International Business Management

CASE STUDIES IN SINO-FOREIGN JOINT VENTURES

（英文版）

马春光 编

对外经济贸易大学出版社

国际企业管理
中外合资企业案例集
（英文版）

International Business Management
CASE STUDIES IN SINO-FOREIGN JOINT VENTURES

马春光 编

Compiled by Chunguang Ma

（京）新登字 182 号

图书在版编目（CIP）数据

中外合资企业案例集＝CASE STUDIES IN SINO-FOREIGN JOINT VENTURES：国际企业管理：英文／马春光编．—北京：对外贸易教育出版社，1994.12
ISBN 7-81000-701-7

Ⅰ．中… Ⅱ．马… Ⅲ．合资企业-企业经济-案例-中、外-研究-英文 Ⅳ．F276.43

中国版本图书馆 CIP 数据核字（94）第 14761 号

对外贸易教育出版社出版
社址：北京惠新东街 12 号　　邮政编码：100029
北京管庄印刷厂印刷　　新华书店北京发行所发行
北京金桥激光照排中心
850×1168　1/32　7.65 印张　198 千字
94 年 12 月北京第 1 版　94 年 12 月北京第 1 次印刷
ISBN 7-81000-701-7/H・150　　责任编辑　易之
印数　5000　　定价：7.6

Table of Contents

PREFACE

This International Business Case Book is the end result of a research project undertaken by a team of experts under the direction of Professor Ma Chunguang, Dean of the School of International Business Management. On the team were John Allee, Mitsui Professor of Marketing; Feroza Allee, Professor of Management; and Yao Zhijun, Assistant Professor of International Business. All are staff members at the University of International Business and Economics (UIBE), Beijing, China.

The book is aimed at students in business schools both inside and outside China. The cases are written as a practical study guide, helping students to better understand the general business environment in China, and specific managerial issues in Sino-foreign joint ventures.

We are very grateful to Professor John Allee and Professor Feroza Allee, American visiting professors at UIBE from 1991 through 1994. Their painstaking efforts and extensive knowledge of international business, coupled with their experience in China during the last three years have enabled them to write the following cases in this book:

Babcock & Wilcox Beijing Company Ltd, Beijing Warner Gear, Chemex, Consolidated Technologies Ltd, EG & G, General Electric Company, Ford Motor Company, Hewlett-Packard, Otis Elevator Company, Mitsui & Co., Ltd, Rohm & Haas China Inc,

Xerox Corporation, Yili-Nabisco Biscuit & Food Company Ltd.

We also thank Professor William H. Newman of Columbia University whose efforts in a joint survey with UIBE professors made possible the completion of "Nantong Cellulose Fibers Company in China--a case of successful joint venture". In addition, we thank Mr. Yu Ximing and Ms Jiang Xiaoying of Shenzhou Knitwear Co, Ltd, who kindly offered their time and experience in helping us write the case of the "Ningbo Shenzhou Knitwear Co. Ltd".

As the composition of the research team indicates, the project itself is a joint venture of Sino-foreign professors. We thank all the business executives who kindly gave their valubale time in providing us with the material for this case-study book. Their enthusiastic co-operation is greatly appreciated.

We hope our joint efforts will be bearing rapid fruit.

The Research Team

UIBE, Beijing, China

May, 1994

INTRODUCTION

"Know your competitors and know yourself,
And you need not fear a hundred battles.
Know yourself but not your competitors,
You will win half and lose half.
Do not know your competitors or yourself,
You will lose every time."

Sun Zi Art of War, chapter 3

This is a book of case studies concerning joint ventures in China. It illustrates some problems and possible solutions in the country's rapidly evolving market. As an introduction to the marketplace, each case speaks for itself. As Sun Zi recommends in his quote above, competitors must know each other. This book will help you know China.

Change

The dominant theme in China today is change. Seldom in history has a nation this large attempted such a great change. And the fact that it is largely successful so far is phenomenal.

This book would be out of date very quickly if we focused on short-term issues and problems that are currently being addressed by the country's new laws and maturing business practices. These new laws and maturing practices are changing the way business is done on a day-to-day basis. The book may not be out of date so quickly if we focus on the long-term strengths, weaknesses, opportunities and threats in the years ahead.

The last few years have witnessed steady and dramatic improvements in both the business climate and the people's living standards in China. Today, the tide toward modernization is irreversible. The goal has been set: China is determined to succeed in the international business world, and is evolving international-style laws, regulations and procedures to do it. How quickly the country develops depends on how fast it wants to go, as well as what happens on the world stage.

The balance of power

The balance of power in the world is changing. As the twentieth century draws to a close, new patterns are emerging as old patterns dissolve.

In 1900, Britain and France dominated the world stage, Britain economically and France culturally. Now, at the end of the century, Britain has been reduced to second-tier status in its own continent, and French culture is only one of several European ethnic expressions.

Japan and Germany share an interesting fate. By the middle of the century, both had risen to dominate their respective geographic regions, only to be devastated by war. Thanks to massive outside investment, both rebuilt quickly. The lesson here is the speed with which countries can rise and fall. In today's market economy, an economy can fall from power or be built from ashes in less than fifty years. The United States was built over a longer period of time, with little investment from abroad, and when modern management skills were in their infancy. Building was achieved by millions of hardworking immigrants, many of whom travelled painfully long distances to reach the so-called "The Big Gold Mountain". The lesson here is that among the factors for success, hard work is the most important. However, without adequate investment and management skills, the building process is slower.

Recent economic history has shown there are several requirements for rapidly building a nation. Among them are: investment capital, which usually comes from outside the country that is building; management skills, which may come from inside or outside the country; and a hard-working labor force. Investment, vision and long hours are needed to develop the value-added products that create market leadership and a high standard of living. Manufacturing these products is not done in a vacuum. It requires adequate infrastructure and a sound business environment. And this, in turn, requires a government that understands the value of sound business practices.

Win-win situations

During the 19th and 20th centuries, western powers have dominated the world economy. But it was not always this way. And it will probably not continue. Asia is rising, and China is the center of Asia.

In previous centuries, the economic pie was small. This meant that if you were rich, I must be poor. If I was rich, you must be poor. There was not enough to go around. Today, the industrial, electronic and information revolutions have changed all that. Now there can be enough wealth for everyone; we only have to work together to create it. This is called a "win-win situation", where both parties in business win and nobody has to lose. Today it is possible.

Sino-foreign joint ventures are formed when Chinese work with foreigners, or when people come to China to work with Chinese, whichever way you look at it. Although there are problems, and probably always will be, we believe joint ventures in China can be "win-win" situations, as is illustrated in the Nantong Cellulose Fibers Company in China--A Case of Successful Joint Ventures".

This book is written from taped interviews with joint venture managers. Each manager recognizes problems in his venture. On the whole, however, there is a feeling that solutions can be found. It is possible to do business in China. But it is not easy. Competition is intense. Some segments of the market can already be called mature. And there is a lack of qualified personnel. In addition, there are growing pains, problems that are unique to China as it rapidly modernizes. The bottom line is that if companies want to succeed, they should send good managers to China who can adapt to the Chinese situation.

Factors of success

As we wrote these cases, common themes emerged. Success, we found, is the result of both economic and organizational strength, which in turn, depend on how a company handles a variety of issues. We have called these issues "factors of success".

The following are some major factors affecting the economics of the venture:

1. Human Resource Management. It is difficult to produce goods or services at an attractive cost if workers are untrained, or if there are too many workers per job. Low productivity and redundancy are problems voiced by many joint venture managers. Both seem destined to remain in the future.

Low productivity can be solved through training. This is an area that will be explored in our cases. Unquestionably, however, training requires both money and patience. And there is no guarantee that well-trained workers will not leave the company that trained them to find better jobs elsewhere. Well-trained workers are in high demand in the current job market. Competitive offers are easy to find.

Redundancy is a companion problem. As China's State-owned enterprises reform, one of the main questions is what to do with extra workers. The State-owned system was originally established to create full employment. Efficiency was not the main concern. Now that managers in State-owned enterprises are becoming responsible for their own profits and losses, they want leaner, more efficient operations. Some ventures have spun off unrelated service industries, such as hotels and restaurants, and assigned redundant workers there. One State industry was recently praised in China Daily, China's English-language newspaper, for setting up training classes for laid-off workers. Productivity, training and redundancy are closely related.

Naturally, when Sino-foreign joint ventures form, State-owned enterprises are happy to provide staffing, especially if staffing counts as part of their investment contribution to the new venture. It may or may not be in the best interests of the foreign partner, or of the venture as a whole, to accept these people. Nonetheless, many ventures are encouraged to take in redundant and ill-trained workers from their local joint venture partner. This will continue to be an issue in the future. One of our cases explores this issue.

2. Distribution. This is a marketing variable that affects competitive cost. At present, China's transportation infrastructure is overloaded; it cannot handle the required volume of shipments. This leads to competition to get into the system, and threatens to create a bottleneck that could choke China's growth. Realizing this, the government has committed itself to building more roads and railways. How soon these will be functional is not certain. Meanwhile, many companies have their own delivery trucks and railroad cars. This at least guarantees access to the vehicle. Lack of adequate distribution severely limits market penetration. We view this as one of China's major growing pains. Some of our cases in this book focus on distribution.

Market access is a further complication caused by government red tape and regional barriers. In some industries, regional barriers are more serious than in others. In the auto industry, for example, several provinces will not allow delivery of auto components that have not been manufactured in that province. The Central Government has pledged to "rationalize" the situation, doing away with regional protectionism. Until they do, market access can be a problem.

3. Foreign Exchange. This is an area where the Central Government has recently made a major reform. On January 1, 1994, the Chinese currency Renminbi (RMB) was unified, trading at a

single-tier floating exchange rate. As part of the reform, foreign currencies are now bought and sold through banks. A standardized, unified inter-bank foreign exchange market is being set up, and the old swap markets are being phased out. The system of exchange retaining practiced by the State-owned enterprises, and the mandatory allocation of foreign exchange, are also to be abolished.

For some joint ventures, foreign exchange problems were a major concern. Imagine a company manufacturing automobiles in China. Due to high domestic demand, almost the entire production is sold within the country for RMB. Half the components may come from the parent company overseas in the form of kits, and kit payments must be in foreign currency. Previously, this required going through the swap markets, which was a serious problem. In these markets, RMB were sold at 5. 8 to the dollar and dollars were bought for 8. 7 RMB. With the single-tier floating exchange rate, this discrepancy no longer exists.

The currency reform also makes foreign currencies more easily available. With proper documentation, both joint ventures and Chinese firms can buy currencies they need from banks at any time. This benefits foreign investors, who can now register their capital and remit their profits at the same exchange rate. However, economists say there is still a lot to be done. Dismantling the old system and replacing it with the new one is just beginning. Unquestionably, many old problems have already been solved. But it is still too early to predict new problems that may emerge. Because of this, we avoided writing cases in this area.

4. Localization. This refers to the percentage of the finished product that is manufactured within China. Naturally the Chinese

government and the local joint venture partner encourage localization. The more native labor and raw materials that are used in making the product, the better. Whether localization is in the best interest of the foreign joint venture partner depends on the industry, and whether foreign management takes the long or short view.

In the short-term view, localization is not encouraged because it diminishes the income from kit sales that is remitted to the foreign parent company in hard currency. In the long-term view, the joint venture as a whole may become increasingly cost competitive through using local labor and materials. The long-term view sees China as a market to be penetrated and held for years to come. The short-term view focuses on immediate profits from kit sales. Balancing the two is a management decision. One of our cases explores this decision.

The following are some major factors affecting the organization of the venture:

1. Shared Vision. Lack of shared vision has hampered some joint ventures in the past. Although it may sound obvious, partners in a venture must all agree on fundamental issues before signing the contract. Some foreign companies spend years searching for ideal partners who share their vision about products, markets and management. Others rush into contracts and find themselves embroiled in board room disagreements later on.

Companies entering China should remember that there is a choice of who can be chosen as a joint venture partner, as well as what is invested in the venture and how it is valued. Obviously, if the foreign partner contributes obsolete equipment at an exorbitant valuation, this shows a lack of shared vision in the venture. The same is true if the local partner contributes land and an obsolete manufacturing facility at exorbitant valuations. On March 18, 1994, the Chinese government issued Regulations Governing the Assessment of Foreign-Invested Properties, in five chapters and 28 articles. These regulations specify the four approved procedures in valuation, as well as who is authorized to make valuation determinations, and what to do in case of a dispute. Full Chinese texts are easily available, along with an English translation. This is one more area where reforms are being made.

2. Team Work. There must be harmony in the day-to-day working relations between the local and foreign partners. In practice, however, decision-making is often split between the partners. This can result in the foreign partner attempting to override the decisions of the local partner, or vice versa. Separate staffs may even be set up as each partner tries to create his own "little empire". Factions may form in the back room after work. Reversed decisions, changed rules, and bypassed members of the management team, all exhibit a lack of teamwork.

This may be compounded by pressure to hire unqualified staff in key positions. These unqualified people are often related to important people already within the venture. Some joint ventures avoid this problem by flatly refusing to hire two members of the same family, or even more distant relatives of employees. The answer to these issues seems to be a clear recognition, stated in writing in the joint venture contract, as to who has management control over hiring and the daily running of the venture. Percentage of equity in the venture seems less important than management control.

3. Integrated Organization. State-owned enterprises in China

are usually characterized by rigid departmentalization. Each worker performs an assigned task without taking the finished product into account. Often the worker has no idea of how his or her job fits into an integrated whole. Operating within a mental box, this worker is only concerned with finishing his or her assigned task. There is no concept of teamwork. "It is not my job", is a common and legitimate response under this system. Motivation also suffers, especially since initiative is not encouraged or rewarded. Managers coming into China should recognize these issues. Many managers attempt some sort of integrated restructuring. Some of our cases explore these issues.

Obstacles

The factors of success depend on decisions made within each company. There are also factors within the Chinese environment that affect joint ventures. We call these obstacles. In our research, joint venture managers have consistently mentioned three of these obstacles: quality control, recruitment of skilled Chinese managers, and legal transparency. These exist regardless of the business scope of the venture, or the nationality of the foreign partner.

1. Quality Control. This is the largest single obstacle for many joint ventures. It is not that high-quality products cannot be made in China. They can. It is the lack of consistency in quality that is disturbing. One shipment may be of one quality, another of a different quality. There are many defects, not enough quality control. Companies want to specify quality levels and be assured of consistent delivery.

2. Recruiting Skilled Chinese Managers. This is the second

most commonly-mentioned obstacle. Business education started in China just 12 years ago. Most, if not all, universities concentrated on other fields. As a result, the older generation often cannot handle management responsibility. The opportunities to manage must therefore be passed to younger people. One joint venture manager we know refuses to hire anyone over 32 years old.

Universities in China are working hard to remedy the situation. Business courses are appearing throughout the country, training the younger generation as well as retraining older people. Once the Chinese learn the skills needed to manage in the global business environment, they will be second to none. In the meantime, as some foreign joint venture managers report, older workers often find it hard to overcome the pressures and prejudices of the past. They continue to perform at a "Chinese level" rather than an international one.

3. Legal Transparency. The Market Access Agreement, signed between China and the United States in October, 1992, focused, among other things, on the transparency of laws and regulations. It commits China to "substantially improve the transparency of its trade regime." China has pledged to openly publish and place all laws, regulations and decrees that govern trade in a public repository.

In mid 1992, the government began implementing a program to provide increased transparency in matters affecting foreign trade. MOFTEC, the Ministry of Foreign Trade and Economic Cooperation, assisted the process. The results are beginning to appear. On May 12, 1994, for example, the National People's Congress passed <u>The Foreign Trade Law of the People's Republic of China</u> in eight