project. This project earned us a considerable reward.

Up to now, my team and I have not experienced any major disagreement on which new industry to enter or what project to contract. Not only is our team extra competitive, it is also a team working with concerted efforts and spirit.

PwC: One of the hottest topics currently is the subprime mortgage issue. The influence of it on world economy is still being felt, and on the other hand, oil prices remain really high. Some people claim that the subprime mortgage issue and the high oil price exert certain influence on the global economic liquidity. In light of this view, how do you look at this influence on the construction industry, the global construction industry and the business prospects of CCCC? Does CCCC have any strategies to deal with it?

Meng: I think the European countries and the US are suffering from a greater influence. For emerging countries like China which do not rely so much on finance, the influence is milder. But still, it does have a certain impact on the trading business of my company. We are a large exporting company of port machinery, so it has an impact. The appreciation of RMB has also influenced our foreign trade and economic co-operation. Two years ago, the annual value of new contracts was only around \$1bn and it ballooned to \$6bn last year. In the first two months of this year, we have already signed foreign economic co-operation contracts valued up to \$4bn. Judging by these two figures, the effect of the subprime crisis on our company is not severe. But in terms of trade and commerce, the major impact is the appreciation of RMB. We have adopted a number of measures to deal with this, for instance, using RMB as the settlement currency in contracts. Another one is to control the risks. Related terms and conditions are included in the contracts, taking into account factors of appreciation. The buyer has the responsibility to compensate us in the future.

PwC: Just now you mentioned about the development of emerging markets. CCCC is becoming a multi-national company and the company's income from emerging markets has also been increasing. These markets, like Africa, have different market characteristics from China. How would you comment on these risks? And what measures are you taking to cope with risks, such as the regulations, the market environment, the labour laws, and the legal taxation system of emerging markets?

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Meng: In terms of the projects we work on in the emerging markets in developing countries, we still mainly focus on the traditional foreign exchange bidding project. Yet to deal with the risks, we are heading towards investment. For example, we trade projects for resources. We are already doing this in some countries to control the risks. At the same time, we try our best to avoid certain risks in new contract evaluation. We evaluate if the partner has the ability to repay and their credibility. We started exploring foreign markets rather early, so we know more about the laws and rules of these countries. Our company began overseas work 20 years ago. That's why we know the legal risks of each country quite well. As we know where the problems lie, we will not engage in countries that bear a higher risk. We have a cautious attitude and only engage in projects with controllable and avoidable risks. In these projects, risks are avoided at the stage of negotiation and contract signing. If you cannot afford cash, but you have resources, you can pay me with mineral stones, wood or oil.

PwC: When considering where to allocate manpower and the choice of projects, do you take a purely economic perspective? For example, if there is a big project in China and a big project in Africa, are economic factors of top priority? What other factors might influence your decision to pursue one particular project over another?

Meng: If you want to enter a new market and occupy it, you have to pay the cost. It is not wise to pursue economic returns in the first project. In a traditional market where we already have a share, we focus on the profits; in an emerging market, we focus on how to enter it and occupy a larger market share. The prime focus when entering a new market is to build up the brand, to build up the reputation and then occupy the market. Of course we have adopted various methods in occupying the market, such as localisation. We now have branches and offices in 56 countries, some of them are pretty localised. These branches are registered in the domicile country and a lot of staff are local people who know everything about the local situations, laws and standard ways of operation. This helps us to control and avoid risks, and at the same time, facilitates us to occupy the market. This is the way we run our business.

PwC: Let's turn to human resources management. The former president of General Electric in the US said he spent 60% to 70% of his time in human resources allocation. Do you agree with him about the percentage distribution? What would be other considerations of human resources allocation? Or would it be a higher or lower percentage depending on the characteristics of the enterprise?

Meng: The president of General Electric used a quantitative method. Our company does not have similar statistics. I haven't calculated the ratio of time and efforts spent in human resources allocation in comparison with other areas. I think human resources allocation includes staff training, appointment and management. It does need fairly large efforts. I can only say it is comparatively large. Regarding staff management, I think the key point is that we have a system to follow. I don't think a president should directly and freely inquire and discuss with other executives about individuals' matters.

At present, we have established a fairly complete system of education, training and development, appointment and management of human resources. We rely on the system to manage people – look for, search, employ, train and develop talented staff. CCCC has some successful experience in staff management. Our executives in 2nd level and 3rd level subsidiaries are fairly young.. The average age of our management team is about 40. They are young, energetic and competent. But how can we leverage their abilities? We uphold a principle: talent and virtue. People with talents and virtues will be promoted regardless of their background and positions. Those with virtues will also be trained and appointed for important duties.

By talents and virtues I mean someone who is competent and able, someone who loves his work and is dedicated to the company. Such a person can be promoted regardless of his background and echelon status.

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For instance, in our Tianjin Dredging Corporation, the current general manager and executive director was previously the general manager of a 3rd level subsidiary. He is young. In the daily operation, especially in production management, he demonstrates his ability to enhance the corporation's productivity as equal to a 2nd level subsidiary. We have found him a talented member of staff, who is dedicated to the company. He was then extraordinarily promoted to a higher position as the deputy general manager in the 2nd level subsidiary for 3 months; then he was once again promoted to the position of general manager. The development is very satisfactory. Since he was promoted last March, he has surpassed all economical benchmarks and financial benchmarks.

However, the talented person without virtues will focus on his personal plans when he participates in company operations and takes up company positions. Such persons cannot be employed. It is very dangerous. So we operate a system to manage employment matters. First of all, when we have a vacancy, the related deputy president studies the candidates and invites recommendations from other executives and staff members. This allows us to talk with the candidates and recommend the candidates in the next phase. Another method is through examinations. Then once again, the candidates need recommendation for the position, depending on whether they meet its requirements. The whole management will study the file and decide the appointment. This is vertical up selection process. So the qualities of our executives are comparatively good. The whole process consists of several levels. One is the recommendation from the lower level, then the management makes a judgment and decision according to the company operations and its performance. Therefore, up to now, CCCC has not had any problems with the appointment of company executives. You see many problems in the market. In China, many business executives are charged with bribery and fraud problems. We don't have one bribery case.

PwC: You've just mentioned how you promote your executives. I have thought of another interview with the president of an enterprise. He said nine key words in human resources management, 'Firstly, to invite; then, to let them perform, and finally, to retain them'.. I'd like to know which of these words is most important for an enterprise, from your point of view, and the most challenging part in CCCC?

Meng: I think these three steps are fairly important. The first is to introduce excellent people into the company. The second is to allow them to perform well. If they are successful in the company, they will of course stay in the company. If they want to leave, they will surely not do a good job. The latter two questions are in fact one question. The first one, introduction into the company, is more critical.

The second question requires that you have the platform to exploit your potential. Our slogan is 'Emotion Keeps People. Career Keeps People. Remuneration Keeps People'. From this point of view, we are continuously developing or introducing talented people. The enterprise needs various types of talents. Why shall we use emotion to keep people? If a person's living conditions reach a high standard, he will pursue the development of his personality and talents. It is crucial. As an enterprise's president, you need to make friends with every person, especially the management team. You have to try your best to understand their working conditions, living conditions and their needs, including mindset, views about the future. You must know them well and absorb their opinions. Let them know they can fully demonstrate their talents and intelligence in their position. Then they feel satisfied and will stay with the company. I use this method. My mobile phone stores over 1,000 key executives' telephone numbers or their birthday and family members' names. Even their family information is stored in my mobile phone. They will receive my best wishes on their birthdays. The relationship between my colleagues and I can then become closer. I think, when the people who engage in production are treated as individuals, they will want to stay in the company. The feelings keep them in the company. This is 'Emotion Keeps People.'

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Regarding Career Keeps People, we must provide them with a platform and allow them to demonstrate their abilities. When we employ a person, we trust him. We optimise his proactive character. Once he takes charge of an area, we let him to decide. Only when he has made mistakes, will we correct him. If there is nothing wrong with it, you don't need to ask the process.

I am in charge of this enterprise with over \$100bn turnover, 80,000 employee and 3,000 projects. First, as the president, I don't remember the names of all employees. Second, I can't know well all the employee conditions. I can only manage the executives at one level below.

Every level of executives manages the staff one level below them. Through levels of authority transfer, my level manages the 2nd level executives, the 2nd level executives manage the 3rd level executives, and the 3rd level executives manage the projects. The system operates in this way.

Many people work hard in their positions and demonstrate their abilities in their platforms. Whenever a construction or even a project is completed, he feels he has meaningful life. And he will be willing to stay in the company. Why are there so many directors and managers from competitors (edited according to President Meng's way of thinking) willing to join our company? We have received eight or nine general managers and deputy general managers. The key reason is we have a flexible personnel mechanism. Our business platform is very large. They can fully develop their talents.

Regarding remuneration, when people join the company, we don't increase their remuneration sharply unless we have a serious shortage of their skills. But the treatment of the ordinary staff is same. We have a very good mechanism that reviews your efforts and salary; the bigger your achievements, the higher your salary. In my company, the salary as the president is not very high. Over 80% of staff in the 2nd level subsidiary have a higher salary than me. Why are they willing to work in their position and give excellent performance? It is because the effect of the examination system and incentive system. We call it Remuneration Keeps People.

Through these three channels, we attract talent to our company. If the company can use the talented staff effectively, it can keep them in the company. Until now, the turnover rates of our management executives and technical executives have been very low. I know some foreign trading enterprises and foreign enterprises in China offer better remuneration than us. But our people do not run off to other companies. We are a company with a long history. Our Dredging Corporation has been around for 110 years. It was founded in Qing Dynasty. It is like a huge aircraft carrier. When its generator starts running, it is still very powerful. So, we attract many people. All are willing to work in this big ship and have no intention to leave. Up to now, we have basically very low records of resignation. None of the members of the senior management have moved on.

PwC: If you want to make CCCC the most successful construction company in the world and you have two or three things to choose and implement, which two or three things will you do?

Meng: The first is to attract talents, develop and keep talents. Talented people are essential to establish a large and successful enterprise. All projects require people to implement them. People are the most crucial part. An outstanding team and a smart leader can decide the future of an enterprise. So I think the development of talented staff is the most important element to develop the company.

The next one is innovation. We cannot just follow the old route. For example, if we have not yet entered this area, we shall find routes to enter it. If we have not acquired this technology, we shall find ways to develop it. Why does our Shanghai Zhenhua Port Machinery company take the largest share in the market? The answer is innovation. It firstly produced single container cranes and then developed the twin container cranes that can handle two containers together. Now, it is studying the quayside container crane that can handle triple containers together. In its original market, it has already reached the top position and can hardly grow at a higher rate. So it has moved to Shanghai to develop heavy industry – ship manufacturing. Last year, we produced the first 4,000-ton 360-degree revolving cranes in Asia and then started to produce 7,000-ton floating cranes. So we have become the leading enterprise in the industry.

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In addition to developing the heavy industry in Shanghai, we are heading for the development of the steel structure business. We have no previous experience but it doesn't mean that we cannot do it now. In the past, we didn't have satellites in space – now, we have launched them. This is innovation. You need to open a new route. After you enter the new area with innovative products, you can own the market. When others have learned your technologies and know how to produce, you will not be the owner of the market any longer. It is well recognised by the international industry that the Port Machinery arm leads in quayside container cranes production. But there are still some facilities for individual containers that require rubber-tyred gantry cranes to carry them. Rubber-tyred gantry cranes were once powered by diesel. They need three litres of diesel to lift one container. Now, we are developing the cranes using electricity instead of oil. It means we can lift up a container with just three units of electricity, a saving in energy cost. It also meets the local and international requirements of environmental protection. In the future, it will become another emerging market and provide us with a big turnover. So, the key is, whether you are innovative in technology or management strategy, you must not be conservative. You must be creative and bold enough to imagine and to realise your creative ideas. You must be dedicated to your work and then you can win. This is what I believe.

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