

Success ingredient

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Old China hand

Deloitte's new CEO Chris Lu discusses the firm's China strategy with *Helen Luk*

Photography by Brian Ching

When Chris Lu was first posted to work in Shanghai 14 years ago as an auditor, he recalls what a backwater the city was. "Any of the elevators and highways that you see in Shanghai today did not exist back in 1994," he says. And expatriates used to fly back to Hong Kong periodically to stock up on daily amenities like shampoo and baby diapers because the familiar brands were not available there.

What a transformation Shanghai has undergone to become the cosmopolitan city it is today. During that time, Lu also charted his own course to reach the zenith of his 27-year accounting career, succeeding Peter Bowie in October as Deloitte China's new chief executive officer in the latest management reshuffle that takes place every five years.

Lu believes what won the other partners over in electing him as their new leader is his China experience. "They need someone who is an old China hand, who is familiar with and committed to the growth of this market," he tells *A Plus* during a recent visit to Hong Kong.

Indeed, Lu's record in helping Deloitte China expand has won the

praise of Jim Quigley, the firm's global CEO. Deloitte China has more than tripled its headcount since the firm unveiled a US\$150 million China strategy in 2004, making it Deloitte's fourth-largest member firm after the U.S., the U.K. and Canada. Lu now manages 8,000 people, including more than 300 partners, or 5 percent of Deloitte's global workforce. The China firm's revenues jumped 28 percent in the fiscal year ending 30 May 2008.

Lu, however, is hungry for more. "I hope to increase our market share of the top 200 companies in Hong Kong and China. We started from less than 4 percent to about 15 percent now. I'd like to increase our share to somewhere in the 20 percent range," he says.

Despite the financial tempest that is ravaging world economies and causing a slowdown in China's growth, he believes the country's infrastructure needs will continue to drive its economy (and that is exactly what Chinese leaders did last month with a four trillion yuan infrastructure project-led stimulus package).

"We are sitting in a very exciting environment where we are continuing to experience high growth irrespective of the recent financial turmoil, which

I believe, just like any other financial turmoil, will pass," he says.

About half of China's population now live in cities but part of China's five-year plan is to urbanize 70 percent of the population, according to Lu. "In order to achieve that, a lot needs to happen on the infrastructure side – roads, housing, transportation, airports. All this will create a demand in the marketplace and this build-up is going to last 10 to 15 years down the road."

The rapid expansion of China's economy will create what he calls "the champions of the world." "There are more and more Chinese companies entering the Fortune 500. The Chinese government has already said its vision is to have 50 Chinese companies in the Fortune 500. There are now about 30, including Hong Kong and Taiwanese companies. So there is still a way to go," he says.

Reversing trends

In the past, foreign investors scrambled their way into the vast China markets; U.S. companies alone have invested more than US\$40 billion in China over the past decade. But since last year, the trend has clearly reversed. "For the first time, outbound investments last year in

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Profile

- 1981** Graduated from The University of Illinois, Urbana-Champaign and joined Deloitte Touche Tohmatsu in Los Angeles
- 1987** Qualified as a CPA in the U.S.
- 1989** Moved to Deloitte's office in Taiwan and became head of the international service department
- 1991** Made partner
- 1994** Relocated to Shanghai
- 1998** Became managing partner of Eastern China
- 2006** Became national managing partner of clients and markets, and co-chairman of the global Chinese services group
- 2008** Elected CEO of Deloitte China



China exceeded inbound investments,” he says. “You see a lot of Chinese companies going out to acquire assets, such as natural resources and some equities in financial institutions all over the world.”

One recent example is Bank of China’s acquisition of a 10 percent stake in private French bank La Compagnie Financiere Edmond de Rothschild for €236 million in September. BOC also bought a further 10 percent of the French bank through the issuance of new shares, *China Daily* reported, in the first move by a Chinese bank to extend operations into the eurozone. According to figures from the Ministry of Commerce, more than 5,000 domestic Chinese companies have set up nearly 10,000 overseas direct-

invested enterprises in 172 countries around the world. From 2002 to 2007, the non-financial outbound foreign direct investment has been growing at an average rate of 60 percent a year. By the end of last year, the accumulated non-financial outbound FDI stood at US\$92 billion, while that figure reached US\$25.7 billion in the first half of this year alone.

China is obviously eager to wield its power in the financial world amid the worsening crisis. A senior Beijing official told reporters on the sidelines of a financial conference in Shanghai last month that Beijing will demand a bigger role in the global financial system if it is to inject extra cash into the ailing International Monetary Fund. “Nobody is going to play

with you if you want China to spend money... while still giving us little voting power,” Jin Liqun, chairman of the supervisory board of China Investment Corp., was quoted as saying in the *South China Morning Post*.

Deloitte is well aware of the vast opportunities presented by the two-way investment traffic – it set up a global Chinese services group around five years ago to demystify China for foreign investors and advise mainland firms hoping to go international. Business is brisk but Lu declines to reveal actual figures.

“Our focus is to make sure people understand China as a marketplace and how they can enter and capture it,” he says. “There are a lot of misconceptions about China – a lot

of these went away because of the successful 2008 Olympics... But there are also some very sad stories – the milk powder situation pointed to a lot of inadequacies in any emerging market. So we need to present China in a balanced way and share insights.”

The group, which directly reports to Deloitte’s global CEO, organizes seminars and webcasts, and produces research papers on wide-ranging topics from China’s tax reforms, new legislation and new accounting standards. Group members also arrange meetings and field trips for Chinese and foreign companies, ministries and delegations seeking investment opportunities.

“Joining the group requires a lot of work and resources,” says Lu, a co-leader of the group. “When we first started it, we had about 20 member firms participating in this network. Today, we have 60 – a three-fold growth, including the Middle East, Russia, Central Europe, Africa, Brazil, Chile and Mexico.”

In one recent visit to a mainland Chinese client’s European headquarters, Lu says they pulled in as many as eight group leaders from different countries to review the client’s plans in Europe. “That was a huge coordination that went on throughout. We listened to the needs of the client and tried to coordinate with China’s lead partner to make sure he was aware of this meeting and when we returned, we worked closely with the headquarters here to make sure the service was properly aligned,” Lu explains.

Need for integration?

Given this need to coordinate manpower from different member firms around the world, is Deloitte preparing to go down the path of its rivals such as Ernst & Young and PricewaterhouseCoopers in changing its operation model from a loose network of affiliated firms toward becoming a single entity?

Surprisingly, Lu’s answer is no. “Deloitte has a collaborative culture and I don’t particularly see the need for integration. We have partners from other firms sitting on our board, which influences our policies. As a CEO, I have to organize my strategies and present them to the board for approval. We already have three non-Chinese partners sitting on our board that influence to a certain extent how it operates.”

Lu explains that the majority of Deloitte’s member firms primarily work in their local markets rather than across borders, with around 70 percent to 80 percent of their revenues generated locally. “Sometimes we say integration is the sharing of resources but we are already sharing in some specific areas. For example, when there is a shortage of talent in Asia Pacific, we have a mechanism for people to work across borders effectively on service lines such as corporate finance and consulting. I am not too sure that integration is the right solution for all. If you don’t need to integrate, then why do it?”

In his new role, Lu says his strategies will not dramatically differ from his predecessor’s. He will, however, focus on fine-tuning services for top CEO clients and discovering new ones. One industry Deloitte is actively pursuing is China’s clean technology, which involves developing solar, nuclear, wind and hydro power, cleaner coal and improving the efficiency of machinery.

“China has a large number of producers developing solar power coming onto scene and they are in some ways more advanced than other countries,” he says.

According to Lu, Deloitte is serving more than half of the companies in this industry and although they are still relatively small in size, some are growing at the rate of tenfold a year. In total, the firm now has about 50 to

60 clients engaged in various forms of clean technology.

“There is a lot of venture capital and private equity money going after this,” he says. “We believe this could potentially be equivalent to an IT revolution of tomorrow because everybody is concerned about the environment.”

Accounting in the mainland

No doubt China’s rapid economic development is bringing a lot of unprecedented opportunities, but competition within the mainland accounting profession is also intensifying. The Chinese government is eager to develop more homegrown accounting firms that can reach economies of scale rivalling the Big Four. Does Lu see that happening?

“We recently met with the Ministry of Finance, which said China is so big that by itself, the country needs not just the Big Four, but the Big Eight or the Big 16. I can understand because China as a market is so huge – it is the size of the United States – and the concentration into four accounting firms may not necessarily be what they like to see.

“In my mind, it is natural that strong local firms will emerge. But on the other hand, China also talks about Chinese CPA firms going overseas. While I generally support that idea, you have to recognize building a global network is very expensive. It requires huge financial undertaking. Are the [Chinese firms] resource-rich and strong enough? I don’t know.”

In the meantime, Lu will just concentrate on what he does best – acting as a bridge between China and the outside world. “Challenging times require innovative strategies. An ability to sell the Chinese story amid the gloomy global economy will be critical in driving the future success of global accounting firms like Deloitte,” he says. **A+**