

THE Dragon Awakes

THE EU AND CHINA'S ECONOMIC RISE

PEOPLE

A Professor of Entrepreneurship or
An Entrepreneur of B-schools?

KNOWLEDGE@CEIBS

How Can Chinese Companies Go Global
More Successfully

EXECUTIVEFORUM

Dream and Disaster: The Chinese Mass Market

Message from the Editor

Chinese businesses are making the biggest headlines in international media. Lenovo's acquisition of IBM, CNOOC's bid for Unocal, and Haier's ambitious interest in Maytag seem to unfold the wave of Chinese acquisitions in overseas markets. While acclaiming the courage and ambition of Chinese businesses, we must recognize that, given the huge difference in business environment, management and culture, such aggressive maneuvers can be very costly if companies just follow the fashion and go global blindly. Based on a 12-month study of five companies from mainland China and Taiwan, Prof. Arthur Yeung concludes that, before venturing to expand abroad, companies should at least answer two basic questions - why to go global and how to go global - if they wish to succeed. He warns that Chinese companies must be cautious in looking to expand abroad and resist the temptation before they develop an organizational capability to manage globally.

Cultural integration is a critical issue facing any cross-border M&As and joint ventures. Michelin is a case in question. Attracted by the size and diversity of the Chinese marketplace, Michelin created one of its largest production sites in China in 2001. After 18-month of negotiations, Michelin signed a \$200 million deal with Shanghai Tire & Rubber Co., Ltd to form a joint venture. The marriage turns out to be more painful than Michelin has expected. The cultural differences between Michelin and its Chinese partner have resulted in costly misunderstandings and conflicts. Michelin has to make the choice - to adapt its management practices to Chinese culture or to implement its global management policies in China? The remedy offered by three experts is "to think globally and to act locally".

This year celebrates the 30th anniversary of the establishment of China-EU diplomatic relations. At the China-EU summit meeting, leaders from both sides pledge stronger efforts to create a long-term strategic partnership. While enjoying warmer and better relations, China and EU also see disagreements, disputes and friction over trade. How do the European leaders and scholars look at these thorny problems? Mr. José Manuel Barroso, President of the European Commission, and Dr. Alfredo Pastor, Professor of Economics at CEIBS and IESE, explain that China's rise is more an opportunity than a threat to the rest of the world, and that cooperation is a better strategy than rivalry for EU.

Faculty development is a challenge facing any business school, as good faculty is a scarce resource round the world. Over the years, CEIBS has invested heavily to build a sizable permanent faculty pool. This year, the school received over 200 applications round the world and appointed five world-renowned scholars to increase its permanent faculty to 33. The same exciting news is Prof. Liang Neng, Professor of Management and Director of EMBA programme at CEIBS, received three top awards from the Academy of Management for his two innovative research papers. This is the first time in its 65-year history that the Academy has given two all-academy awards to two papers authored by the same scholar at the same time. This is also the first time that a scholar from mainland China has received such a prestigious award from the Academy of Management.



张国华

Zhang Guohua
Editor-in-Chief
President of CEIBS

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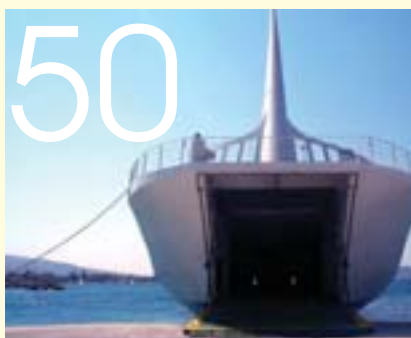
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Dr. Nuño in his office, Barcelona

A PROFESSOR OF ENTREPRENEURSHIP OR AN ENTREPRENEUR OF B-SCHOOLS?

IMPRESSIONS OF DR. PEDRO NUENO,
EXECUTIVE PRESIDENT OF CEIBS

B

Y PROFESSION, DR. PEDRO NUENO IS A PROFESSOR OF ENTREPRENEURSHIP. HE IS THE BERTRAN FOUNDATION CHAIR PROFESSOR OF ENTREPRENEURIAL MANAGEMENT AT IESE, SPAIN, AND EXECUTIVE PRESIDENT AT CEIBS. OVER THE PAST FEW DECADES, HE HAS BEEN INVOLVED

IN THE CREATION AND OPERATION OF FIVE BUSINESS SCHOOLS ROUND THE WORLD - IESE IN SPAIN, CEIBS IN CHINA, AESE IN PORTUGAL, IAE IN ARGENTINA, AND IPADE IN MEXICO. TODAY, IESE IS RANKED AS NO. 12TH GLOBALLY FOR ITS MBA PROGRAM BY THE *FINANCIAL TIMES*, AND CEIBS OCCUPIES 22ND PLACE IN THE SAME RANKING, WHILE IPADE AND IAE ARE AMONG THE BEST BUSINESS SCHOOLS IN SOUTH AMERICA. WHAT ARE THE DRIVING FORCES BEHIND THESE ACHIEVEMENTS AND WHAT CAN WE LEARN FROM THESE SUCCESS STORIES?

THE MAGIC OF ENTREPRENEURSHIP

If there is anyone who ever had an influence on Prof. Nueno's entrepreneurial effort, it is Dr. Frank Folts, a renowned professor from Harvard. Dr. Folts himself was an entrepreneur of business schools. When Dr. Nueno met him in the 1970's, Dr. Folts was already in his eighties, but he was as passionate as any entrepreneur to help developing countries create business schools. For him, this is a life-long profession, and he gets most of his satisfaction out of the profession. It was under his influence and encouragement that Dr. Nueno started his own endeavor to popularize business education worldwide.

It is not unusual for professors of entrepreneurship to be involved in start-ups. Dr. Nueno was no exception. He has been involved in many of these in his lifetime. Some have been successful and some have failed; however, whether they succeeded or not, Dr. Nueno always concludes that "You learn a lot." Perhaps it's this modest attitude that has brought him success.

When asked what were the critical success factors for a business school, Dr. Nueno said, "One of the best sellers these days is *The World is Flat* from Thomas Friedman. And the world really is flat. If you want to be a successful business school you must organize yourself to deliver the best management knowledge, with the best faculty, to the best participants in the world. No matter whether you are in Europe, North America, Latin America or Asia, excellent faculty, outstanding teaching, impacting research, understanding of the global business reality, and the best candidates in all the programmes are necessary conditions for success."

At any joint venture, cultural difference is seen as a major barrier for cooperation. The business schools that Dr. Nueno works for are in Asia, Europe, North America, and Latin America. However, in all his capacities, Dr. Nueno has been maintaining a very fruitful working relationship as well as a personal friendship with the schools' management. What is critical to the cross-cultural communication and cooperation?

"Go back to Prof. Frank Folts", says Dr. Nueno. "He told me that the key to working successfully in cross-cultural settings is respect. Take CEIBS as an example, I have always had a lot of respect for my Chinese colleagues. CEIBS like most successful projects has been a



HAVING LED FIVE INSTITUTIONS TO BECOME THE WORLD'S TOP TIER BUSINESS SCHOOLS, DR. NUENO HAS A SIMPLE ANSWER TO THIS ENORMOUS SUCCESS. REFERENCING THE BOOK, *THE WORLD IS FLAT*, HE EXPLAINS, "IN A GLOBALIZED WORLD, MANY PRINCIPLES ARE THE SAME EVERYWHERE IN THE WORLD, AND TO BE SUCCESSFUL, THERE ARE ALWAYS THESE COMMON FACTORS."

team effort. I can remember lots of names of great contributors: Prof. Li Jiahao, Jan Borgonjon, Prof. Zhang Guohua, our first dean Joachim Frohn, all those at the beginning and the many others later on. Our Honorary President, Prof. Liu Ji, is a continuous source of advice and wisdom. At CEIBS it is possible to see an enthusiasm and a willingness to succeed that you do not see in other parts of the world. Working with CEIBS colleagues is an opportunity to learn, a tremendous enrichment. I will always remember one very warm day in the summer of 1995, when after many hours of work, going to different places with Prof. Li Jiahao for several CEIBS related matters, I asked him: 'What motivates you to work so hard, Professor Li?' He said: 'It's very important for China.'" Prof. Li's words are simple yet impressive.

As Dr. Nueno mentions, the world is flat. No matter where you are, the key factors for success are the same: execution, devotion and perseverance.

CEIBS: A UNIQUE MODEL OF ENTREPRENEURSHIP

A champion of CEIBS from its conception, Dr. Nueno gathered together a group of leading international scholars to form CEIBS' first Academic Council, laying the foundation for the school's development and achievement of international standards through continuous evaluation of its educational and research programmes. It is Dr. Nueno who has helped the school set up the first endowment fund to cover its gap in operational funds; and it is also him who has initiated academic exchanges between CEIBS and the world's leading business schools.

With a noble academic and social reputation worldwide, Dr. Nueno has played an important role in enhancing the cooperation between CEIBS and the Spanish government and business circle. The Spanish government and businesses are among the largest sponsors of CEIBS. The school receives from Spain three chairs, and several millions of operational funds, research grants, and five MBA scholarships. In addition, many Spanish politicians have visited the campus and addressed a CEIBS audience at the school's Executive Forums. All these constructive and successful cooperation and exchanges wouldn't have been possible without Dr. Nueno's endeavour.

During its first decade, CEIBS has developed from almost nothing to a world-renowned business school. Given its short history, we can interpret it as a



With the board members of IAE business school

IESE HAS BECOME THE HARVARD IN SPAIN. AND CEIBS HAS ALSO REALIZED ITS DREAM SET 10 YEARS AGO TO BE AMONG THE TOP BUSINESS SCHOOLS IN ASIA. AT THE 10TH ANNIVERSARY CELEBRATION OF CEIBS, DR. NUENO SUGGESTED A NEW GOAL FOR THE FUTURE DEVELOPMENT OF THE SCHOOL.

miracle in the world of management education. As Chairman of the school's Academic Council and a member of the board of directors, and now as its Executive President, what does Dr. Nueno attribute to the school's huge success? "The success is due to the professionalism of the team and the fact that we all established very ambitious objectives from the first day, everyone's hard work, continuous improvement, and fast learning..." Dr. Nueno modestly attributes the school's success again to teamwork.

After conclusion of its first decade of establishment, CEIBS has already met and exceeded all expectations set forth in its original contract. Today, it is widely recognized as the leading provider of management education in China and in Asia-Pacific. But when discussing its future, Dr. Nueno suggests a loftier goal for the school's second decade: to be ranked among the top 10 business schools in the world. With increasing competition from both domestic and international players, is the new target realistic and achievable? Where does his



With President George Bush
President Bush was holding Dr. Nuño's CEIBS name
card when Dr. Nuño introduced CEIBS to him.

confidence come from?

Dr. Nuño responds, "Being one of the top 10 in the world is not an easy task. But going from a dream to where we are today in ten years has been quite an accomplishment. One of the priorities for top Chinese corporations now, after achieving success in China, is to deploy themselves through the world. We as a business school are not different. Our next challenge is to be truly global. To achieve this goal, we must set up the most ambitious standards and work toward them step by step."

The mission of all world-class business schools is to serve the society through better and relevant knowledge. This

mission is primarily realized through a faculty of excellence, which unfortunately is a scarce resource throughout the world. Does CEIBS have any specific plan to expand its permanent faculty pool? How can it attract faculty members with a distinguished record of achievement?

Dr. Nuño points out, "CEIBS is attracting outstanding faculty. The best professionals recognize the potential of China and the role of CEIBS in its development. Furthermore, we have less bureaucracy than old institutions. Our faculty can see a very direct relationship between their excellent work and the good results of this world in the form of

satisfaction of the participants who can apply the knowledge they learn immediately, or graduates who see their careers enhanced as they leave the school. We plan to continue to hire excellent faculty and will do our best to make sure that they feel comfortable at CEIBS."

As one of the school's founders, Dr. Nuño takes CEIBS as his own child that he feels so proud of. Whenever there is a chance, he will promote this "child" internationally. He handed out his CEIBS name card and introduced the school at the meeting with former President of the United States, George Bush, who became interested in the successful



With President Bill Clinton
Dr. Nuño was introducing CEIBS to the president.

stories of the young business school. Several years later, he mentioned CEIBS again at the meeting with another former U.S. President, Bill Clinton.

Dr. Nuño is also very active in promoting the cooperation between CEIBS and the world's leading business schools. Recently, the school is discussing the possibility of joint programmes with Harvard, Wharton and INSEAD. What is the key driver behind this strategy, and what influence will they have on the future of CEIBS? Dr. Nuño believes that working together with leading institutions is very useful for faculty learning and benchmarking. This benefits the students as well. He recollects, "In my professional

life I have had the opportunity to work in many programmes with leading institutions like Harvard, Wharton, Michigan, MIT, Stanford, INSEAD, and others. I remember those experiences as excellent learning: we prepared contents better, discussed amongst us why we did what, sometimes even developed joint materials, and the result was good."

A SCHOLAR'S SOCIAL RESPONSIBILITY

Dr. Nuño is not only an author of numerous books, academic papers, and cases, but also a frequent speaker at many international conferences and

seminars. Renowned for his successful stories of entrepreneurship in management education, Dr. Nuño is seen as an outstanding scholar and respected social activist as well. He is the current Vice-Chancellor (2000-present) and the past Chancellor (1993-2000) of the International Academy of Management. Dr. Nuño served as Director and Vice President of the European Foundation for Management Development (EFMD). He has been a consultant for international institutions and corporations.

Dr. Nuño received his Doctorate in Business Administration from Harvard University in 1973. His research interests

HE HAS PUBLISHED A DOZEN OF BOOKS, MANY ARTICLES, BUT WHERE HE MUST HAVE CLOSE TO A RECORD IS WITH CASES, BECAUSE HE HAS PUBLISHED HUNDRED OF CASES.

JUST BEFORE THE ASIAN FINANCIAL CRISIS IN THE 1990S, HE WROTE A LETTER TO ZHU RONGJI, THEN PRIME MINISTER OF CHINA.

AT THE EUROPEAN FOUNDATION FOR MANAGEMENT DEVELOPMENT (EFMD), A PRIZE FOR CASE WRITING COMPETITION IS NAMED AFTER HIM - EFMD PEDRO NUENO'S CASE PRIZE.

are entrepreneurship/intrapreneurship, starting new business ventures, industrial alliances, joint-ventures and acquisitions, management of technology and innovation, and internationalization processes.

He is the author of ten books, among which *The Light and the Shadow* has already been published in China. "I have published a dozen of books, many articles, but where I must have close to a record is with cases, because I have published hundred of cases. Cases are working tools, and you need to continuously look for better tools. Most of what I have published has to do with entrepreneurial management, innovation, etc." Like all other authors, Dr. Nueno has tried to publish books with impact, and he likes very much "to find one of my books in the kiosk of an airport."

An influential scholar, Dr. Nueno has a strong sense of social responsibility. He believes that academics must have a voice in society. As part of what he believes is his social responsibility. "I have always expressed my ideas publicly and I believe that I have achieved some respect. CEIBS is a great accomplishment and it is an excellent bridge between China and the rest of the world."

Talking about combining social responsibility and academic responsibility together, there is an interesting story. Just before the Asian Financial Crisis in the 1990s, Dr. Nueno wrote a letter to Premier Zhu Rongji, suggesting that China should

take a prudent attitude toward the opening of the RMB exchange rate, which was later proved correct. How did Dr. Nueno acquire such a vision? What was the basis for his judgment?

Dr. Nueno reveals the story behind, "I had lived similar international pressures to liberalize capital markets in Latin America. This was not particularly good, with tremendous international speculation and inflation. The Latin American country that performed better was Chile that took a more conservative attitude restricting foreign exchange. I thought that an 'Asian Crisis' was building and that a free exchange rate would contaminate China with that financial bubble. And with the help of my Chinese colleagues at CEIBS we sent a letter to Zhu Rongji. Later on I received a prize from *China Daily* for one article published there with the content of the letter."

When asked what was his opinion on the future of RMB exchange rate, Dr. Nueno says, "I believe that the Chinese government is correctly letting the RMB to revalue a little over an extended period of time and doing this under control, looking carefully at the impact of every little increase. There is a lot of liquidity in the world and, in a sense, this is dangerous because somebody (or many individuals) might have the temptation to speculate with the China boom (currency, real estate, stocks). It is important to prevent this speculation."

Besides China's financial reform, Dr. Nueno also provides some suggestions

on innovation for Chinese businesses, as one of his research interests is the management of technology and innovation. He points out, "Innovation is critical but it comes after you have completed the industrialization stage. Many of the problems we find today in the Chinese economy were typical of the European economy of the post Second World War, from copy through non-performing loans. Innovation should come and will come as a generalized priority very soon in China."

To stimulate the development of case studies on Chinese companies, Dr. Nueno helped launch a special prize for case writing competition on Chinese companies at EFMD. Although he suggested using the name of one of the corporate sponsors, EFMD puts the prize under his name as "EFMD Pedro Nueno's Case Prize" to show honour to his dedication to linking China with the rest of the world.

To recognize Dr. Nueno's outstanding contributions to the business education in China, the Shanghai municipal government awarded him the "White Magnolia Award" at CEIBS' 10th Anniversary on November 8, 2004. In 2001, Dr. Nueno was awarded "CEIBS Fellow" by the school.

A SKETCH OF DR. NUENO'S PERSONAL EXPERIENCE

No matter how remarkable his achievements may be, Dr. Nueno is an ordinary person after all.

Dr. Nueno seems to always wear a serious face in daily life. But a short talk with him will unveil the real him inside - tender, generous, always with insights and wits. This may partly contribute to his being such a successful leader. As to the most important characters a successful leader should have, still he refers to teamwork, respect and the way to inspire people's initiatives. Such soft skills in leadership may be the key factors bringing him his charisma.

A retrospect to his personal experience will help us to have a deeper understanding of Dr. Nueno's personality. Dr. Nueno was born in 1944. His father was a worker and the family lived in one of the poor neighborhoods of Barcelona when he was a child. Hard work, ambition for education, honesty, and austerity, all these values of his family were rooted in him. Witnessing Europe's rebuilding from the disasters of the late 1930s and early 1940s, he sees some familiarities between the growing China today and the Europe of the past. His



With Mr. José Manuel Barroso, President of the European Commission on CEIBS' Shanghai main campus, July 2005

years at Harvard had a deep impact on him and the experience and understanding of Latin America also added value to him.

As a famous scholar and respected social activist, Dr. Nueno spends a lot of time on research and other academic activities. But he still manages to balance his time between work and family. To him, work and family has been his formula. At 28, he had finished his Ph.D in Management at Harvard and had three children with his wife Montse. Today, at 61 he's already had 7 grand children. A graduate majoring in industrial engineering and architecture, he remains the interests in drawing and designing. After being the executive president of CEIBS, he often travels to and from CEIBS, which gives him the opportunity to write out of his tight schedule. Currently he has a column in one of the leading newspapers in Spain every week. He still continues to write many publications, especially many cases.



Entertaining Nobel Prize awardee, economist Paul Samuelson at home

MINIMIZE THE DAMAGES

IMPROVING MEDIA MANAGEMENT SKILLS

By Lydla J. Price



In today's intense business environment, companies are increasingly the target of unfavorable press reports. Modern managers therefore must add media management skills to their resumes. It is tempting to downplay the risks involved, but the reality is that media crises hit good companies as well as bad ones, and the risks are getting greater over time. Many factors contribute to the rising threat.

1. First, journalists are putting companies under closer observation than ever before. As China opens up to foreign media companies and local journalists adopt more aggressive investigative techniques, that scrutiny will get even more intense.

2. Second, today's consumers are aware of their rights, and are increasingly willing to use the press to voice their grievances.

3. Third, workers feel increasing pressure from the pace of competition and the uncertainties of business transformation. It is not unusual for them to blame the employer for their anger and frustrations. As with all human hardships, a worker's tale of sorrow makes a good headline.

4. Fourth, Chinese firms are expanding in size and geographic scope, which makes it increasingly difficult to maintain control of internal risk factors. A single mistake in the realm of workplace safety, employee welfare, or product testing and quality assurance will rapidly attract media attention.

5. Finally, and making matters worse, technological advances have created new communication outlets (e.g., email, blogs, short messages) that rapidly transmit news of even the smallest company problems around the world.

So what can a company do to prepare for a media crisis, and minimize the damages if one strikes? The best solution is to set up a systematic process designed to 1) scan the environment, 2) evaluate the risks of emerging problems, and 3) formulate a strategic response.

ENVIRONMENTAL SCANNING

Effective media management begins with continuous monitoring of press reports about the firm and/or its employees. This can be done internally, or by hiring an external news clipping service. In addition to reporting to the firm the extent of its positive reputation, regular media scans help it to evaluate threats. Media managers should use the scans to build an accurate picture of

how the firm and its competitors are viewed by the public and the press. Trends in public opinion and disruptions to those trends should be identified. If the environment is generally friendly and supportive, the firm has a cushion of good will that will soften the blow of any attacks. If the environment is generally hostile, the firm's actions will be viewed with skepticism. In that case it might be necessary to seek outside support for the firm's actions and statements.

Scans should also be used to identify journalists or media firms that typically support or attack the firm and its industry. Additional research should be done to determine the size of the audience and the extent of influence of each journalist and media firm. All of this information is valuable in assessing the risk of any particular to the story's influence and should reflect the likely counter-response of the public and the media.

EVALUATING RISKS

Before trying to correct or counter an unfavorable news report, managers must have an objective assessment of the threat that is posed. Over-reacting to a minor attack can cause more harm than good. An evaluative review should first consider the current level of public awareness about the negative story and the potential for the story to spread. Many minor news attacks should be ignored because a response will only spread the news further. When local producers of non-stick cookware last year claimed to be safer than DuPont's Teflon, DuPont wisely kept quiet. A reply by DuPont would have raised consumer awareness of the smaller local brands as an alternative to its own products. More importantly, it might have drawn the attention of the international press. The local companies are tracked and covered by local news media but are largely ignored by the foreign press. DuPont, on the other hand, is tracked internationally. If they had responded to local competitive attacks, those attacks might have appeared in international news stories. In this case the best response was no response at all.

The second aspect of the evaluative review should be a consideration of the credibility or believability of the negative story. Today's audience members are sophisticated, and they know when a story is exaggerated. So a story about a single customer's bad reaction to a pharmaceutical product would

probably fail to attract attention because it is well known that drugs have side effects experienced by some individuals. But when the problem is widespread, and knowledgeable people criticize the firm, the threat is far more serious. When medical researchers challenged the safety of Merck's pain relief drug Vioxx and criticized the firm for blocking a line of experimental research into the safety risk, the public was immediately alarmed. Merck was right to quickly present its own version of the story, which challenged the ethics of the research suggested by the critics. The company's response illustrated the complexity of the issue and informed people that the research had been debated by Merck's management team before being stopped on ethical grounds. Much more than a media response will be needed to defuse this crisis for Merck, but the company's response did much to assure the public of the firm's integrity. That will surely help as investigations of the situation continue.

The final step of the evaluative review is to assess the likely implications if a story is widely known and believed. Not all unfavorable stories have negative consequences. A Hong Kong mobile phone service provider named Sunday was criticized for using themes of sex and fear in its early advertising campaigns. News stories contained details about citizen complaints to the government regulator, and Sunday's

subsequent withdrawal of the offending ads. Despite the clear evidence of official disapproval, these news stories raised the brand's visibility at a time when it was struggling to establish an image. Moreover, the young and innovative customers in Sunday's target market segment were attracted by the idea of a naughty, risk-taking service provider. In this case, the negative news supported the firm's overall brand strategy.

FORMING A STRATEGIC RESPONSE

When a firm does face a credible threat that is likely to cause damage to its reputation or block its ability to serve its mission, a rapid strategic response is essential. The underlying goals should be to minimize collateral damage from the story and support the firm's image during difficult times. During a crisis the public wants to see the firm take charge of the situation, particularly by moving rapidly to eliminate any risks to health or safety. They want the firm to be open and honest, and to show that it can learn from mistakes. People realize that firms themselves fall victim to the bad behavior of a few individuals, that accidents happen, and that firms cannot always predict the future outcomes of their current actions. But an inappropriate response to the crisis can quickly eliminate that basic goodwill.

The worst thing a company can do in a crisis situation is to avoid the press. Many people present themselves as experts at times of crisis, including competitors, academics, former employees, government officials and members of the media itself. Unless the company speaks up and adds its own voice to the public debate, journalists will consult other sources for input. It is better for the company to represent itself than to let others grab control of the situation. It often helps if the attacked firm can gain the support of independent experts such as government officials, academics, or

other industry officials. This adds credibility to the firm's own statements and might even redirect the focus of media attention. When Mercedes was publicly attacked by a Wuhan customer over a service dispute, the press was highly critical of the way the automaker handled the situation. Eventually, however, legal experts began to criticize the customer's tactics and a government official spoke about the danger to orderly economic development if customers and journalists took over the job of resolving business disputes. The support of these outside experts helped to redirect the media spotlight onto issues of consumer protection and the evolving China business environment and away from the automaker and its products.

Outright denial of a story that is supported by credible evidence is not advisable. Several years ago managers at Firestone Tire Company accused a U.S. television station of falsely reporting a story that linked the firm's tires to fatal car crashes. The story documented multiple crashes that all involved Firestone tires placed on a Ford SUV. Since the television firm was confident of its story, it informed the public of Firestone's denials as it continued to report about a rising number of car crashes. When it eventually became clear that the tire maker and the auto maker shared responsibility for the safety issue behind the car crashes, Firestone's initial denial of responsibility added to the public's anger and created an image of corporate negligence. Uncertainty about the exact cause of the crashes contributed to Firestone's desire to deny responsibility. But without knowing the true cause, it was foolish for the firm to deny any involvement. A better response would be to directly acknowledge that the situation was unclear. The public will be patient if the immediate threat to health is removed and the firm shares its emerging understanding of the problem. By denying a credible story, the firm fails to exploit that possibility.

In general, firms should recognize the public's desire to understand troubling situations so they can avoid harm. By treating journalists and the public with respect, the firm increases the chances that it will receive trust and respect in return. **THELINK**

Dr. Lydia J. Price is Associate Professor of Marketing at CEIBS.



MACROECONOMICS

national economy indicators	range	accumulated
GDP(RMB100 million yuan)	2005 Q1 2005 Q2	31,355 67,422
investment in fixed assets (RMB100 million yuan)	2005 Q1 2005 Q2	9,036 27,967
current account (US\$100 million)	2005 Q1 2005 Q2	56.6 96.8

National Economy Indicators	range	year-on-year growth
GDP growth	2005 Q1 2005 Q2	9.5% 9.5%
investment in fixed assets	2005 Q1 2005 Q2	25.3% 27.1%

Price Index	range	average
CPI	2005 Q1 2005 Q2	102.8 102.4
PPI	2005 Q1 2005 Q2	105.6 105.7

FINANCIAL DATA

currency	range	balance
M0 (RMB 100 million yuan)	2005 Q1 2005 Q2	21,239 20,849
M1(RMB 100 million yuan)	2005 Q1 2005 Q2	94,743 98,601
M2 (RMB 100 million yuan)	2005 Q1 2005 Q2	264,589 275,786

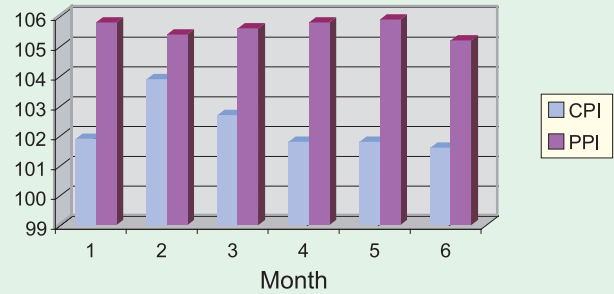
Share Market	range	average
Shanghai Composite Index	2005 Q1 2005 Q2	1226 1100
Shenzhen Composite Index	2005 Q1 2005 Q2	3197 2906
SSE 50	2005 Q1 2005 Q2	839 794
SSE 180	2005 Q1 2005 Q2	2303 2094

ENERGY & HOT INDUSTRIES

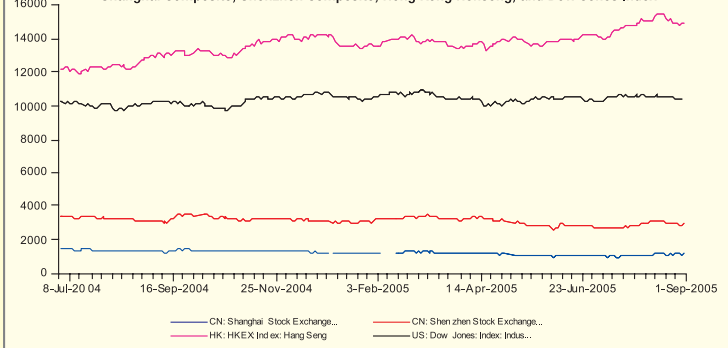
oil	range	dollar/barrel (average)
West Texas (WTI)	2005 Q1 2005 Q2	49.2 47
Brent Crude Oil	2005 Q1 2005 Q2	52.9 51.3

real estate	range	average
China Real Estate Shanghai Composite Index	2005 Q1 2005 Q2	1431 1509

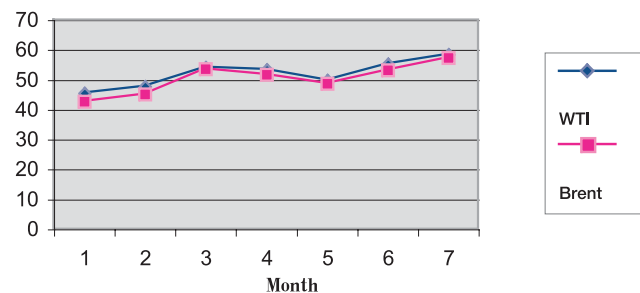
CPI vs. PPI



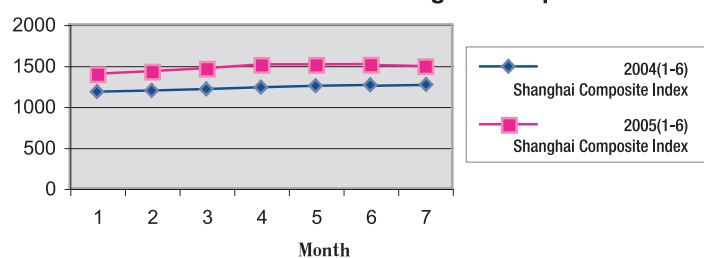
Shanghai Composite, Shenzhen Composite, Hong Kong Henseng, and Dow Jones Index



Trends of International Crude Oil



Trends of China Real Estate Shanghai Composite Index





HOW CAN CHINESE COMPANIES GO GLOBAL MORE SUCCESSFULLY

By Arthur Yeung

In recent years, it has virtually become a fashion for Chinese companies to go global. According to statistics, China has replaced Japan as the world's 5th largest investor in 2004. More remarkable is that some Chinese enterprises have aggressively acquired the world-renowned companies to become the global leader of the industry.

The 1980s appeared to be an age of Japanese companies and Japanese brands on the world economic stage, but in the 1990s the Korean companies took over, and everyone was talking about Korean companies and their products. In the 21st century, who will be in the spot light? Apparently, the Chinese companies are poised to be the next dominant player, as they are exerting increasing influence in the world's arena and have a stronger desire to go global. However, most Chinese companies are facing the same problem during the process: despite great confidence and

enthusiasm, they soon find that going global is much more difficult and thorny than they have expected. Take the merging between TCL and Alcatel for example. The new company suffered a loss of 55 million Euros in 8 months. What about TCL-Thomson Electronics? According to reports, Mr. Li Dongsheng admitted that the integration proved to be more difficult than they had expected. Lenovo planned to accomplish the integration in three phases in five years.

Therefore, the question is not so much whether to go global or not as how to go global more successfully. They should not go global just for the sake of going global.

Chinese companies have both successful and unsuccessful experiences on their road to globalization. Since late last year, China Europe International Business School (CEIBS) has been working with five Chinese companies on the topic of globalization. They include TCL-Thomson Electronics, Galanz, China International Marine Containers (Group) Co., Ltd (CIMC), Benq and Trend Micro. We have spent almost a year exploring with executives of the five companies: what we should pay attention to when we Chinese companies really want to go global? Through our interactive discussions, we conclude that there are three key success factors if Chinese companies want to go global more successfully.

WHY TO GO GLOBAL?

The first key success factor is that companies should clarify their strategic intention before going global. They should know clearly why they should go global. Strategic intention includes the following aspects:

First, why should we go global? China is a big market. Companies must justify when they choose to go global. Is it to create value for shareholders or to whitewash performance for personal gains? Is it for expansion of the market or acquisition of key resources like energy, technology, talents, and brand? Different indicators will be used to measure a company's success for different motivations.

When the strategic intention is clear, the next critical factor is whether a company meets the prerequisites for going global. What are its competitive edges and what enables it to secure a position in the world's arena? Is it low cost, as in the case of Galanz, or economy of scale resulting from industrial integration,

as in the case of CIMC, or technical strengths, as in the case of Huawei Technologies, Nuctech Company Limited and others? The next thing to consider is what we can do and cannot do when going global. Possibly it is more important to think clearly about what we cannot do. Galanz is a company that has clear strategic thinking and positioning. Compared with other world-class companies, Galanz finds that it falls far behind them in resources, brand, talents, technology and others. Therefore, it cannot engage in highly-profitable industries. The simple reason is that Galanz cannot compete with international giants in these industries. Out of this consideration, it takes advantage of its low cost advantage and concentrates in mature industries with low margin. Anything else it cannot do? It cannot emphasize brands. It may face the Antitrust Law if it lays too much emphasis on its brand given its large market share.

Here are two very important decisions to be made. One is where we should go global, developing or developed countries? The other is what we should globalize. If it is financing, then we have an easy solution: just get listed in Nasdaq, Hong Kong or Singapore. This way, we needn't step outside China. Or is it R&D, manufacturing or sales and services? Based on these two decisions, I think Chinese companies have four important choices in its globalization.

The first choice is to build production bases in such developing countries as Vietnam, Malaysia, and Philippines to take advantage of the local labor and to strengthen global manufacturing capacities. Chinese companies, however, do not have such a need, as China's labor cost itself is low. For companies in mainland China, this should not be the mainstream choice.

The second choice has often been used by Chinese companies - to leverage their manufacturing strength to provide customers from Europe and North America with OEM, B2B, export or outsourcing services. Indeed, we need to extend our manufacturing advantages into the worldwide markets. Galanz is a good example. Another example is CIMC. Though CIMC has held 70% of container business in the global market, it does not step outside China, but compete on the basis of China's manufacturing advantages to seek overall expansion and serve customers in Europe and North America.

The third choice is that a company

should try developing countries when it decides to globalize its brand, services and products together with manufacturing. For example, Huawei Technologies and ZTE have made their own brands known in Pakistan, Indonesia, Russia and South America during the process of globalization.

The fourth choice is to use its existing brand to expand to developed countries in Europe and North America, which is what TCL, Haier and Lenovo have done.

The above four choices bring about different challenges to companies. For example, it is more difficult to enter the market in developed countries than in developing countries. The greatest challenge and difficulty is how to change the low-quality image of Chinese products in the minds of western customers. Chinese products are often associated with low cost and low quality. Moreover, a company will face even greater difficulty if it wants to globalize not only its products, but also its services and brand. It needs to build its own marketing channel, manage its own inventories, provide maintenance services, and create a brand image that can be accepted by the consumers.

Therefore, the choice made when going global is critical. My advice is we should face the reality and take appropriate measures according to our strengths and resources.

HOW TO GO GLOBAL?

Once we decide whether to go global, the next question is how to go global. There are at least three ways.

The first is organic growth - a company relies on itself to build overseas production or sales bases one by one. Huawei Technologies, ZTE and Haier have followed this path. Organic growth strategy enables a company to globalize step by step according to its own timetable. Its advantage lies in that it provides the management team with a cushion period to learn to enhance its operation capability in globalization. Another advantage rests with alignment of cultural management system and relatively low risk. However, its weaknesses are also obvious: the process of globalization may be slow as the company has to seek development in one country after another, and the risk of failure is high as it has to fumble its way by itself.

The second is strategic alliance, which is the major model used by Taiwanese companies in seeking globalization. If a company has limited resources and

capabilities, it needs concentration. It should concentrate on a certain part in the value chain and form strategic alliance to do sales, production, R&D and market together. Galanz, Midea and Changhong have taken this way. What are the benefits of strategic alliance? The first is the cost, as the company can leverage the resources and strengths of its strategic partners. Low risk is the second benefit. However, it also has its weaknesses: the company falls under others' control and gets a small part of the cake while the majority of profit goes to others' pocket; and additionally, it does not have a firm control of its products, brand and customers. Galanz serves as a good example of strategic alliance. In 1997 when Europe and North America brought antitrust lawsuit against Korean companies, Galanz took the opportunity to develop cooperative relations with the European companies. Some European companies sold machines to Galanz in return for some OEM services and others rented their machines to Galanz, allowing Galanz to produce their own products as long as it manufactured products for these companies 8 hours a day. Another form of strategic alliance is investment in the operation. And one may form strategic alliance with the general distributor when exporting its products.

The third is merger and acquisition, which, in my opinion, has the greatest risks. Recently, however, many Chinese companies, represented by Lenovo and TCL, have chosen this way to speed up their globalization. One advantage in doing so is that a company can rise among the top-rank companies and enhance itself in a short time. The other one is that a company can acquire some critical resources like technology, channels, and talents. The obvious weakness of this approach rests with great risks. When a company is considering M&A, very often, it only pays attention to the superficial things such as channels, market share and technology, but fails to detect real problems in the merged and acquired companies. Very often these companies have so many thorny problems that they are willing to be merged or acquired. Another problem is valuation - we usually pay more than it is worth. Moreover, due to their inadequate experience in globalization, Chinese companies are often at a disadvantage in negotiations. For example, a company forgets to nullify the length of service of the acquired company's staff, and later it finds out it is very costly to lay off these staff. Another problem lies in integration. There is a "70/

70 rule" in management. It means that 70% of cross-cultural M&A deals turn out to be failures, as the projected efficiency cannot be attained. Among the 70% failed M&A deals, 70% of their failures are because of obstacles in cultural integration - the two parties have different ways to do things and make decisions.

How to Build Organizational Capability for Globalization?

With the strategies set and the ways chosen, the next thing is how to implement. The key issue here is whether the company is well capable of managing globalization.

It is known that managing a Chinese company is different from managing a global company because their structures, systems and required capabilities are different. To take full advantage of global resources and business opportunities, a company's internal organization and management capability must be built. There are three important factors:

1. Are there enough talents for globalization?
2. Do talents have global mindset?
3. Does the company have governance, systems and organization structure that support globalization?

Let's take a close look at these points. The first issue concerns talents - whether the company has enough talents who can meet the requirement of globalization, especially whether management at the headquarters has global leadership. To an executive, managing a global company well is totally different from managing a Chinese one well. Here language plays the fundamental role as one can only manage global teams effectively with good command of another language. Therefore, CEOs of Lenovo and TCL are making great efforts to learn English. Important leadership capabilities also include cross-cultural sensitivity, understanding of political and economic systems in different markets and regions, laws, foreign exchange/tax risk management, etc. Otherwise, one cannot take full control of global resources and business opportunities. Another is whether we can attract first-rate local talents to work for us in important overseas market. After we go global, our products and technology are globalized, but our sales should be localized. Whether we can make money not only relies on the quality

of our products, but more importantly, on whether we can understand local culture and attract local talents to work for us. Many Chinese companies that have gone global can attract only second-rate or third-rate talents rather than first-rate ones. In this case, if their products are not first-rate, they can hardly sell their products. An important thing in attracting talents is to implement localization policy. For example, Acer's current President is an Italian who has greatly encouraged the European team as well as the North American team. Lastly, we should make good use of global talents instead of sending managers all over the world from mainland China. However, to motivate global talents, a corresponding talent deployment system must be established.

The second issue concerns changes in corporate culture and mindset.

The first problem that many companies meet after they go global is cultural shock. Take personal experience of Mr. Li Dongsheng, President and Chairman of TCL, for example. One day, at 5:00 or 6:00 pm when he was on a business trip to Thomson in France, he called the local managers to have a meeting, but he could find nobody. He felt it strange as we Chinese managers' mobile phones are on around the clock every day and they are available at any time. Moreover, the French have shorter work hours each week (35 hours), but longer holidays (5 to 6 weeks), and their compensations are 7 or 8 times those of their Chinese counterparts. Their middle managers have business-class seats when they are on business trip, while Chinese top managers only have economy-class seats. Seeing this phenomenon, many Chinese leaders think the French don't work hard and are expensive, so they tend to rely on those managers from mainland China they have known well. At least these people are obedient, cost-effective and hard-working. But the problem is that out of their inadequate knowledge of the local environment and culture, these Chinese executives are very likely to fail. As far as my experience is concerned, the Chinese can succeed in Southeast Asian countries whose economy is headed by Chinese there, but they will meet great difficulty in European and North American markets. Therefore, if a Chinese company wants to succeed in the European and North American market, it has to tolerate local culture and attach special importance to local talents. Even overseas returnees do not work effectively, and local talents must be employed. While seeking diversification, the company should insist on



performance. For example, if you commit to earning 10 million this year, you should deliver and it can not be compromised. However, as to approaches and work schedule they should tolerate the differences resulting from different cultures.

The second problem is cross-cultural trust and respect, which is the basis for synergy among global teams. As employees of an old company with more-than-100-year history, will those Frenchmen be willing to be controlled by the Chinese managers? They assume that the Chinese management knows very little of modern management system and process. Similarly, the Chinese may complain about the work attitude of and their way of behavior. If both parties doubt each other and cannot build trust, then global teams, resources and business opportunities cannot be fully integrated.

The third related problem is how to balance global and regional interests. At the time of decision-making, a company should take into consideration local conditions as well as global needs. For example, when it develops new products, it should consider both local demands and demands from other markets worldwide.

The last issue concerns governance. The governance should be changed to maximize the value of a global resource network. Here I'd like to take Trend Micro

as an example. It has its finance headquarters based in Japan for the low financing cost, its global product R&D headquarters based in Taiwan for technical strength, its global sales and marketing headquarters based in the US, and its global customer services headquarters based in Philippines for good service. This kind of arrangement shows that a global company should go beyond the country level, and integrate global resources to enhance its overall competitiveness. To align with this, the design of organizational structure is important: whether it should develop a product business units structure, or a regional business units structure, or a functional divisions structure. As well, a global company should also consider what important resources need to be integrated globally. In my opinion, important resources like sourcing, supply chain, production, and R&D must be integrated.

Among the three key issues mentioned above, I think the last one is the most important (how to build capabilities for globalization). The first two (why go global and how to go global) are related to strategy and they may be solved in one year. However, it takes much longer for a company to build the capabilities to operate and manage global

businesses, as evidenced by the fact that Japanese, Korean and Taiwanese companies have spent over 10 years to build their global capabilities. Therefore, these capabilities can by no means be developed in a short time - this is the reality.

Out of above considerations, I think companies should not go global blindly in the upsurge of globalization; otherwise, they may weaken their existing strength because of the high risks involved. They should first build up a solid base inside China. For example, if you are a regional company, you should first become a leading company in China before venturing to become an international company. Personally, I suggest Chinese companies gain ground gradually when going global to reduce risks. They can first focus on a certain region or a product so that there will be lower risks and their staff can have an opportunity to learn. No company can go global for free and in no time. They should build capabilities to operate and manage businesses globally. **THELINK**

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DREAM & DISASTER
**THE CHINESE MASS
MARKET**

By Tom Doctoroff

Chinese mass markets are polarized into two extremes. The first is the real world, worrying, avoiding risk, reassuring, hiding, defending. The key word is protection. But then there's also the dream world of forgiving and hoping and rising above and escaping and flying and being free of all of this. That is about escape. Smart marketers have to be into one world or the other world. Smart marketers have to be addressing one or the other need. But the smartest marketers know how to combine the two.

THEME 1 : REASSURANCE FOR THE RISK AVERSE

What we're now going to be talking about are five ways that advertising and communication and marketing strategies can actually tap into these basic instincts. First is most basic and that's reassurance for the risk averse, constant fear of disaster and loss, avoiding the unknown, sticking with the safe and certain. So there is a strong need for reassurance and a strong need for handholding and that's what the brand is all about.

What is the most important thing that Chinese consumers look for when they buy paint? Lead free? Anti toxicity? It's about safety. Here the most important thing to make sure is that the paint is not going to hurt anybody. The brand has to reassure that the paint is not poisonous. The brand is a guarantee of quality. That is one reason why still today, foreign brands are still actively preferred. Several years ago, "Lao Chai" soy sauce was introduced to China. We asked them: "Do you want this to be known as a JV brand or a local Brand?" Remember soy sauce is a very local product, and it's not just local Chinese, it's local local, used differently in the north and the south. Soy sauce is very Chinese, but still they preferred the safety of a JV brand.

Size counts. One thing that westerners don't understand is how it's possible for a company like Chunlan to offer so many different types of products. Chunlan offers everything from air conditioning, washing machines to motorcycles and diesel engines all under the same brand. Because Chinese people believe that if it's big it must be relatively reliable. Chinese people believe that size matters. Size is safety. So anything that a marketer can do is to make the size of the

company feel big. For example P&G. China is the only country in the world where P&G is recognized by over 82 percent of the population. P&G in the west is invisible. It's either Safeguard or Rejoice or Whisper, but nobody knows that it's from P&G. But it is different in China. People think big size relates to safety.

Service is important. It is reassurance. Haier is not a very actively preferred brand, but people say two things about it. One, it's big; and two, it has great after sales service. So ultimately service is a key reassurance provider and that's what makes people loyal to Haier.

Professional endorsements are critical, like stamps of reassurance and fields of authority. Basically saying if a third party, a respected party has said that this is ok, people tend to believe it. So anytime that your product can benefit from a reliable, a credible third party endorsement you

should do it. Safeguard got a stamp of reassurance from the Chinese Medical Association. It's very important. And Crest, also uses the authority from its dental research centre.

But reassurance is not just about safety, it's not just about making sure that the product works; it's also about social reassurance, social endorsement, making sure that you are safe in a social context; it's not just the physical context, because Chinese people do not exist outside of society. So there is a desire for acceptance and social approval everywhere and there is a fear of isolation and rejection everywhere. So whatever the brand can do to maximize the sense of reassurance in a social context is also going to be very useful.

Take the 'Fang Chao' ad for example. And you can see that what we're talking about here is stain removal, but what we're doing is connecting stain removal to social endorsement of the mother. How do we do that? Well 'stain', if you take out the stain the clothes look like new, nobody will be embarrassed and you're a very good mother. So basically the ability to take out the stain equals the ability to be admired in a social context.

And even for a more contemporary product like Hazeline shampoo which is targeted to urban mass markets, young women, it's still about social endorsement. When the girl came in to the classroom, she felt very embarrassed of her dry and massy hair. Classmates laughed at that. Then she used the shampoo, and she became so confident of her smooth shining hair. She dared



Two worlds of needs

now to sit in the front of the classroom. And she got praises from the classmates.

THEME 2: LEVERAGE THE FAMILY TO MAXIMIZE RELEVANCE

The family is the centre, the building block of Chinese society. The individual cannot independently exist. The individual does not exist apart from society, so the family must be strengthened at all costs. The product impact on the family is paramount, so anything that you can do to integrate the product and the family will be helpful.

How do you leverage the family? Well, first and most basically you protect the family from physical harm and this is what Safeguard soap has done so effectively with a very consistent proposition of germ kill. Surrounding your family with the love of protection, reinforcing a mothers' sacred duty at all costs to protect the family.

Or preserve the cohesion of the family. There is an ad made two years ago. It says: "Nearly every father in the world knows his son's birthday. But how many sons in the world know their father's birthday?" On one hand modern young men are busier. They don't have as much time to spend with the family, but on the other hand they realize that loyalty to the father must be absolute. So there is a tension between a modern lifestyle, freedom to do what one can do and explore the world and the desire and the need to respect the father. So this strategy of Gui Bie Wan's (pill made from tortoise and turtles) is to talk about how you respect your father through the product. It's a topic about family.

Or you can leverage the family to dramatize the relevance of a functional benefit. If the functional benefit is formed in the context of a family, it becomes more obvious. This is an example of Rejoice shampoo. It's about a mass market benefit, which is anti-oily hair. So how do we dramatize the cleanliness of the hair? Use the daughter's touch. The little girl's hair is oily. Mother said she had Rejoice to deal with it. Then the little girl touches the silky smooth hair of her mother. She is proud of it.

Finally, you can breathe emotion into functionality. This is probably the most successful local brand in China. What it's doing is that it's got a value proposition. Its value proposition is "why use a lot when you can use a little". Use a little detergent to clean many, many clothes. This is very functional. What they are able

to do is take that price message and then turn it into an expression of motherly love. Turn it into an expression of a mother who knows how to protect the family.

THEME 3: PRIDE IN VALUE

Whenever I talk to multinational companies and audiences, I say "Be careful, and if your price is too high, you're dead." I don't want to talk about anything else, but if your price is not right, you'd better go home now. One of the most fundamental things about competing in China is the awareness of Chinese people's being very price sensitive. We all know that price sensitivity can kill a business. If the price goes down, profits go down, too. But if you build brand equity, you can have more of a price premium, more of a margin. The problem in China business today is over production, which in turn leads to commoditization. Brand equity is the answer to lowering prices and commoditization, but from perspective of the consumer, low price is humiliating. In Confucian dynastic society the merchants were at the bottom of society. Money is dirty but bargaining is not. Bargaining is not about asking for low prices. It is a skill to take pride in. So what smart marketers can do is instead of talking about low price, turn low price into a demonstration of skill, by helping the consumer think that he is a savvy bargainer.

How do you have low price? One example is the VIP card. The VIP card on one hand is saying you are big, smart and successful, on the other hand it recognizes you don't have a lot of money

so it gives you a discount. It gives the customer pride when paying a lower price. To reduce the price without hurting people's feelings, you must do it in a clever way. For example, the calling card. This RMB 100 calling card is never sold for more than 40 RMB, so basically it gives the buyer the feeling of getting a bargain because the face price is higher than what he actually paid for it. This is very tactical, but very smart.

A second way is to add benefits. Like the 3-in-1 Rejoice Shampoo, the 3-in-2 Master Kong Cracker, and the 5-in-1 Dulux Paint. The idea is the more is the better. To combine many benefits into one product, it gives people the feeling of buying many functions with the same amount of money.

The third way to add value is to dramatize satisfaction. You don't even talk about price at all. Like Shanghai mobile, it offers a half price calling card. But in the ad, instead of talking half price, it talks about "double satisfaction, double happiness" - the customers have double benefits. This is a brilliant case, Nestle. This is a one yuan RMB chocolate bar. Chinese don't like chocolate that much. They think it is too hot. Basically this is not a chocolate friendly society. So Nestle produced a cheap chocolate. Here you don't make an advertisement saying, "Here, buy cheap chocolate!" Nestle lowered the cost of goods, the chocolate content, increased cookie content, and lowered the price. And then it said: "You know what? We are not a chocolate at all! We're an everyday snack! So Moms you can buy this for your kids and put it in their lunch every single day." And



Consumer demand of the Chinese mass market



instead of talking about creamy chocolate taste, the shark in the package of the chocolate talks about crunch, about big bites, about satisfaction, dramatization of taste sensation. This was a huge success for Nestle. It made a cheaper product and it delivered a benefit that is consistent with the repositioning of the entire category.

THEME 4: GLORIFICATION OF THE MUNDANE

Theme four is about turning something small into something glorious and something magnificent and fantasy: glorification of the mundane. We know that big scale beauty and glory are beyond our reach. So we have to bring it out in every day life. We have to find joy and beauty in the smallest of corners.

We all know who Lei Feng is. He is a hero worshipped in China. Then what did he do? Nothing big. He helped little ladies across the street. He picked up the garbage and put it in the garbage can. He was just an ordinary man. But he became a near religious figure. He is normal but celebrated. In general we want to turn small into beautiful, ordinary into glorious.

So turn a simple occasion into a grand

memory. Weddings until recently were not such a celebration. Chinese today want to make them big and glorious. They want to make them larger than life. In those Taiwanese wedding picture studios, the girl is not just a bride; she is a princess being rescued by her prince. And the boy is a hero on a white horse. They are both angels in heaven. But it's just a wedding picture.

Turn small victories into big moments. Cooking a dish well, giving a good presentation, mending a torn shirt; they're not just little events, they're events that are beautiful in their own way.

The soy sauce brand Lao Chai turns an ordinary mother into a princess into the best housewife in the whole world just because she used a nice soy sauce and brought out the good flavor. Or Wanji, the famous Ginseng brand turns Grandpa into a hero. He is as strong as a young man. Last year he was performing in a lion dance, but this year he is even stronger. He performs in a dragon dance.

THEME 5: FANTASY OF CONTROL

The final theme is the fantasy of control and we need this to counter a sense of everyday helplessness. So if people don't

have confidence in their ability to control, give it to them. Give the power when it can be given. Exaggerate the power when it's not there.

This is why Kongfu is so popular. Many western people think that Kongfu is a joke. How can Chinese people like it so much, because they don't understand it represents the essence of Chinese discipline? Kongfu is all about understanding what's around you, being patient, waiting, storing the energy and then at the right time, releasing it in a superhuman larger than life way that can change the world. So Kongfu is about waiting patiently, then release, like in the movie Hero.

Now this is what Nestle does with its X-Crunch ice cream bar. It is really about a product feature with a crunchy shell. But when you bite into it, you blow up the world, as if it gives you the extra power at the very moment.

That's why China is filled with little heroes, small guys that can change the whole world. The monkey king is one example, and Ne Zha, a child born with magical powers who defends his home from evil dragons.

Nike too is doing this, talking about a little big man. When Nike lost the ability to use Yao Ming, it used a sixteen year old boy who's going to be the next Yao Ming. This guy has a baby face. He's tall but very mild. But when the moment matters he stands up and he releases his power. Now he does it safely because it's with an entire generation of new Chinese people on his side pushing out the old generation.

CONCLUSION

What we basically said is due to the nature of Chinese culture and the history of the mass market, they are polarized into two extremes. One is a very protective, reassurance-based need but the other is a beautiful dream. It's larger than life. It's about transcendence and a release. What we've said is that these two poles are diametrically opposed and smart marketers have to address one or the other or in the best case scenario bring them together. Chinese don't have a lot of belief. So give them the fantasy, address their desire that they can not only change, but they can change in a larger than life manner by releasing their ambition. **THE LINK**

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This article is adapted from the presentation given at the CEIBS Executive Forum, August 5, 2005.



MICHELIN CHINA

Michelin - the world leading French-based tire maker - like many multinationals in the 1980s and 1990s, was attracted to China by the size and diversity of its marketplace. Michelin started selling tires to China in 1988. Eager to establish an infrastructure that would help to capture business opportunities, Michelin set up its first joint venture (JV) in Shenyang in 1996. When a bigger opportunity emerged in Shanghai in 2001, to create the one of the largest tire production sites in China, Michelin was ready to exploit it. Analysts were predicting that China's tire sector would grow by 30% annually between 2000 and 2005 and demand would reach 108 million tires by 2010. Demand for radial tires was expected to grow even faster-more than tripling between 2000 and 2005 and reaching 100% market penetration for the passenger car market and 40% for the truck market.

Michelin is here to stay and grow with the market. Our strategy from the start has been to manufacture the same quality tires in China as we did around the world.

-Eric Jugier, CEO and Chairman, Michelin China

It was clear that there were major gains to be made in China, but there were also risks and challenges. The main challenge was managing cultural differences and instilling Michelin's culture in China. According to Jugier:

Revamping the facilities to turn out Michelin-quality tires was not just a matter of money. It was also a matter of nerves. We had to address the question whether we should adapt Michelin's management practices to Chinese culture or whether we should instead implement Michelin's global management policies in China.

This case was prepared by Dr. Liu Shengjun at CEIBS and Research Associate Inna Francis at IMD under the supervision of Prof. Katherine Xin at CEIBS and Prof. Vladimir Pucik at IMD. The case was prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Certain names and other identifying information may have been disguised to protect confidentiality.

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MICHELIN IN CHINA

A leader in world tire technology, Michelin operated nearly 80 manufacturing facilities worldwide and controlled around 20% of the global tire market.

In March 2001, after 18 months of negotiations, Michelin signed a \$200 million deal with the Shanghai Tire & Rubber Co., Ltd. (STRC) to form a foreign invested Joint Stock Company (JSC) - Shanghai Michelin Warrior Tire Co., Ltd. (SMW)-in which Michelin had a 70% stake.

STRC was China's largest tire manufacturer, with 5% market share in that country and annual capacity of 5 million passenger and light truck tires, besides its radial truck tire factory and bias truck tire facilities. In its passenger and light truck factory, it employed about 2,700 people and had sales of around \$80 million in 2000. It also had land-use rights, and the right to use the Warrior brand, known in the Chinese market since 1947.

Although STRC was publicly listed on the Shanghai stock exchange in 1992, the company's culture was dominated by the state-owned enterprise (SOE) mentality (refer to Exhibit 1). The US\$28 million raised from the listing were put into building apartment blocks and an office tower, which failed to make a profit after the Shanghai real estate market crashed in 1994. After a series of unsuccessful acquisitions, STRC was showing a loss of \$56.7 million in 2000.

To save the company, the Shanghai government appointed a new president, Fan Xian, who had breathed new life into Shanghai Soap-the state-owned cosmetics company. Fan Xian became the driving force behind the JSC with Michelin:

Many people disagreed on merging with Michelin. They thought it was a pity to marry their daughter to a stranger. But the alliance offered us an opportunity to learn from Michelin's world-class technology, craftsmanship, management and marketing skills and sharpen the competitive edge of Chinese tire producers.

In April 2001 Jugier, formerly vice president of passenger car and light truck tires at Michelin Asia-Pacific, became chairman and general manager of SMW. Fan Xian was appointed as a vice-chairman.

While the legal teams worked to set



up control mechanisms, three other teams supported SMW in operations, communications and business development. Michelin was able to leverage its JV experience in Shenyang to continue uninterrupted production of Warrior brand tires immediately after the JSC negotiations. Just 12 months later, SMW began shipping Michelin branded tires as well.

When Jugier, a candid and sanguine chairman, recalled his early days in Shanghai, his restraint was evident when he described it as a "difficult year." The market challenges and risks called for a strong national executive team. Since the majority of managers in China had limited exposure to modern management concepts, Michelin sent a dozen expatriates at the beginning. A technical team led the refurbishing and replacement of equipment, the institution of new processes and the deployment of new technologies. Other overseas staff worked to restructure distribution, train retailers on merchandising and product knowledge, install a market tracking system, further strengthen the Warrior brand support and wrestle with customers unaccustomed to paying on time. The expertise of these expatriates was required to lay the foundation for future operations.

The Michelin expatriates realized that the management of human resources was one of the biggest challenges facing the Group. The fact that Chinese values and beliefs were different from their own could result in costly

misunderstandings. If successfully managed, however, the differences in culture could complement each other and lead to better and faster knowledge transfer within the company.

In order to facilitate the integration process, Michelin kept the original management team. To minimize cultural conflict, Michelin emphasized the importance of nourishing local management talent. Jugier commented:

From the very beginning, we were clear-headed about both the shortcomings and advantages of joint venture. That's why expatriates that joined in were mostly experts rather than managers.

Compared with the integration of marketing, sales and production, the integration of people was Michelin's biggest challenge. Eric's vision was to integrate all Chinese employees into "one big Michelin family."

MICHELIN'S CULTURE

The culture at Michelin was based on five fundamental values: (1) respect for customers; (2) respect for people; (3) respect for shareholders; (4) respect for facts; and (5) respect for the environment (refer to Exhibit 1). All Group decisions were taken in light of these values.

Respect for people was considered the key factor in Michelin's powerful innovation ability (refer to Exhibit 2). The company encouraged managers to

delegate in a spirit of trust, providing employees with freedom of initiative and action. There was no established and predetermined job path, no road straight to the top, and no lists of jobs to fill in. Michelin people always had the opportunity to let their talents and interests guide their careers. Every Michelin employee could pursue opportunities outside their formal education:

From your first day you will be given responsibility. An induction scheme and a personalized training and development program will be designed so as to develop and enhance personal and professional effectiveness and to foster individual growth and career progression. Career structures are not set in stone. At Michelin, anything is possible.

Michelin aimed to achieve balanced development for both the company and

THE FIVE VALUES OF THE MICHELIN GROUP

Exhibit 1

RESPECT FOR CUSTOMERS

The very core of the company's mission is to serve its customers; our long-term existence and growth depend on the long-term satisfaction of our customers. Our primary responsibility is to provide our customers with safe products, suitable for their intended use, of high manufacturing quality. Likewise, the services we provide aim for the highest levels of quality in terms of reliability, customer expectations and compliance with deadlines and costs.

RESPECT FOR PEOPLE

We intend to continue the Michelin Group's global expansion through the development of good relations which are mutually beneficial for all our stakeholders be they our employees, our industrial and commercial partners, public authorities, non-governmental organizations, the media or local communities where we are implanted.

RESPECT FOR SHAREHOLDERS

Respecting shareholders therefore means fully recognizing their role and the risks they take, involving them in the life of the Company and striving to meet their long-term expectations.

RESPECT FOR THE ENVIRONMENT

It is our responsibility to provide our customers with ever more environmentally-friendly products and services. Accordingly, our permanent innovation policy focuses on enhancing the environmental performance of mobility.

RESPECT FOR FACTS

Respecting facts demands objectivity and intellectual honesty, above and beyond opinions and preconceived ideas.

Source: Michelin Performance and Responsibility Charter

Flexible Bead Tires: make tire fitting easier

Heavy Truck Tires

Radial Tire: transforming car handling, safety and tire mileage

MICHELIN'S INNOVATION HISTORY 1899

1900

1908

Exhibit 2

1932

1946

Tread patterns: improve grip

Low Pressure Tires: better road holding

employees through its distinctive career management system (refer to Exhibit 3). It was not uncommon to find a Michelin manufacturing engineer exploring a new career in product development, or a production supervisor moving into sales, or an information systems professional seeking a new direction in marketing.

As a worldwide organization, Michelin offered a wide range of career opportunities at an international level, encouraging transfers between activities, sites, services and entities domestically and internationally. The mobility was perceived as an opportunity to transmit and reinforce Michelin values and culture throughout the group. International mobility was encouraged—12% of the company's 4,500 managers were involved in expatriate assignments and usually spent three to five years abroad.

Based on the Group's five values, Michelin created a Performance and Responsibility Charter. Its purpose was to measure and reduce the gap between the Group's values and their implementation. To a large extent, the charter took existing practices from the Michelin culture and translated them into management principles. Edouard

Michelin, Managing Partner and CEO of the Michelin Group, noted:

A company's performance is not assessed only in terms of its economic results. It is also measured by its ability to develop its employees and to take its place harmoniously in the communities and society around it.

To emphasize the equality between managers and workers, Michelin carved the following slogan into a stone: Nobody owns the talents! Christian Tschann, former president of Michelin Asia-Pacific and now President of Michelin Europe, commented:

François Michelin—the company patriarch who was at the helm of the business for 45 years—believed in avoiding too much control over people and allowing for a culture where it is possible to admit mistakes, where individuality, tenacity and strength of character can grow and where intellectual conformity is avoided. Michelin prides itself in being a company that is “willing to dare.” We encourage middle managers to speak out and challenge decisions made at the top.

MICHELIN'S PERSONNEL MANAGEMENT PHILOSOPHY

Michelin's personnel department, which employed 1,400 people worldwide, was independent of the other management structures, and the chain of command was not as straightforward as in many other multinational companies, not to mention Chinese companies. The department's main mission was to:

Build individual professional advancement in line with personal aspirations and proven skills and performance

Satisfy the personnel requirements of the Group's entities, in both the short and long term.

To achieve this mission, the personnel function focused on five activities: (1) individual career management; (2) training and development; (3) management of current and future staffing levels and competency development; (4) management of labor relations; and (5) development of tools to assist in personnel management. Jugier commented:

Everybody is unique and has his own quality or characteristics. The personnel function is to find the special



First "green tires": low rolling resistance and fuel consumption

Pax system: allows the driver to continue at zero pressure

1950-1980

Source: www.michelin.com

1992

1996

1998

First Radial Tires for trucks, motorcycles, earthmovers, agricultural machines and aircraft

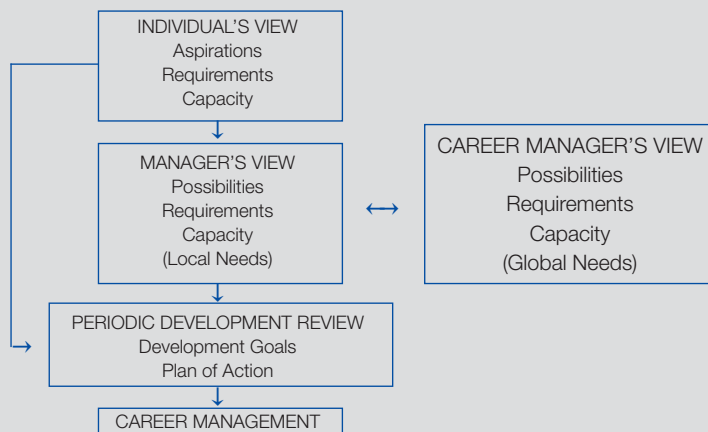
First colored tires



quality of individuals and enable them to flourish within the company for the benefit of the company. In Michelin, the personnel is not simply a support or service, it plays a strategic role. The personnel function is a mix of personnel professionals and people from other functions such as manufacturing and marketing, which can help better understand jobs and individual qualities to find the best fit between individuals and the company.

CAREER MANAGEMENT MODEL

Exhibit 3



Source: Company information

The boundaries between the personnel department and other business units were blurred and personnel managers would have to work closely with their partners in various business units. To play the role of such a strategic partner required soft management skills. This was one of the major challenges facing Michelin's personnel specialists in China, since they did not have a formal place in the hierarchy.

RECRUITMENT

The interview procedure at Michelin was a two-way process that allowed the applicant and the company to get to know each other better. In addition to competencies, background and education, Michelin gave priority to

candidates' character. After an exploratory interview, candidates would be invited for in-depth one-on-one interview sessions with several company representatives, including the manager of the relevant department and a manager from personnel. Interviews covered both technical and behavioral aspects, evaluating communication, leadership, teamwork, vision, planning skills, sensitivity, motivation and adaptability. Alan Duke, international career manager at Michelin, explained:

In Michelin, recruiters make hiring decisions independently. Most recruiters come from operations, have sensitivity to others and know the company well. Selection is very rigorous and humanistic; we do not use tests but rely on the dialogue with individuals. Recruiter makes their final decision based on the assessment of the candidate's fit with Michelin's culture and values. We rarely recruit for jobs. We look for human values not skills. We choose a person first and develop his potential to achieve the highest level. When people join Michelin, no matter what their nationalities are, they must share a common vision for the company.

INTEGRATION

At the Headquarters in France, all new professional recruits had at least a three-month probation, or "integration," period designed to help them better understand the company and to explore their personal career aspirations and talent.

During the integration period, new professional hires came together for a systematic introduction to the company. During this time, they could make appointments with any company executive to seek answers to their questions and concerns. They were also given brief assignments so that they could experience first-hand what it was like to work in the company. Throughout this period, career coaches (i.e., senior managers with years of experience working at Michelin) were available to answer new employees' questions and guide them in their professional aspirations for the future. Each career coach was responsible for 8 to 10 new hires and, at the end of the three-month integration phase, made a recommendation regarding the first job assignment, having assessed the

employee's ambitions and talents in the light of company needs. Elizabeth Grimaldi, integration manager, commented:

It is Michelin policy to put new people—whether they are hired for a senior management position or as a management trainee—in a production plant to work as a production worker for three weeks. Sometimes the environment is far from where they used to operate. During this period they live and work like a worker. They need to have a very good understanding about our production processes and Michelin culture at the front line. Then, they are asked to write a memo about their experience. We will have some vague ideas about the job assignment after the first month, form a better view at the end of the second month, and make a proposal to the new hire at the end of the third month. If the desire of the person doesn't fit with the company's needs, he/she has to leave.

CAREER MANAGEMENT

Individual career plans and personal progression were an integral part of Michelin philosophy. Every professional employee mapped out long-term career directions and interests, received ongoing feedback and evaluation and was engaged in discussions about career interests.

Career development was a shared responsibility between an employee, his/her manager and a career manager. A career manager "followed" all employees, regardless of level, throughout their career with Michelin, meeting with them every two years to assess their needs and opinions. According to the performance and responsibility charter:

We manage careers on a long-term basis, they are generally developed over periods of around 20 years. We are very selective about people we recruit and we continue to assist them in order to give them the opportunities for real career development.

Michelin required career managers to be trustworthy and transparent and to have credibility in previous jobs, the right attitude, the capacity to listen and a strong interest in people. They usually came from all parts of the company. (Refer to Exhibit 4 for the career management procedure.) On average, a Michelin manager changed jobs every three to four years.

PERFORMANCE APPRAISAL AND DEVELOPMENT PROCESS

Michelin's appraisal process consisted of two parts: an annual performance review (APR) and a periodic development process (PDR). The line manager and career manager worked together to conduct the appraisal, which particularly emphasized providing direction and recognition, developing individuals and teams, listening and coaching. In APR, individual objectives were based on company, department and team objectives to ensure consistency. Individuals also gave feedback to managers who were responsible for following up, coaching, providing resources, removing obstacles and modifying objectives if necessary. At the end of every year, manager and employee would meet for an appraisal interview and send the completed APR form to the personnel department.

PDR was considered an important part of career management. It was not tied to APR and could be done at any time, but at least once every two years. During the PDR meeting, manager and employee would try to come to an agreement on the "orientation envisioned by manager," "strengths," "improvement areas" and "proposals for additional training/experience." According to Michelin policy, employees' compensation was linked with the performance of each entity. The purpose of this was to increase employees' identification with the entity to enhance cultural cohesion within the Group.

CULTURAL AND MANAGERIAL ISSUES FACING MICHELIN IN CHINA

RESPECT FOR HIERARCHY AND SENIORITY

The traditional Chinese culture was one of power distance and humility, where people had great respect for fixed hierarchical relationships. Conventional business structures reflected this, with the leader having natural authority. The top down tradition made subordinates less proactive.

Promotions at work were in many cases based on age rather than ability. This was especially typical of SOEs, where the pay structure also rewarded seniority rather than merit. The "iron rice bowl mentality" symbolized guaranteed lifetime employment, leading to minimal pay differentials and no accountability.



Implementing the career management system was one of the main challenges in terms of hierarchy. Traditionally, the Chinese viewed functional departments as more important than supporting functions such as IT and personnel. Thus, some functional managers insisted, "I have the say about where my people go," and it was difficult for them to listen to a third party-the career manager-who was not their direct boss. Jugier commented:

Chinese employees respect functional managers a lot. They think that personnel people are closer to the general manager and feel that the career manager is another guy watching them.

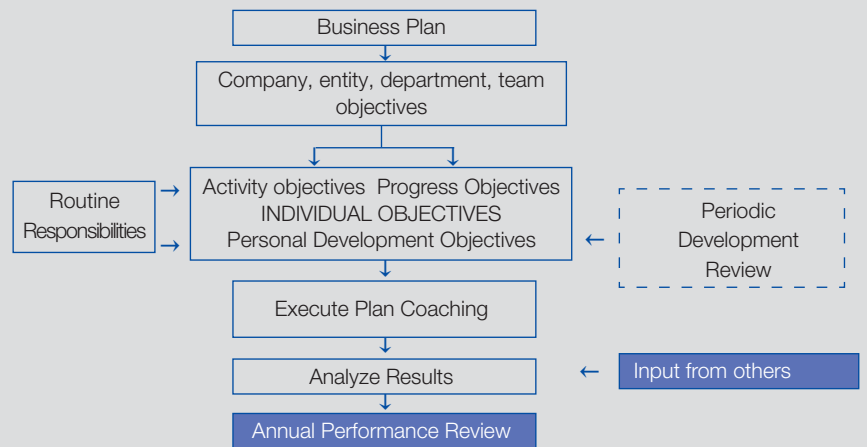
Jugier hoped that employees would be happy to find someone other than their direct boss to discuss their career options with. However, Chinese employees did not quite see it in this light.

Finding qualified career managers in China was another challenge, according to Jugier:

Career managers must have the necessary character and competence to do the job. They have to discuss with managers and convince them. That's why most career managers are from business functions. We should do the same in China. We have to develop competent career managers and recruiters here. We are here to develop people and enable them to take more

CAREER MANAGEMENT PROCEDURE

Exhibit 4



Source: Company information

important positions and make more contributions. It is one of my tasks. We have many positions to fill in China and we need people from other countries. We are in the starting stage.

THE IMPORTANCE OF FACE

The Chinese placed much significance on the concept of face. They went to great lengths to avoid calling attention to errors, indiscretions or emotions that would cause themselves or others to lose face, particularly in front of other people. Good relationships were maintained by conflict avoidance and helping each other to save face. Causing other people to lose face could be seen as a challenge to their position in the hierarchy, which could threaten group harmony and the social order.

In keeping with the value of face, Chinese businesspeople tended not to be confrontational. They would not point out a mistake for fear of causing loss of face. It was also considered disrespectful for a junior person to interrupt or correct a senior. A testing engineer in Michelin reported that some of his colleagues were not happy with the management style of an expatriate manager who provided them with the direct and instantaneous feedback, causing many people to lose face, without the expatriate even realizing it.

GUANXI

There is no exact translation for the Chinese concept of guanxi-a mutually beneficial relationship providing an ongoing link between individuals-which



was the foundation on which most things were built in China. One person would do a favor for another, with the expectation that the person being helped would provide some type of unspecified future assistance in return. Such relationships might exist between neighbors, with the clerk in a local store, with government officials or with business associates. Expatriate managers often spent less time cultivating personal relationships, and from the Chinese point of view, such "inadequate attention" to managing personal relationships undermined managerial effectiveness.

Jugier explained:

We had to make employees learn the way we approach our business and understand Michelin. Chinese people emphasized guanxi rather than teamwork. We had to teach them how to work together in an organization. Many employees could not even understand why it was necessary to sign a new labor contract with SMW.

COMMUNICATION AND DECISION STYLES

The Chinese had a high-context and non-verbal style of communication. It was high context in the sense that certain knowledge was already assumed, as opposed to a low-context culture, where more information was exchanged during each communication. Non-verbal communication included implied meanings, non-verbal cues, indirect statements and symbolic language. In

addition, the Chinese were comfortable with silences or pauses in conversation.

The indirect nature of Chinese communication came from a long history of close families and interpersonal relations. It assumed a shared understanding between communicants. For instance, Chinese businesspeople would rarely say "no" directly in response to a suggestion. Instead they would often propose that the matter be studied further. Similarly, open-ended questions were common, avoiding the possibility of forcing someone into a corner by requiring a "yes" or "no" answer. Rather than valuing directness, the Chinese were more likely to be polite but vague.

Michelin's management placed more emphasis on processes and structures, allowing people to delegate more. Chinese managers were concerned that the rigid structure was an obstacle to speed in the decision-making process. Michelin required them to follow procedures to solve problems in a step-by-step manner as opposed to finding short cuts and quick fixes to solve problems.

PERSONAL DEVELOPMENT

In China, being technically solid was a prerequisite in order to become a manager. Without sound technical knowledge and skills, it was difficult to earn respect from staff. Interpersonal skills in the managerial selection process played a secondary role in China.

Expatriates at Michelin noticed that the individual qualities of some of the Chinese staff were excellent. However, they often

lacked the expected teamwork capability and responsibility in the decision-making process. The Chinese education system placed far greater emphasis on testing individual technical skills than on leadership and teamwork.

Because of the fast growth in foreign direct investment in China, companies were competing for talents, and talent retention and development were major issues. The lack of management talent in China was often referred to as "famine in the midst of abundance." People who had managed to acquire good management skills were in short supply, which led to salary escalation, high staff turnover and less commitment from the company to invest in training and development. Chinese managers at Michelin were frequently approached by headhunters or other companies. Retention of experienced local managers was always a key challenge for multinational companies in China, and Michelin was no exception.

SUMMARY

These cultural differences created the need to strike a balance between seemingly opposing values. To Jugier it seemed a daunting task. Indeed, cultural differences could significantly affect the common set of Michelin's values worldwide. With some 125,000 employees around the world, the company had always tried to ensure consistent understanding of its management principles, and these common principles had to be shared by its employees in China. **THELINK**

THINK GLOBALLY, ACT LOCALLY

By Gary Liu

How can a multinational headquartered in France meet its cultural challenge when it is operating in the Chinese market? What if it copies its HR policies in the oriental cultures? These problems represent the common concerns of business organizations in the 21st century who are struggling for a delicate balance between globalization and localization when they operate globally. The most fundamental challenge in international expansion, as it is found by a number of multinational companies, is not the development of business, but the integration of HR systems. This lesson is important for China, as we see an increasing number of Chinese businesses, represented by TCL, Lenovo, Haier and Huawei, are aggressively expanding into the global markets. The Michelin China can serve as a good example for discussion.

The major challenges facing Michelin China include: the conflict between the local culture and the French culture, the discrepancy in organizational characters between Michelin and the acquired Chinese company, and the gap between the organizational needs of

Michelin and the local employees' mindset and behaviors. In addressing these differences, Michelin must decide: whether it should be localized, how to balance between globalization and localization, and how to choose the timing for globalization?

NEED FOR LOCALIZATION?

For most multinationals, the question is not the choice between globalization and localization, but the optimal balance between the two. On the one hand, any business is an organism; it needs to develop a global brand to ensure its organizational characters in global expansion. However, a global brand itself is never adequate for a multinational - it must see to it that employees in different locations convey to the public the same corporate image and have the ability to adapt to the corporate strategy, and that its resources and knowledge are shared and transferred effectively among its divisions. On the other hand, the regional diversity in cultural and institutional environments requires an organization to develop local responsiveness, and over-emphasis on global consistency and control can only

hamper the local vitality and lead to the "headquarters syndrome".

It is generally assumed that a localized HR management approach is preferred when (1) There is a remarkable cultural difference between the parent country and the host country, and (2) The internal isomorphic pulls are weaker than the external isomorphic pulls. Different cultures have different values which affect an individual's way of thinking and behaviors. There is a huge gap between what Michelin advocates and the traditional culture of the Chinese employees. Internal isomorphic pulls refer to the demand on divisions to adopt the same organizational and management structures to achieve internal consistency and to facilitate the resource sharing and knowledge transfer. External isomorphic pulls come from the local environment (e.g. the host country's economic system and regulatory requirements), requiring divisions to adopt a management approach that aligns with the local realities. China is a transitional economy; the government's involvement in economic sectors is high. Additionally, the local partner of Michelin is a state-owned company controlled by the local

government. All these factors require Michelin to develop a high sensitivity to the local environment.

THINK GLOBALLY, ACT LOCALLY

Localization does not mean that everything should be localized; a more appropriate explanation is that it endows a company to be more flexible or more adaptive to the local environment in its HR management. A global company should focus on a combination of global integration and local adaptation, allowing its employees to "think globally, act locally" (Vladimir Pucik). This should also be made the long-term objective for Michelin China.

The degree of localization depends on an organization's own charters. According to the propensities of multinationals in international HRM, it can be roughly divided into four categories: ethnocentric, polycentric, regiocentric and geocentric. Ethnocentric and polycentric are two extremes - the former gives a prominent place to global integration, emphasizing a global strategy for HRM and non-localization of management team; while the latter attaches importance to high empowerment and localization of management team.

Some multinationals adopt a dual strategy in international HR management - developing a global management system for senior management and delegating the management of staffs to regional divisions. This strategy, however, is only an expedient, as it will reduce an organization's internal cohesion in the long run.

integration. The company has a competitive edge in innovation, and a key task for its operation in China is to implant the same gene in its Chinese division. To ensure global thinking, the first important thing for Michelin China is to encourage the local employees to accept the corporate culture and values. In fact, good values should be able to adapt to different cultures. For example, Michelin's core values of "respect for customers, respect for people, respect for shareholders, respect for facts and respect for the environment" have been recognized and accepted by Chinese employees, and the key is how to turn this culture into guidelines for employees' behaviors.

TIMING FOR GLOBALIZATION

Many employees of Michelin China are from acquired state-owned enterprises (SOEs). Given the nature of HR management in SOEs and the quality and mentality of these employees, Michelin will have to replace the old, inefficient management approach with the "global system".

However, it is recognized that the China-specific cultural characters and complex institutional environment requires more localization in HR management. Additionally, there is a huge gap between the acquired businesses and Michelin in organizational characters, which means a low degree of readiness on the part of local employees to accept Michelin's global HR management system. Open or implicit resistance will arise if Michelin forces to implant its global HR policies. A good example is the career management program which meets great challenges

all these factors make changes at Michelin China slow and miserable. The implicit rules of "relational culture" will not disappear overnight.

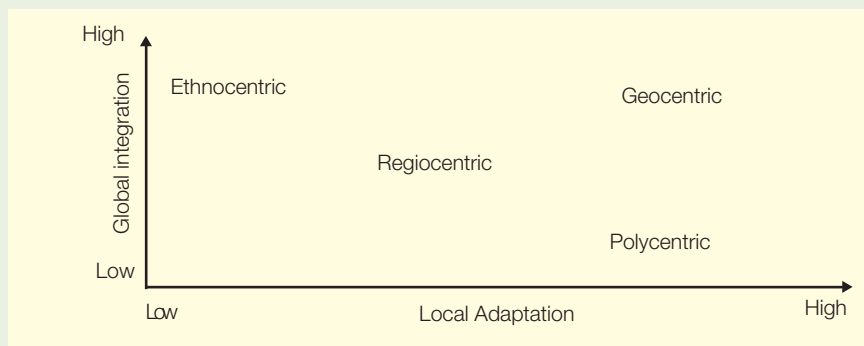
Another challenge is how to change the local employees' values to meet the organizational needs of Michelin. An effective way is to improve the recruiting process to ensure that only the most appropriate candidates are hired. On the other hand, Michelin needs to give opportunities to employees from acquired SOEs and try its best to transform them. A small number of employees will have to be kicked out, which is the pain for Michelin in its integration.

Therefore, Michelin needs time and patience when it tries to transfer its global management system to China, and some adaptation is necessary to cater to the specific characteristics of local culture and local employees. For example, Michelin should localize positions (e.g. HR executives and factory managers) with a lot of interaction with employees. Their local background and expertise will help reduce the potential cultural conflict and add more flexibility in HR practices.

However, Michelin cannot simply wait for the best timing for globalization of its HR management. It can at least start from a few things. First and foremost, Michelin China should try its best to encourage the local employees to recognize its culture and act upon its core values. Second, it should allow more internal transfer and rotation between the headquarters and the Chinese division. These practices can not only help eliminate the cultural differences, but also allow the local employees to better understand its culture. Third, Michelin China should increase the communication between the management and the staff, trying to reduce the power difference and show respect for Chinese culture. Lastly, it should rely on the compensation and incentive system to change the employees' mindset and behaviors.

DIFFICULTIES FACING CHINESE BUSINESSES IN GLOBAL EXPANSION

Different from the overseas acquisitions of Japanese businesses in the 1980s, the pioneers of Chinese businesses in global expansion often do not possess competitive edges. Their fast growth can, to a large extent, be attributed to the high-growing domestic market and the cost advantage. The first motivation



Sources: Heenan D.A., and H.V. Perlmutter, 1979; Multinational Organization Development Reading, MA: Addison-Wesley, pp.18-19.

As a family-controlled enterprise with a long history and the pride of France, Michelin is an ethnocentric business, emphasizing the importance of global

at Michelin. Lack of qualified professional managers, impact of the traditional career development path, and recognition of business heads for HR roles,

behind their global expansion is to break the glass ceiling facing their fast growth. Lack of a sound management system makes them often in conflict with the western culture which more emphasizes rules and process. The recent multinational mergers are facing the same dilemma: to allow "one company, two systems" or to set up a global system? In the latter case, should the Chinese businesses (acquiring companies) assimilate the foreign businesses (acquired companies) or vice versa?

Mentality is important. Chinese businesses should not take it for granted that their culture is superior to that of acquired companies just because they are the acquiring companies. We must admit that most of the western businesses are out of strategic considerations to sell their assets and that the competitive advantage of Chinese businesses is their low cost. On the other hand, westerners have a very low degree of recognition of or even a bias toward Chinese corporate culture. Therefore, Chinese businesses should value the management expertise of the acquired companies just as they value their technology and brands. The integration of management concepts is more important than the integration of culture in retaining the management of the acquired companies. Lenovo has set us a good example in that it has the courage to appoint someone from IBM as the group CEO.

What worries us is that many Chinese businesses focus more on the integration of factors with an immediate impact on the balance sheet, such as purchasing, R&D, and sales, while they often ignore the integration of human resources such that the best time window is missed and the organizational capability is weakened as a result of "one business, two systems".

The key aspect of cross-cultural integration of human resources is the establishment and implementation of a set of consistent values through the organization. Companies with no clear values or localized values must change with the time. This accounts for why Lenovo has replaced the old, political slogan "contributing to the country through industries" with a more company-specific mission statement - "customer service, innovative and entrepreneurial spirit, accuracy and truth-seeking, trustworthiness and integrity". Only with a set of global consistent values can a company "think globally, act locally". **THELINK**



LEARN TO AGREE TO DIFFER

By Lucy Qi

THE INTEGRATION PROCESS OF MICHELIN CHINA

Michelin formed a joint venture with Shanghai Tyre and Rubber Co., Ltd. in 2001. The new company retained most of the Chinese employees from the old company who account for almost 90% of the workforce. Less than 5% are expatriates, and the remaining 5% are recruited from foreign-invested and joint venture companies. The honeymoon period was short, and very soon the disparities between the two partners and the cultural difference between the expatriates and the local employees were posing great challenge for and pressure on the new joint venture.

There is an obvious difference between the Chinese and western cultures. Different values, mindsets and

ways of behavior often lead to misunderstandings or even conflicts. The Chinese culture value obedience, respect for authority and a strict system of seniority. Typically, Chinese employees use understatement, and tend not to speak directly. They have strong "face needs" and never criticize others at meetings. They enjoy individual communication. All these are strange to the expatriates at the company who more value open-mindedness, and respect for individuals and abilities.

Even among the local employees, misunderstanding and conflicts were inevitable at the very beginning, as the employees recruited from foreign-invested or joint venture companies seem to be more direct than the employees from SOEs. They tend to speak

out their mind and not to follow any order blindly. Consequently, their bosses from SOEs feel very uncomfortable or even offended.

The impact of misunderstandings, frictions and conflicts between the two partners is soon shown in business operations. Naturally, the cultural integration is on the agenda.

How to integrate? Just copy the Michelin culture to the new venture and require the Chinese employees to change their frame of thinking overnight? This is obviously impossible, as each nation has its own unique culture which is formed through a long history and deep-rooted in the minds of its people. It cannot be changed easily or replaced by a new culture. A radical change or reform program can only lead to strong resistance and complicate things.

However, cultural integration is a must, as it has an important effect on the company's healthy development. Cultural conflict and communication hurdles create unpleasant work atmosphere, and affect constructive cooperation and work efficiency. So the integration must begin with the frank communication and mutual understanding. Both sides should seek to understand and respect each other's culture, and ways of thinking and behavior. Trust can only be built on mutual understanding and respect.

Employees with working experience at foreign-invested or joint venture companies should serve as a bridge during the process. They can facilitate the communication and help build trust between the expatriates and the local employees from SOEs. In the new joint venture, most of the expatriates are technical people, while the line managers are Chinese from SOEs. Our solution is to recruit employees who have experiences with foreign-invested or joint venture companies and a good understanding of western practices to assume HR-related positions to play a key role in the integration process.

However, the cultural integration program proves to be slow and difficult. The integration began in 2001 and is not completed until today. We retained the management team of our Chinese partner to win trust from Chinese employees. It was not difficult at that time to recruit people with management experience at foreign-invested companies as their replacement, but it would add to the

worries of the local employees and deprived them of job security. When everybody feels insecure, business is at stake. Therefore, the new company offered abundant training opportunities for the Chinese management to allow them to have enough time to understand the Michelin culture and to learn the new management concepts. Additionally, overseas study was also arranged for them to develop new perspectives and horizons. Consequently, the Chinese management began to change their mindset and accept the Michelin culture. Only a small percentage of Chinese employees could not adapt to the new environment, and even for them, the new company made necessary arrangements. Our approach might bring about time loss, but helps win the trust of the Chinese employees and relieve their concerns.

In fact, despite the cultural difference, the basic values are in common. For example, both the expatriates and the Chinese employees agree that customer satisfaction and high-quality products are important, and these basic values form the basis of mutual communication and understanding.

When trust is built, cultural integration becomes much easier. In 2001, Michelin did not implement in the new company the Career Management System (CMS), or the PDR and APR until 2004. We were aware that, before trust is built, the concept of Career Manager is unlikely to be understood or accepted. The Chinese employees would not think the position is helpful for their career development, but rather doubt its real motive - is he or she a "spy" of the new company? With this mindset, they would be unlikely to open their mind to, not to say share their problems with the Career Manager.

After four years of measured integration, the effect begins to show: on the one hand, the Chinese employees are more ready than ever to accept the Michelin culture and systems, and on the other hand, the expatriates now have a better understanding of the Chinese culture. Today, both sides understand that, despite differences in thinking and behavior models, they are working towards the same goal - to develop the company, to produce high-quality products, and to meet the customer's needs. To achieve this objective, they need to respect each other and learn

to work as a team. The CMS is now taking shape. The numerous career managers in the new company are communicating with the Chinese employees on a regular basis, helping them better understand the Michelin culture. Together with the line managers, they design a career path for all Chinese employees.

With the expanding of the cultural integration, the company began to see big improvements in operation, employees' overall competencies, efficiency, and product quality. More importantly, people's mindset has been changed, and the corporate culture and systems have been operating effectively.

During the integration process, Michelin has been very patient. It has tried hard to communicate with the Chinese side in the face of misunderstanding and resistance. Michelin does not implement its culture and systems until the trust is built. This approach reflects the core value of the company - to respect people. In our case it means to respect the Chinese culture and the Chinese way of thinking. When people learn to agree to differ, integration becomes an easy job. In a sense, the whole integration process is neither Michelin way, nor China way, but Michelin China Way.

However, we recognize that it takes times to achieve the optimal effect. So the integration is still going on.

Recently, Michelin is working with China Europe International Business School (CEIBS) on a Culture Aspiration programme, which involves the two vice presidents of the school, Professor Zhang Weijiong and Professor Rolf Cremer, and the Michelin Chair Professor Katherine Xin. We will also invite professors and experts well versed in both cultures to help the expatriates and the Chinese management understand the cultural differences and cross-cultural management. We encourage both sides to understand, appreciate and value the differences. Cultural difference is a matter of fact; it does not mean one culture is superior to the other or vice versa.

In early August, with the help of CEIBS, Michelin completed a training programme - the Michelin Integration Programme. We believe that, with the deepening of the cultural integration, Michelin China will see continued growth. **THELINK**

The author is CEIBS EMBA1995 participant, and HR Director of Michelin China.

WHEN TENDENCY IS CLEAR, CHANGES MUST BE MADE

By Zhang Zhaolin



"The existence of cultural differences makes it all necessary to achieve a balance between the seemingly opposite values" - many multinationals have the same thinking when they face cultural conflicts. What is more important, however, is to break the cultural frame and to begin to think from the perspective of management. Indeed, when we look from a different perspective, the so-perceived cultural barrier is not a problem at all.

In this case, Michelin has met with some resistance when it tries to transfer its global management approach to the

joint venture in China. This might be a problem at the first glance, but if we go deeper, we might find that this is not critical at all. What Michelin needs to do is to think about the following questions:

First, what is the strategy behind Michelin's drive to set up the joint venture with Shanghai Tyre and Rubber Co., Ltd.? What are the real benefits for Michelin?

Second, what in nature or in essence is the relationship between Michelin and Shanghai Tyre and Rubber Co., Ltd.?

Third, how can leadership and tactics help solve conflicts and realize strategic benefits?

The key to the above questions is strategic thinking, leadership and trust-

building.

The strategy for Michelin is to take advantage of the local partner's market share (5% in the Chinese market) and distribution channel to build its capability and reputation and to become a winner in this fast growing market.

For Shanghai Tyre and Rubber Co., Ltd., the marriage is a miserable decision, but it also creates a new chance for structural reform. By a number of unsuccessful "capital operations", Shanghai Tyre and Rubber Co., Ltd. has wasted its valuable capital financed through the market, and lost bargaining power with Michelin on the joint venture. Consequently, it is unlikely for Michelin to

meet with systematic resistance from Shanghai Tire for its strategic maneuver.

Another question is the nature of their cooperation. The sustainability of such cooperation depends on whether each side has its own unique and sustainable resources. In this case, Michelin has the advantage of technology, management and brand, while Shanghai Tyre and Rubber Co., Ltd. possesses the advantage of channel, market (i.e. existing customers), skilled labor and production capability. However, the sustainability of each side's competitive advantages changes asymmetrically during the process of cooperation, which in turn decides the direction of cooperative relations.

For Michelin, the success of the joint venture is largely dependent on the transfer of its organizational capability. The technology advantage is dynamic, so the real source comes from R&D and innovation. From this perspective, the critical challenge facing Michelin is to pump its "blood" to the body of the employees from Shanghai Tyre and Rubber Co., Ltd.

As a controlling shareholder, Michelin has adequate power and authority to implement its strategy. Through fast expanding its marketing channel, Michelin can grab more market shares, and attract people with aspirations and loyalty.

Leaders must understand that, in the case of cultural conflicts, any contradiction becomes simple when the tendency is clear. Behind the strong cultural conflicts is often the complicated game. In this case, if Michelin can realize its strategy as expected, and the tendency is changed, the observed cultural conflicts will not constitute resistance to Michelin's global integration endeavor. When the potential resistance disappears, the game is over, and people regain a peaceful mind. Consequently, the cultural difference should not be a big concern.

An opposite picture would look like this: leaders turn to compromise to power and realities if they fail to distinguish between the intrinsic cultural conflicts and the emotional factors of game mentality. Any compromise to mentality is an acknowledgement of the wrong tendency and practices. This should not be the response to the cultural difference - it actually goes against the cultural integration. Our experience shows that such a compromise will weaken the power of leadership and get the leaders in an awkward dilemma.

When the company realizes this, it should not be eager to seek the perfection of its management system all at once, nor to touch the nerve of cultural conflicts. What it should focus is its strategy where the real interests lie.

How can Michelin overcome the resistance in its strategy implementation? To my mind, to win the support of the Chinese management is the most critical. The joint venture is built on Shanghai Tyre and Rubber Co., Ltd., and 90% of the employees come from the old company. This implies that the new company will largely inherit the interpersonal relations, mindset and practices of Shanghai Tyre and Rubber Co., Ltd. Mr. Fang Xuan is an influential figure in the company, as he has wide influence in the old employees and connections with the local government. In this sense, to win his support is important to the Michelin's strategy implementation.

In fact, to win the support of the Chinese management is not as difficult as people might have imaged, so long as Michelin can focus on its performance target and grow its business. Fast growth can not only meet the government's expectation, but also fit into Michelin's strategic objective. The realization of this common goal needs the business expertise and knowledge, and production process and technology of Michelin. On this issue, Fang Xuan will give his full support and help eliminate the potential resistance to the change. However, there are some "reefs" in the company:

First, the French side ignores the role of the Chinese management. The Chinese management has a strong learning ability, and rich business experiences. They are committed as they shoulder the high expectations from the government. They would not allow to be excluded from the nucleus. In the meantime, they have strong affections for the national brand and are reluctant to see it fade out. Therefore, Michelin must win the trust and support of the Chinese management, and work with them closely to explore the best way of cooperation, including the art of co-decisions. If not, the company would meet "soft" resistance at all levels and its implementation would be weakened.

Second, on some knotty issues, Michelin should have sought the support and cooperation from the Chinese side. It must keep in mind that a prior consultation and consensus is important before any critical decision is made. In many cases, the Chinese side should

stand in the forefront as they can communicate with the Chinese employees more easily. The integration can be more difficult if new interest conflicts arise in the process.

Third, Michelin has isolated the introduction of management system from the performance target, and neglected the arrangement of key positions. The harmony between the two sides is based on the commitment to the common goal. If change is made for the change's sake, the low-level employees can not see the need or significance of the change. Michelin must combine the introduction of advanced management systems with the performance improvement, and in the meantime, put the right people in the right positions. This is the wisdom of a strategic leader.

Now let's sum up the strategy and measures that can be used by Michelin in this case. First, tactics is subject to the overall strategy. Actions should align with the overall tendency. The change management must rationalize all kinds of power, and get hold of the key. To this end, the change programme should be implemented within the larger framework of strategy and performance improvement, instead of being oriented towards a global integration. Second, put the right people in the right positions. In particular, the key positions should be occupied by people who are equipped with advanced management concepts and skills and who agree with Michelin's culture and change. Third, Michelin should size up the situation and adapt to the changing environment. It should take full advantage of the power of the Chinese management, and avoid direct confrontation with the Chinese side and being isolated.

Lastly, Michelin China needs to manage the headquarters' expectations. The organizational complexity, geographic and cultural distances typical in multinationals could lead to the disparity in strategic judgment and decisions between the headquarters and Michelin China. The latter needs to communicate with the headquarters the complexity of the integration process. For the headquarters, the best support it can lend is patience and understanding. **THELINK**

The author is EMBA1999 participant, and GM of HBC Consulting.

TALENT IS THE KEY

By Xu Shaochun

TO ATTRACT THE RIGHT TALENT IS THE FIRST STEP; YOU NEED TO CREATE AN ENVIRONMENT OR A CULTURE TO RETAIN THEM THROUGH LONG-TERM AND SUSTAINED DEVELOPMENT. WHEN THE ENVIRONMENT IS CONDUCIVE TO THE SATISFACTION, STABILITY AND DEVELOPMENT OF EMPLOYEES, A COMPANY WILL HAVE A PROMISING AND PROSPEROUS FUTURE.

To develop a sound strategy is difficult, but to implement the strategy is even more challenging. Here talent is the key. Success requires three conditions: good timing, favorable location and solid partnerships. Of the three, the last factor is the most critical. "Whoever tames the people tames the world."

Kingdee International Software Group currently employs 3,000 employees. Every time I am asked how many assets I have and how many revenues I make this year, my answer remains the same: my biggest asset is my 3,000 employees. In our competition with international

giants, our technology has experienced a fast growth over the past few years thanks to the knowledge and expertise of our talent. Indeed, every employee at Kingdee is a knowledge worker. Several of our board members are receiving management education at CEIBS, and because of this, we have had a chance to know a number of world-renowned professors at the school. Right now, Professor Arthur Yeung has accepted our invitation as our honorary board member. The general manager of our central-south region is a returnee from the United States. In our middle management level, many of our

managers are creative and competent who can always work under great pressure. This accounts for why we have achieved enormous success despite the increasing competition. We have a great team.

There are two critical issues around talent. The first is how to attract talent, and the second is how to maximize their value. Let's start with the first issue. To attract the talent, a company needs first of all to have a strong brand name and set up a stage where the talent can demonstrate their wisdom and knowledge. Branding is an important task for any company. Many international giants are attractive to talented people because they have built a strong and well-known brand in the market. To work at those corporations enhances one's resume. Furthermore, people expect a reputable company to provide them with a stage where they can demonstrate and apply their talents. Therefore, a sound brand name is a selling point to talented people. The second prerequisite is for the company to have an open-minded leader or leaders who, at the same time, can identify the right person for the right position. You don't have to be an expert in your industry, but you must be an expert at finding and utilizing your resources (i.e., talent).

It may not be difficult to find talented people as employees, but to wisely use and retain them is an art. Take my own company as an example. Ten years ago when we just started up, "passion" was the main theme of the corporate culture. At that time, most employees were in their 20s, an age when they cared more about opportunities and self-development than simply money. These young people wanted a fair platform where they could make their job a career. Consequently, we made a series of policies to help our employees reach those particular goals. First, we promised our employees a job position that was suitable. Second, we offered a satisfying compensation package which was comparable to other companies for a similar job. Lastly, we rewarded our best employees with automobiles. With these three incentives and several years' hard work, one would naturally realize their dream of having a stable career. This stable career would eventually lead to a stable and happy family. Nowadays, almost all full-time employees have company stock options. To employees in their 20s, the above mentioned things are the most important.



However, five to six years later, these employees turned into their 30s. Their needs and expectations also changed accordingly. Since most of them have a family, children become the center of their life. Therefore, we added a new element, "children's education", to our corporate culture. We changed one of our company magazines into a pictorial which mainly publishes the drawings, paintings, photography, and other works of our employees' children. This made the employees very happy. When there are important holidays, we organize different forms of activities (e.g., invite famous hosts/hostesses to play games and perform together with our employees' children). Meanwhile, our Human Resources Department has been providing all kinds of help as well, which includes helping our employees find a good kindergarten or school for their children. All these efforts have made our corporate culture permeate into the heart of each employee, which helps foster a sense of satisfaction with, and devotion to, the company.

What's next then? The current situation is that many of our employees will turn into or are already in their 40s. A couple of years ago, I heard a description of those who are in their 40s: they would remember things that happened long time ago but easily forget what happened yesterday. Of

course this is just a joke. I guess the implication is that people in their 40s begin to be nostalgic, tend to recollect the past and miss the yesterday. For that reason, we are now planning to add "respect for the elder" to our corporate culture in addition to the themes of "passion" and "children's education". We are doing such things as paying a group visit to a sick parent (or parents) of our employee to show our respect for our employees and their families. Other activities relevant to this theme are also on our agenda.

All in all, to attract the right talent is the first step; you need to create an environment or a culture to retain them through long-term and sustained development. When the environment is conducive to the satisfaction, stability and development of employees, a company will have a promising and prosperous future.

To win the battle in today's hyper competitive market, strategy is important. So is execution. Yet talent undoubtedly plays the key role. **THE LINK**

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This article is based on the speech given by Mr. Xu Shaochun at the inauguration ceremony of CEIBS Changzhou Alumni Chapter. The article is not reviewed by the author.



MY EXPERIENCES OF INTERNATIONALIZATION

By Jin Zhiguo



"To make it big and strong and to become a multinational" is a dream of every small company. However, 99% of the companies suffered from failure on their road to internationalization. Why only 1% of the companies can succeed? China is a transitional economy. If we go international blindly, the only fate awaiting us is failure.

Tsingtao Beer boasts a history of over 100 years, and it takes almost a century for us to grow from a small company to an international brand. We did not give a thought to internationalization until China's opening up and entry into the WTO.

Internationalization is not a pure concept. It tests a company's ability to allocate its resources globally and to improve continuously its financial performance. It is actually an ability to

learn to grow. Such an ability is never a slogan, but an accumulation. We are happy to see some Chinese companies have grown rapidly and taken a brave step to go international. However, they also have difficulties and perplexities during the process. To me, their courage is most respected and valuable.

China has been an integral part of the world economy. The question is not so much about whether you should go

international as about how you go international. The latter is an important question. The risk will be very high when you only have a goal but without a strategic map and strategic measures to realize the goal.

How to go international? What are the specific steps involved? A real multinational looks very attractive with its high output value and sales revenues. However, we have little understanding of

**TO ACT UPON THE STRATEGY IS
A LONG-TERM BEHAVIOR.
CHINA DOES NOT LACK SMART
PEOPLE. WHAT IT LACKS ARE
CONSCIENTIOUS PEOPLE.**



how they achieve what they look today. Anheuser-Busch is the global beer leader and a strategic partner of Tsingtao Brewery. In March of this year, I had an opportunity to work with the management team of Anheuser-Busch and to learn the essence of operating and managing a global company. This is a rare learning chance after my two-year study at CEIBS.

EXPERIENCE 1: STRATEGY

Every action at Anheuser-Busch starts from the strategy - this is a long-term behavior. What they do is quite different from what we do in purpose. I just give one example. I didn't know until today why Anheuser-Busch purchased 5% of our shares when we went public in 1993 on Hong Kong Stock Exchange. In the following months, our share price increased by several-fold, but Anheuser-Busch didn't cash in. Equally surprisingly, it didn't choose to sell when our share went down to 60 cents. We thought they were silly, but they are not at all. They predicted that China would open up some day; so what they did in 1993 is what they should do today. This tells us that we need to look at things from the future, and develop a long-term strategic planning. A multinational like Anheuser-Busch can look ahead for a decade - the vision comes from their belief that all actions must be based on strategy.

EXPERIENCE 2: IMPLEMENTATION

The Chinese are smart. When they go abroad to study, they are often among the top students of their classes. China does not lack smart people. What it lacks are conscientious people. We're doing the same as multinationals; the problem with us is implementation. Whatever we

do, we seldom make it the best.

Like foreign businesses, we have strategy too, but the strategy is never effectively implemented. Likewise, we have corporate culture, but our culture is only a slogan without any meaning or connotation. We have structure, system and strategy, but none of them is implemented effectively.

EXPERIENCE 3: SYSTEM

Multinationals emphasize strategy and system, and value system-based management and control. In contrast, Chinese companies rely on personal relations and value the role of leadership. Consequently, we have a number of star entrepreneurs, but very few star businesses. A good multinational has a long life cycle, and often continues to prosper after a century. Compared with the life cycle of businesses, our life expectancy is shorter, not to say the life cycle of our wisdom. A multinational develops from

found that everyone from the top management to the lowest level was an expert on their positions. Whatever job he or she took, every member tried to make it perfect and become a top performer of the profession. I was deep impressed by its culture and spirit. If every member, every team of the organization works with such an attitude and mentality, what power can it be and how can we compete?

INTERNATIONALIZATION: A NOBLE GOAL TO SPREAD NATIONAL SPIRIT

China witnessed a phenomenal growth in the past two decades. However, we must measure our achievements against international standards. If we set our target at 1.3 metres when the international level is 2 metres, then we should not feel excited when we jump over it. Internationalization means that we should raise our standard and set a higher

EVERYTHING SHOULD BE BUILT ON SYSTEM AND DONE THROUGH STRATEGIC MANAGEMENT. A COMPANY CAN BE VERY POWERFUL WHEN IT HAS A SYSTEM, AND WON'T DIE BECAUSE SOMEONE LEAVES.

generation to generation, and a great company can survive for several centuries - this can never be achieved by one leader. I approve the American presidency system. A president can only run twice four years term. The wisdom is either exhausted during the eight years, or cannot grow as the position requires. A country's progress demands for a speed faster than a man's learning.

Everything should be built on system and done through strategic management. A company can be very powerful when it has a system, and won't die because someone leaves.

EXPERIENCE 4: MENTALITY

In a competitive environment, every position at a multinational - from CEO down to first-line employee - should maintain a positive mentality and a peaceful mind. Not a few Chinese businesses appear to be impatient. The impatience comes from the inside as well the outside. Why we have so many fakes and products of low quality? This is fidgety, and will be punished sooner or later.

I had a field visit to a multinational, and

target to make us look small. Only when we look small, can we work harder and more conscientiously.

Our strategic partnership with Anheuser-Busch is a win-win strategy. We invite "foreign coach" to help us with our internationalization. We can reduce the potential risk by drawing on their experience. I see a few Chinese entrepreneurs around me who want to be national heroes and are therefore not willing to work with international resources. However, they must realize that, given their limited capabilities and resources, their dream of becoming national heroes will never come true. Internationalization does not mean we should give up national culture or spirit, but in contrary, we should spread it during the process and make it international.

We were born in a great nation and in a great time. My dream is to create a great company. With two-year rigorous training at CEIBS, I believe I can make it. [THE LINK](#)

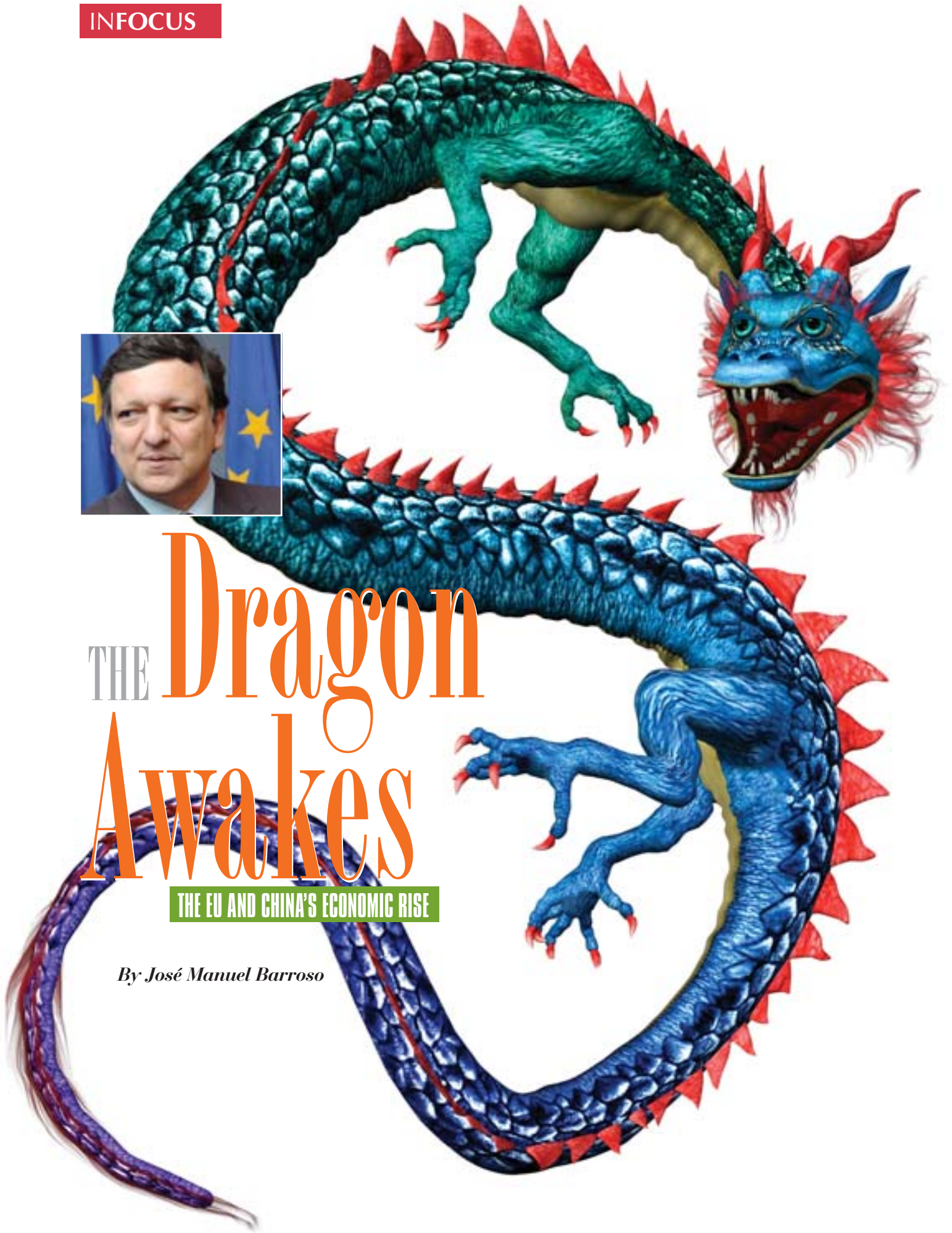
The author is CEIBS EMBA02 participant, and President of Tsingtao Brewery.



THE Dragon Awakes

THE EU AND CHINA'S ECONOMIC RISE

By José Manuel Barroso



Ladies and gentlemen,

It gives me great pleasure to be here at the China Europe International Business School. We are proud of the role that we have played in its development, and I am very pleased to see that it is making such a major contribution to China's economic achievement today.

You may know the quote, attributed to Napoleon, which says, "When the sleeping dragon awakes the world will quake". Well, the dragon has opened its eyes. It was your leader Deng Xiaoping who first gave the wake-up call, in 1978. In recent years the whole world has woken up to the importance of China's rise. But times have changed since the days of Napoleon. We in Europe are not 'quaking', but we are excited, in a positive way. China's rise should be considered an opportunity, not a threat. Nowhere is this more evident than in our dynamic trade and investment relationship.

Indeed the EU, partly thanks to its enlargement to 25 member states last year, has just surpassed the US to become China's largest trading partner. Estimated two-way trade flows were 175 billion Euros last year. China in turn is now the EU's second largest trade partner, after the US.

It has to be said that the trade balance between the EU and China is very much in China's favour. Our trade deficit with China was 78 billion Euros last year and it continues to rise. We accept that part of this deficit is structural and likely to persist for some time to come. And we should not forget that tens of thousands of EU companies have invested in China. But we also put a great deal of emphasis on the further opening of China's market, by ensuring it lives up to its WTO commitments. In that process we use policy dialogue and our financial assistance programmes.

China's economic rise over the last 25 years has been impressive. I don't have to bother this audience with the precise figures. And China's economy continues to grow. The impact of this growth is increasingly being felt inside and outside China, in both the economic and the political spheres.

China's accession to the WTO in 2001, strongly supported by the EU, was a key event in this development. Beijing is now a crucial partner in the management of the world economy. This is part and parcel of China's increasing political role on the international stage. We share many common objectives, including the need

for a more effective multilateral system at the UN and elsewhere - notably the WTO. On the regional stage, we recently saw an impressive demonstration of reconciliation and renewed cooperation between China and India, the two emerging powers in Asia.

But let me return to the theme of my speech here today: China's economic rise. I don't have to explain the concerns that exist in Europe and elsewhere regarding perceived job losses and outsourcing, due to China's competitiveness. And then there is that other concern, especially since last year: China's great and increasing appetite for raw materials and industrial products. Chinese demand for oil, steel, soya, and many other materials and products has pushed up prices and renewed fears about their long term availability. These two concerns are well summed up in the saying: "When China sells it, prices go down; when China buys it, prices go up."

True, China's rise poses challenges to the rest of the world, but we should not forget that it also offers opportunities. Consumers and businesses in Europe are paying lower prices for products made in China - and, as a consequence, for products made elsewhere too, thanks to the competitive pressure. European steelmakers and manufacturers of machine tools, power generators and many other products are happy to see their business booming because of increased demand from China. So too are port authorities, which are handling ever increasing trade flows from and to China.

Another important facet of China's economic rise concerns the impact within China: tens of millions are being lifted out of poverty every year. Aid programmes, of whatever dimension, could never have produced such an impressive rise in living standards on such a scale in such a short period of time.

However, let me offer a few remarks to put all this - and the hype that exists around China's rise - in context. First, it is true, growth rates are high. But China's economy today, in monetary terms, is about the size of the economy of Italy. That means that with a population more than 20 times that of Italy, GDP per capita in China is less than 5% of Italy's. Even measured in Purchasing Power Parity - in other words, what you can actually buy for your money - GDP per capita in China is less than 20% of the EU average.

Second, there is a historical aspect to keep in mind when considering China's rise. In a sense this rise is no more than

China's return to where it once was. Until 1820, China accounted for about one third of world output. After that, other regions of the world, especially Europe and the United States, saw long periods of very rapid economic growth while China stagnated - even declined in the 1950s and 60s. So China started to lag behind the rest of the world.

As a consequence, in 1978 China's GDP was a mere 4% of total world GDP. Even Today, after more than two decades of very rapid catching-up, China's share in total world GDP (measured in Purchasing Power Parity) is estimated to be something like 11%. In short: China is in a prolonged period of recovery.

But it is the speed with which China is integrating into the world economy which has made the world sit up and pay attention. It is the speed which is leading the world to such sudden and significant moves, including the relocation of labour-intensive industries to China. It is the speed of China's recovery - the shock if you wish - together with China's sheer size, that poses a challenge for China's trade partners, including the European Union.

Most analysts believe that the long-term trend for China's economy will continue to be firmly upward. But the speed of this recovery, welcome as it may be, involves without doubt risks within China as well. Fortunately, Chinese leaders are well aware of the challenges and are very open about them.

I had the opportunity in Beijing of addressing these issues in an open sincere dialogue with President Hu Jintao and Prime Minister Wen Jiabao. I'm very impressed by their frankness and realistic attitude. The Chinese leaders are perfectly aware of the magnitude of the challenges and I have congratulated them for their commitment to a modernizing and open China. In Europe, it is in our interest to see an open, modern and stable China.

For example, there is the short-term risk of macroeconomic imbalance. There is also the challenge of huge income disparities within China. Chinese leaders express time and again the need for 'balanced growth'. Issues are the urban/rural divide, labour standards and safety of the workplace. Adjustments will affect China's competitiveness and therefore the world economy.

As I said, we attach great importance to China's WTO commitments. In the context of competitiveness and fair competition, the implementation, and

above all the enforcement, of Intellectual Property Rights obligations by China is also crucial. This is a matter of great concern in Europe - and elsewhere.

What seems to be one of the most daunting challenges for the sustainability of China's long-term growth prospects concerns productivity, efficiency and the use of natural resources. China cannot hold off much longer from tackling its inefficiencies and very serious problems of waste and pollution.

However, the good news here is that there are huge gains to make by increasing efficiency and productivity. It is generally thought that China uses three times more oil for one euro of GDP than the world on average. It uses seven times more than, for instance, Japan. For its own sake, China will have to adjust and work on energy efficiency and reduce pollution.

The European Commission is working closely with China there as well. And we put our money where our mouth is by funding cooperation projects in the areas concerned. China has shown a keen interest in EU environmental legislation and standards. It is of utmost importance that China succeeds. China, and the rest of the world, can only benefit.

I should also mention the security situation, which could pose just as big a threat to the optimistic growth scenarios as macroeconomic concerns or possible environmental constraints. In Europe we have learned how costly territorial conflicts can be. We hope we have left that behind us now, forever. The lessons we have learned are the whole *raison d'être* of the European Union. The enlargement of last year was a major feat in this respect. We hope that China will also find peaceful solutions for its problems of history and territory. The Chinese leadership often speaks of the country's 'peaceful rise'. Let that be so, to the benefit of its own people and the world at large.

Just as China needs to adjust and adapt further to the ever-changing global dynamic, so do we in Europe. We also have our problems. That is why the EC is very committed to a reformist agenda and to a progress for growth and jobs, tackling the main problem of Europe's competitiveness. But adjustment is not always easy. Most recently this was demonstrated by the difficulties the EU - and many others - had with the abolition of the quota system for textile products.

The approach the EU and China have taken to address the problem of Chinese textile exports to Europe is an



excellent demonstration that our model of cooperation, through engagement and dialogue, works. Chinese leaders have shown understanding for the challenge that the surging imports of Chinese textile products poses for the European Union.

The EU is happy to push our relationship further. Indeed, we already cooperate and have dialogues with China in a wide range of areas from science and technology to enterprise regulation, and from environmental and energy issues to education and the information society. We are already very important economic partners of China, but we want to do more. Likewise, we are working collaboratively with the Chinese on the Market Economy Status issue, and I am sure that this will help to facilitate the resolution of the remaining concrete problem in a way that will be advantageous to China and to all its partners.

There is no doubting our commitment to deeper engagement. This is message of my visit. The EU-China relationship continues to expand. And at our Summit last December, both sides undertook to work for a comprehensive new framework agreement to steer this increasingly complex and important relationship and give political expression to our strategic partnership.

A new agreement will involve important joint political commitments. It should lead to much greater operational

coherence and to the elevation of relations to a higher political level. This would allow both sides to better translate Summit and political dialogue conclusions into concrete action.

Such an agreement will also include an ambitious agenda to develop our flourishing trade and investment relationship further - not forgetting our common cause in multilateral trade relations. We continually engage with China in our efforts to bring the WTO Doha Round to a successful conclusion, and hope that the forthcoming Doha ministerial meeting in Hong Kong will be a major contribution to that. Let's face it, it is difficult to think of any country that has gained more from globalization than China over the past five years. It has every interest in helping to bring the Doha round to a swift and successful conclusion.

If China can make that contribution, if it does help to unlock the massive benefits that would flow from a successful Doha Round, then the dragon will have proven its reputation as the bringer of abundance, prosperity and good fortune. And who would quake at that?

Thank you. **THELINK**

Mr. José Manuel Barroso is President of the European Commission.

The article is a record of the speech given by Mr. Jose Manuel Barroso during his visit to the China Europe International Business School on July 16, 2005.



CHINA-EUROPE: RIVALRY OR COOPERATION?

By Alfredo Pastor

From the title of this talk you will have guessed at its conclusion: that cooperation is to be preferred to rivalry. Since rivalry looks more fashionable today, however, I will take some of your valuable time in explaining why cooperation is a much better strategy. This I will do on three different, but not mutually independent levels: macroeconomic imbalances, trade and the political landscape.

Looking at current-account positions, one can divide the world - most of it, anyway - into two large blocks: on one hand, the US, the UK and Australia - the Anglo-Saxon block, to use an expression by Martin Wolf of the Financial Times - has a current-account deficit of \$803 billion, of which the US accounts for almost 90%; on the other, the Eurasian block - China, Japan and the Euro-zone - has a combined current-account surplus of \$460 bn, of which almost 50% corresponds to China, 37% to Japan and the rest to Europe.

These imbalances cannot continue growing forever without generating, sooner or later, a financial crisis; but

neither can they be corrected by the unilateral action of one of the parties. If the adjustment had to be made only by contracting aggregate demand in the US, the contraction might be so severe as to push the world economy into a recession; in one entrusted the task to a depreciation of the dollar, this might be so large as to create a general financial crisis, since a large part of the world's liquid assets are dollar-denominated; a revaluation of the Asian currencies - since the euro has already experienced substantial appreciation against the dollar - would place Asian financial systems under stress and would harm growth in all the countries concerned, especially in China.

If, before thinking of possible remedies, one looks again at the nature of the problem, the nature of the solution suggests itself: the existing imbalances will be corrected when both blocks adjust their aggregate spending to their output: which means, for the Anglo-Saxon block, that internal demand must fall relative to its output: it must not continue spending more than its income. The reverse is the case, of

course, for the Eurasian block: there, spending will have to rise relative to income. Simplifying a little, one may say that Anglo-Saxon countries will have to save more; Eurasian countries will have to save less.

What one must notice here is that Europe and China have similar, not opposite roles: both must increase their internal demand: consumption, investment and government spending. In the case of China, where investment is already 43% of the Gross Domestic Product (GDP), it is probably consumption that must be stimulated, and perhaps government spending, since China has the task of adapting its welfare state to make it more consistent both with a more market-oriented economy and to a rising average per-capita income. For the euro-zone, both higher investment and higher consumption are the answer.

A diagnosis, however correct, does not bring forth immediately the correct remedy, although it helps in discarding wrong ones: so, for the Eurasian block, one may say with confidence that contractionary policies - be they stability

1. Data are for the twelve months ending with the first quarter of 2005. Source: *The Economist*. The difference between the current-account deficit of the Anglo-Saxon block and the Eurasian block's surplus is mainly due to the surplus of the oil-exporting countries.

pacts or the threat of structural measures never carried out - are surely the wrong medicine for Europe. The matter is more difficult for China, since no one seems to know how to persuade consumers to spend more; but there is general agreement that China's success in her development hinges on the existence of a stronger domestic market.

To say that China and Europe are on the same side of the current-account divide is not yet to say that they are on the same boat: although world imbalances will not be corrected until the entire Eurasian block has become less of a net exporter to the rest of the world, Europe might decide to stimulate its aggregate demand by exporting more to Asia, and Asia might decide to do the same with Europe: both sides could try to export their way out of their difficulties. Indeed, this is just what they seem to be doing: for, while we all have heard of how Chinese goods flood European markets, we should not forget that a country such as Germany, with negligible, or even negative GDP growth, has a current-account surplus of \$108 bn, and that, in the last three years, China has accounted for more than 30% of the growth of Germany's exports.

We know, however, that this strategy - based on rivalry rather than cooperation - is no solution: the period between the two world wars of the twentieth century has taught us that it leads to a rise in protection overall, to trade wars and to conflict; and, if conflict can be avoided, to a lower level of welfare than might be achieved otherwise. This seems to leave cooperation as the only, or at least as the better way out. It is difficult, however, to see how cooperation can be reconciled with the fact that, at least in appearance, China and Europe are more rivals than partners in trade; so it is necessary to look at the trade issue in more detail.

One must begin any discussion of the issue with a general disclaimer: since the integration into the world economy of such a large and singular country as China has no known precedents, one must not pretend to know how the process will unfold itself; only reasoning by analogy is possible, and analogies, especially in the case of China, have their limitations. We know, however, that the process is likely to be a long one, and that it may change the world as much as China is changed by it. The following

remarks, which one can venture with a reasonable degree of confidence, may serve to put the trade issue in perspective:

First, China's reliance on its export sector is by nature temporary: China's economy will become too large to rely on the rest of the world to buy more than a fraction of its output; at some point, most of the goods produced in China will be for domestic consumption, just as has happened in all large economies. While export promotion - the choice made by Japan and South Korea in the early stages of their development - is without doubt a better choice than import substitution, excessive reliance on exports carries both external and internal risks: on the external side, in the form of rising trade frictions; internally, because it may end in the appearance of a dual economy - a modern sector growing ever richer and a traditional sector growing ever poorer - and increasing inequality in income distribution is, already today, a danger that China has to address in the course of her development.

Second, the transition to a more balanced economy is likely to be a long one: China has a large reserve of unskilled labour ready to move to the modern sector in search of better opportunities, so that the need to create enough jobs in the modern sector is perhaps the main goal of economic policy, explaining both the need for sustained, high GDP growth and the reliance on the export sector. If this is true, one may expect China's dominance of the world markets for textiles, clothing and many manufactures to continue, and its market share to increase. It does not follow, however, that this dominance will extend, in the short run, to other sectors where more skilled labour is critical. Highly skilled workers and professionals are relatively scarce in China - and, as a result, they command high prices; so it is unlikely that China may extend its comparative advantage to those sectors before it has reached a higher level of development, with a stronger domestic market and a different cost structure.

Third, the goods produced in the euro-zone tend to be more complements than substitutes with respect to those produced in China. This does not apply to all European countries: while many EU industries are already benefiting from China's integration, they are more

concentrated in Europe's more advanced countries; in others which lag behind, as well as in other non-European countries, losers may well outnumber winners.

What these remarks suggest is that the integration process will not be stopped, or reversed, since too many people benefit from it; but that it must be managed, externally and internally. Externally, it must be recognized that success depends on timing: resources, especially labour, must be given a reasonable chance to reallocate, and trade flows should be monitored to that effect, on both sides - we must remember that there are losers on China's side, too. Internally, losers should be compensated, perhaps not so much by means of money transfers as by more education and training. Admittedly, this is easier said than done; but the WTO, on the external side, and domestic, or even EU-wide policies, should make it possible to reach a better solution than what the market, left to itself, can deliver. If some of this at last is not done, the risks of backlash are high - again, on both sides.

It seems as though, after looking at the trade issue, the advantages of cooperation over rivalry appear more clearly. Let us now, finally, look at the political landscape.

Even to an untrained - and unauthorized - observer like me, it is apparent that, when China looks at the other powers of our world, Europe is the only one with which there are no major political issues. On this level, cooperation is, not only necessary to make the world safer and more stable, but also natural, since there are no really contentious issues between us. Unfortunately, effective cooperation would require a more united Europe; and one may lament the fact that we Europeans pay too much attention to our differences, and too little to what we have in common; the result is that we are, for now, incapable of fulfilling what I believe should be our role in today's world.

But this is not something we still solve today; so in closing, and at the same time that I thank you for your attention, let me repeat what a remarkable man wrote some fifteen years ago: that 'human labour is, by its nature, meant to unite peoples, not to divide them from one another'. **THELINK**

The author is Spanish Chair Professor of Economics at CEIBS, and Professor of Economics at IESE.

2. Notice that European investment has maintained its pace; but it has taken place largely abroad. This suggests that the weakness of aggregate demand is concentrated on consumption; the weakness of investment is caused more by rigid supply conditions.

THE MAKING OF A CHINA-EU WORLD



By David Gosset

The president of the European Commission, Jose Barroso, has just completed a visit to China, which this year celebrates the 30th anniversary of the establishment of diplomatic relations with Brussels.

Fifteen to twenty years from now the EU, enlarged further eastwards, more integrated and more independent, might prove to be the model for the governance of macro-regions, paving the way for a global political architecture that can cope with technological, economic and business globalization.

China 2020, a booming platform, will be the link between Eastern Eurasian sub-regions, Southeast Asia, South Asia, Central Asia and Northeast Asia. With this anticipation in mind, we now have to shape the relationship between these two matrices of civilization.

In the post-Cold-War world, the relationship between Europe and China has gained momentum. However, as the world dramatically changed for a second time in a decade in the fall of 2001, Beijing, a model for developing

countries (paving the way to poverty reduction), and Brussels, a model for cooperation between countries (paving the way to articulate sovereignty and globalization), have to take greater responsibilities to work as the main architects of a cooperative Eurasia.

In the post-September 11 world disorder, the EU and China have to conceive a genuine strategy to act as Eurasia's structuring poles, making them into the pillars, with the US, of a stable world order.

To face the challenges of this "grand chessboard", Brussels and Beijing have to agree on a grand strategy. They have both the material and cultural resources to become sources of stability for our dangerous and volatile "global village".

Fundamentally, this will require a common foreign and security policy reflecting a united and independent Europe and conducted by a far-sighted strategist. In a move whose consequences in scope could be compared to Henry Kissinger's "triangulation", which restructured the strategic landscape, the EU would

decide to massively support China's economic development, to invest in trans-continental infrastructure projects - road, rail, energy, telecommunication, water management, and to lift the arms embargo on China.

With the handover of Hong Kong (1997) and Macau (1999), there are no more substantial disputes between China and Europe. In the process of globalization, trade is booming between a more independent and assertive EU and an opening China. Both Brussels and Beijing have clarified their intentions in official documents. Beijing made an historic move: China in October 2003 released its first-ever policy paper on the EU.

However, we can list some difficulties. Not all plain sailing.

Firstly, it has been difficult for the EU to arrive at a single common policy towards China; each member state has its own history with Asia, and especially China, and some of them have competing economic interests. Current issues can also be a factor of divergence - on human rights, for example, there are

different sensitivities among European countries.

Secondly, different interpretations can be placed on China's policy towards Europe. China's motives in declaring its interest in developing relations with Europe have evolved over time. Europe was first a counterweight to the Soviet Union, and then to the US. China repeats today that there is no "European card" any more. As Deng Xiaoping said, "I personally love to play bridge, but China does not like to play political cards."

Thirdly, the booming trade between China and the EU itself can be a point of friction. Even if in a globalized economy bilateral deficits do not mean so much per se, the Europeans complain and will continue to complain about their fast-growing trade deficit with China. The Chinese for their part will complain about EU trade barriers.

Fourthly, the highly complex Taiwan issue could be a problem in Europe's approach to China. There is a disproportion between Beijing's concerns (China's reunification being Beijing's top priority, second only to modernization), and the EU members' lack of a harmonized policy on such a crucial issue.

With these four points in mind it is easier to formulate suggestions to facilitate and deepen the relationship.

Firstly, Europeans need a greater collective presence in China. China should be a place, if not the place, for Europe to act cohesively, rather than as the sum of individual nation-states. Europeans could learn from the success of the China-Europe International Business School (CEIBS), which is widely recognized in Shanghai. It would have been impossible for a single EU member state, whatever its relative weight within Europe, to have achieved what the CEIBS did in 10 years. It is interesting to note that in its historic paper on the EU, China explicitly mentioned the CEIBS as a project of the greatest importance.

Secondly, China needs to have greater presence and visibility in Europe; it needs to explain its views, its specific difficulties and its achievements to Europeans.

Thirdly, to guarantee a sustainable economic relationship where frictions can always be overcome by negotiation, both sides have to create the conditions for genuine mutual understanding. Forums, exchanges between academics, joint projects in education, all would help to create a more mature interaction. This year is Euro-Japan

people-to-people exchanges year. Brussels and Beijing have to learn from this to create a similar event between Europe and China.

Fourthly, Europe should work towards a comprehensive China policy which incorporates the encouragement of cooperation between China and Taiwan. The European Commission repeats that it adheres to the "one-China policy", but the EU is in fact managing two bilateral policies. On the Taiwan issue, while the US is a part of the problem, the EU might be a part of the solution. However, more than ever in the post-September 11 environment, the world needs more than a stable Euro-China relationship.

At the end of the 20th century, the Soviet system's disintegration was the main source of change in Eurasia. The USSR stood not only as one of the two components of the post-World War II bipolar order, but it was also the structuring political framework for a large part of the Eurasian continent in Central Asia. What we mean by Eurasia is the continental landmass conventionally divided into Europe and Asia.

The fall of the Soviet empire produced instability in the Caucasus, in Central Asia, the Eurasian Balkans, or uncertainty, in Siberia. But it also resulted in an urgent call to rethink and rebuild the general architecture of a post-imperial Eurasia. While this reorganization will have to be decided and engineered by the people living on Eurasia, it should not be an anti-American project. Beijing and Brussels have at the two extremes of the mega-continent to be the main architects of a cooperative Eurasia. Their partnership has to be subordinated to this global vision.

In Eurasia's far west, the European Union has enlarged eastwards peacefully and illustrates that economic solidarity can lead to a workable transfer of sovereignty which, in return, facilitates further economic integration for the best interests of the majority. The EU, a post-nation-state political experiment, shows a way to manage globalization on the European scale.

In Eurasia's far east, an open China is undergoing a "peaceful rise". Beijing made the choice of joining the world community, and is acting as a responsible rising power. This responsibility is the very condition of its continuous growth. China's economic development shows a way to poverty alleviation, one of today's major problems.

An enlarged Europe is coming closer to an open China, while Russia is creating the objective conditions to act as a genuine and constructive bridge. In the 17th century, German philosopher, physicist and mathematician Gottfried Leibniz already saw the potential complementarities between Europe, Russia and China - *Novissima Sinica*, but today growing interdependence on the Eurasian crescent is a reality.

The attitude of Central Eurasia's rising power, Kazakhstan, and of a democratic Mongolia - whose intellectual and political elite understands better than others Eurasian dimensions - complete also the picture of a Eurasian arc where a momentum for closer cooperation is gathering.

It is within that context that China and the EU have to act as two structuring poles of a cooperative Eurasia. While the EU is a model for cooperation between countries, China is a model for developing countries. They are potentially engines for Eurasia's stability and development.

Fully aware of this potential, a strongly united Europe and a post-Maoist China should make refocused use of the Organization for Security and Cooperation in Europe (after Japan, Korea, Thailand and Afghanistan, China should become a "partner for cooperation"); the Shanghai Cooperation Organization (the EU should become at least an observer); and the Asia-Europe Meeting (needs as soon as possible to include Mongolia and Kazakhstan).

Brussels and Beijing have to show by their vision and concrete actions that Eurasia has become genuinely post-imperial and that under the driving force of their common strategy they can become, with the US, pillars of a stable world order.

Reflecting on the relationship between Europe and China, it is ultimately necessary to take a real measure of their unique historical-philosophical contexts and to use these "invisible" factors to ensure the "visible" interactions.

China and Europe are cradles of two civilizations stretching back almost to the beginning of recorded time. They have both entered a new phase of their respective history, with China now in the post-Maoist phase and the countries of Europe developing a closer union among themselves. The two extremes of the Eurasian continent have a unique opportunity to find enough wisdom in their traditions to build a meaningful

relationship, the nature of which we are free to choose ourselves as we are not compelled by geographical necessity.

An analogy can help to develop such a relationship. We can think about China as the Far East's Europe, and Europe as the Far West's China. If Europe gave Western civilization most of its main features, China brought to Asia some of its central values. But like China's history (let's remember the Chinese novel Three Kingdoms, "After division, the empire must unite, after unification the empire must divide"), Europe's history - since the Roman Empire - has also alternated between unification and division and, in this perspective, both Europe and China are more than nation-states.

To draw an analogy between the two regions does not mean that they are the same. We should see the differences between us as something which brings us closer. Why does Europe need to build a politico-administrative body to meet its unique common civilization? Why does China need to give more space for the expression of its internal diversity? How was it possible for Europe to guarantee individual freedom within a distinctive common set of values? How was it possible for China to ensure a continuous reinterpretation of its own tradition? The list cannot be exhaustive here, but it offers a perspective on how differences can be a source of synergy.

This work will lead us, Europeans and Chinese, not only to construct a relationship for ourselves, but also to build a meaningful relationship within a concrete multipolar world. There is something superior to the alternative between divergence and convergence. Not to diverge does not mean necessarily to converge. Westerners have tried for centuries to change China, and it will take some more intellectual effort to show that real harmony - the most desirable interaction between human beings or civilizations - is the art of combining differences.

But China also has to make the effort to avoid indulging in one of its strong tendencies, that is the "Sinization" of barbarians, the non-Chinese; the Middle Kingdom can recover its centrality without falling into the excess of imperialist behavior.

Let us reflect on Confucius in his Analects: "The gentleman is looking for harmony without assimilation, the others are looking for assimilation without harmony." **THELINK**

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SUPPLY CHAIN RESTRUCTURING BASED ON INTEGRATED PROCUREMENT



Chinese enterprises are experiencing historical transformation with the Chinese economic development. In a change towards the market mechanism, enterprises are facing increasingly intensive international competition.

How can they make a positive transformation to establish core competence, improve management efficiency, build up an effective management system and promote development? Facing such a big challenge, one super-large state-owned shipbuilding group responds with innovation and transformation, attempting to restructure the supply chain based on integrated procurement, reduce costs and increase efficiency, and occupy the commanding heights.

With modern management knowledge and industry experience, five students in the CEIBS EMBA2003 Class provide an in-depth analysis of the Group's background, current conditions and future development trends, and jointly put forward a restructuring scheme.



ENVIRONMENTAL ANALYSIS

The international shipping market has continued to flourish over the years. It is predicted that international demand in the shipping market will remain at a relatively high level in the coming 10 to 20 years. According to Clarksons Research, the total volume of vessels launched in 2004 was up to 60,200,000dwt, with volumes of new-building vessels is 102,800,000dwt, and the awarded orders at the year-end are up to 220,000,000dwt, in which Bulk Carriers, Oil Tankers and Containerships account for 89% of new-building orders. In 10 to 20 years, the world's average annual demand of vessels will be approximately 4500~5000dwt, greater than the quantity of the late 1990s (about 33,560,000dwt). Before 2015, the three mainstream ship types will steadily take up to 70% of the total demand of shipping vessels. The shipping industry is moving towards vessels with super tonnage, automation, and high-speed - they are safe and

environmentally-friendly. Along with the development of our foreign trade, the transportation demand of strategic resource and the implementation of the strategic petroleum reservation plan, the demand for large/extra-large vessels is becoming increasingly urgent.

China's shipbuilding industry is on a fast track at the turn of the century. To ride with the trend, X Shipbuilding Group has accelerated its development. Presently, the three mainstream ship types comprise the majority of its orders. The company recognizes that it is critical to expand the mainstream marine market to accomplish its goal of becoming a world-class shipbuilding group.

X Shipbuilding Group is facing a critical strategic opportunity.

The annual world demand for vessels has been steadily growing year by year. The three mainstream vessel types - Bulk Carrier, Oil Tanker and Containership - take up to 75% of the total demand.

China's domestic demand for the three mainstream types is increasing rapidly, and China is expected to play a critical role in the international marine market in the coming 20 years. These three ship types are the main products of X Shipbuilding Group.

The most important ship owners are increasingly cost-sensitive, and China's entry into the WTO further promotes the shift of the shipbuilding industry from Japan and Korea (with relatively high labor costs) to China.

Suppliers of the critical material and equipment (such as marine steel plates, main engine, electrical equipments, navigation equipments and electrical systems) are becoming more and more competitive in terms of technique and quality. This makes it possible to change from a traditional customized production to standardized production in scale with technical compliance and batch procurement.



Nevertheless, within the coming 5 to 10 years X Shipbuilding Group will face unprecedented pressure from international competition.

The world's shipbuilding capability has expanded exponentially over the years, and consequently, the future marine markets will face serious pressure to balance supply and demand. Heavy surplus is expected to arise around 2015.

X Shipbuilding Group is facing direct competition with shipbuilding enterprises from Japan and Korea. The major shipbuilding enterprises in Korea have tried to increase their competitiveness through improvements in management, design and construction practices and to improve production efficiency, reduce the construction cycle and increase the output. In 2004, the total completion volume of X Shipbuilding Group lagged far behind Hyundai Heavy Industry. The group will face unprecedented competition pressure.

Compared with shipbuilding enterprises in Japan and Korea, X Shipbuilding Group is weak in production scale, technique, management and brand awareness. The largest gap is investment in R&D.

The key domestic suppliers still have a huge gap with their foreign counterparts. The whole supply chain has to be integrated to facilitate the shift towards standardization and scale.

The cost advantage of X Shipbuilding Group derives mainly from the low labor cost, while its management capability needs to be improved and core competence needs to be strengthened. Meanwhile, the appreciation of RMB is creating a great financial pressure.

Just as with China's entry into the WTO, opportunities always come along with challenges. After analyzing the internal and external environments, X Shipbuilding Group has readjusted its strategy - aiming to become the number

COST-DRIVEN FACTORS	COST-DRIVEN FACTORS OF PROCUREMENT	NOTES	Table 1: Cost-driven Factors of Procured Materials and Equipment
scale economy	scale of procurement	Quantity of procurement impacts the unit price.	
communication	communication with suppliers	Coordination with suppliers for requirements, delivery and other activities to reduce overall costs.	
interrelations	shared procurement with other units	Co-procurement with other units will increase its bargaining power with suppliers.	
integration	self-fabrication or outsourcing	Integration can increase or decrease the cost of an investment.	
timing	history of cooperation with suppliers	Any relationship with suppliers can possibly affect the cost of the investment, supply of goods in shortage and supplier services.	
policies	procurement practices	Procurement practices will strengthen its bargaining power with suppliers and push suppliers to provide value-added services.	
geographic location	location of suppliers	Geographic location of suppliers will affect costs due to different transportation and communication costs.	

one supplier of leading standardized ship types. Through restructuring the value chain of R&D, design, operation and service, and improving the cost structure, X Shipbuilding Group wants to provide the world market with standardized bulk carriers, oil tankers and containerships with good quality and low price. In the coming years, X Shipbuilding Group will focus on building up its core competence based on the management of supply chains.

VALUE CHAIN ANALYSIS

According to Michael Porter's value chain theory, the competitive advantage derives from all the discrete activities of an enterprise, including design, production, marketing and delivery. All these activities contribute to the overall cost of a company. A business can win the competition either through low cost or better quality. For X Shipbuilding Group and its affiliated companies, the value chain covers sale, design, procurement and construction. The four activities have a different contribution to the group's cost

and profit.

Currently the affiliated shipyards carry out the main value activities. Except for sales, they independently accomplish design, procurement and construction.

I. COST ANALYSIS OF THE VALUE CHAIN

The costs of the shipbuilding value chain are composed of design cost, procurement cost, labour cost and other special expenses.

The value chain structure of X Shipbuilding Group has following characteristics:

A great part of marine products' costs is determined at the design stage. Design activities are of little expense, but have a great impact on the whole shipbuilding costs. When the design is completed, batch production will follow after a large procurement.

The procurement cost is the largest part of the total cost, and with the increase of technical content and value added, the proportion of the procurement cost will rise accordingly.

Procurement has a huge direct impact on the cost and quality of investment, and a huge indirect impact on the cost and quality of production activities.

The construction activity lies at the end of the value chain for a shipbuilding enterprise, and its cost involves mainly man-hour expenses and special production expenses. As labor costs rise domestically, the space for decreasing fabrication costs become smaller. Other special expenses like the operation costs and the insurance fee of equipments and facilities account for a small proportion, and are

difficult to reduce.

Thus, for a shipbuilding enterprise, the procurement activity is a value activity with highest costs. Simultaneously, it has a strong impact on the costs of other activities. The procurement activity runs through all the links of the supply chain, and therefore presents a significant opportunity to cost reduction.

II. FACTOR ANALYSIS OF PROCUREMENT COSTS

1. UNIT COST OF PURCHASED MATERIALS AND EQUIPMENT

Table 1: Cost-driven Factors of Procured Materials and Equipment

2. BREAK-DOWN OF TOTAL COST STRUCTURE

In the actual procurement process of the yards, the following links are easy to incur additional cost:

Communication problems between the procurement department and the design department. For instance, strict limitations in the specifications, frequent modification of the design, short lead time for procurement, and ship owners' designation of suppliers, all these factors have impact on the procurement efficiency and increase raise the cost of negotiation, tracking and expediting.

Adjustment of the production schedule by the production administration department also affects the procurement. Especially, the delivery and relevant limitation will lead to costs increased in negotiation and urging implementation of the agreement between the procurement department and suppliers.

The extent to which the financial department attaches importance to the payment terms and conditions will also influence the procurement activities. Whether the payment can be made



promptly will directly influence the establishment and maintain of the relationship between the procurement department and suppliers as well as the reputation of the enterprise.

The original supply chain is too complex and random, which leads to heavy organization and coordination work in the procurement department of the shipyard and creates additional costs. The change in some ways of the procurement activities will likely increase or decrease the cost of the whole procurement process. For instance, the procurement of good-quality and pre-treated steel plates will probably increase the cost of the procurement but simplify the production process, raise the utilization efficiency, reduce the construction cost and optimize the total costs of the value chain. If the procurement department strengthens the management and control of suppliers, it will reduce the cost of internal quality inspection in the shipyard.

III. ANALYSIS ON THE VALUE CONTRIBUTION OF PROCUREMENT ACTIVITIES

Through improving the performance of the design and production departments, the procurement department will give more potential indirect influences on the whole value chain. The effects of the profit lever will prove the direct contribution of the procurement department for the company.

Taking one shipyard as an example: in 2003 its gross sales were 3 billion RMB, of which the procurement expense (1.7 billion RMB) accounts for 60% of the total sales, and the profit of its main business is 60 million RMB. If the procurement process can be improved, and procurement cost decreased by 10%, 170 million RMB pre-

tax profits will be added. To realize such an increase in profits through increasing sales without other means, gross sales would be up to 10.7 billion RMB, that is to say the sale should be increased by nearly 4 times. Therefore, the procurement activity is the most important "profit generator" for the shipyard.

IV. EXISTING PROBLEMS IN THE PROCUREMENT ACTIVITIES OF X SHIPBUILDING GROUP

1. THE STRATEGIC POSITION OF THE PROCUREMENT ACTIVITY SHOULD BE ATTACHED WITH MORE IMPORTANCE, AND THE VALUE-ADDED FUNCTION OF THE PROCUREMENT SHOULD BE FULLY BROUGHT INTO PLAY.

At present, shipyards pay more attention to increasing production efficiency and reducing production costs instead of the procurement activities. Procurement is viewed as a secondary function. Currently, the procurement of each enterprise affiliated to X Shipbuilding Group is carried out in a passive way, and the procurement is nothing but simply implementation of the purchase orders given by the planning department, which is far from professional. The procurement activities mainly focus on the procurement of material and equipments with inadequate supports on sales, R&D and production. The value-added function of the procurement activity has not been fully achieved.

2. COMMUNICATION AND COORDINATION BETWEEN THE PROCUREMENT DEPARTMENT AND ITS INTERNAL CLIENTS OCCUR WITH BIG ISSUES, AND INFORMATION IS NOT SHARED WELL.

Currently the procurement

department is not fully involved in sales, R&D, and production, and each division is poorly linked. The procurement department lacks the ability to quickly respond to and deal with demands of ship owners and internal clients, leading to requirements change, design modification and manufacture circle change not promptly reflected to suppliers through the procurement department. The dissymmetric access to information causes purchase costs and trading expenses increased.

3. THE PROCUREMENT DEPARTMENT HAS LITTLE INFLUENCE ON SUPPLIERS AND IS EXPOSED WITH HIGH RISKS TO THE SUPPLY MARKET.

At present, most qualified suppliers enjoy good prestige in the international shipping industry. Shipyards lack influence on these suppliers and have not established close relations with them. The decentralized purchase model of the GROUP is not in favor of control on suppliers, especially stay in a weak position during the negotiation with world renowned suppliers, and as regards to products that are in shortage and of urgent need, it will constitute great risks of delay..

4. THE FUNCTION OF THE PROCUREMENT IS UNFIT AND THE MANAGEMENT CHANNELS ARE LAGGING.

Shipyard's procurement mainly focuses on the purchase of material and equipments, emphasizes the procurement activity itself, with the price procurement as guideline, and do not attach more importance on the procurement process and lack the philosophy on the supply chain and the modern logistics. The information channel is less advanced without effective method for data processing. The evaluation on suppliers is just like red tape without deep analysis on supplier's costs and capability.

5. THE SCALE EFFECT OF THE PROCUREMENT ACTIVITY HASN'T BEEN FULLY ACHIEVED.

The procurement activity may possess a certain scale effect and different yards focus on different ship types and thus occupy different markets, but they are driven by the same factors in the procurement activities, which possess a relatively strong economic scope effect. Currently the independent procurement model of each shipyard hampers the function of the scale effect and the scope effect of the procurement, and weakens the negotiation capability of



Figure 1: the pattern of the new supply chain

the Group with suppliers.

DESIGN OF THE NEW SUPPLY CHAINS

It is shown from the analysis of the current value chain that along with increasing international competition and ship owners' requirements for large-tonnage, batch production and specialized shipbuilding, the current procurement pattern which is separate and unrelated to one another no longer fits the future development of the Group. The future competition is not only among individual enterprises, but also among enterprise groups that are based on the supply chains. X Shipbuilding Group must develop and cultivate its own core competitiveness to forge new core capability and give full play to the enterprise's supply chain for achieving better development.

I. PRINCIPLE FOR THE DESIGN OF THE NEW SUPPLY CHAIN

- Focus on meeting and guiding the requirements of the key clients. Regarding the demands of the ship owners as the basic impetus to push forward all its activities, the new supply chain concentrates on the market of the three mainstream ship types. By developing and popularizing the standardized ship types and discovering the potential requirements of the ship owners, it can promote the combination of complimentary units and the information share. The whole supply chain can then

quickly respond to the changing demands of the ship owners and make timely adjustments accordingly.

- Pursue the multiple wins with maximum benefits and minimum costs for all parties concerned. The new supply chain will accomplish the following tasks: it will bring about the close cooperation between individual parties of the chain; it will enable departments to share the common objective and the intent of long-term cooperation; it will integrate the flow of work, material, capital and information and realize the organic cooperation among and within these flows respectively; it will decrease the friction and transaction costs among each steps; it will promote the shipbuilding enterprises to constantly improve production; it will help the Group to improve efficiency and increase economic benefits; it will decrease the overall operation costs of the whole supply chain and help accomplishing an overall improved core competitiveness and the ability to gain profits.

- Focus on the core business, vigorously improve specialization and subcontract non-key business.

- Establish an integrated information system for effective and prompt exchange in terms of information flow, capital flow and material flow, and provide the technical assistance on an informational platform to reduce stocking during production, transportation and storage, to shorten the production cycle and to accomplish

JIT (Just In Time Distribution).

II. ANALYSIS ON THE PATTERN AND PROCESS OF THE NEW SUPPLY CHAINS

Figure 1: the pattern of the new supply chain

• Market Survey

Market survey is the beginning of the new supply chain that is guided by the customers' demand. It's the premise by which the following activities are conducted in an orderly and efficient manner. The full understanding of major customers' demand reflects the practical value of the supply chains. The business department as the guide together with the procurement department and the design department makes deep analysis and study on the market environment of ship owners, suppliers and competitors. The objective is to: a) predict the marine market trends, b) foresee ship owners' potential demands, c) define the business and R & D targets of the main material and equipment suppliers, and e) analyze the development strategies and trends of the main competitors, based on which the future market objectives and core business of X Shipbuilding Group will be confirmed and the basic position in the supply chain will be clarified.

• Product R&D

Based on extensive market surveys, we should carry out the development and design of standardized ship types and build brand ship types of X Shipbuilding Group. Here we need to meet two requirements when developing and designing standardized ship types. First, meet the main requirements of clients and develop such ship type with large market demands and core competition advantages and meeting the Group's strategic development. Second, focus on the cost structure during product R&D, and establish the concept of cost reduction and value project. Reducing cost does not simply refer to the decrease of the design cost only, but rather to taking into consideration the influence of design on all the costs of procurement and construction and especially the alternative of subcontracting. The ultimate goal is to reduce the overall cost of the whole supply chain. Therefore, several standard modules should be designed in the R&D stage of standardized types to meet the unforeseen requirements of ship owners. Thus the idea of "automobile production" is introduced to shipbuilding.



• Marketing

The business departments are the bridges that link the Group, the shipyards and the ship owners. In the new supply chain, business department will have more functions. First, the traditional function of receiving orders is to be continued. In addition, the business department should transform from passive reaction into positive and well-prepared marketing of the standardized ship types. An integrated marketing model will integrate resources, avoid vicious competition within the Group, build brand products and promptly convey the requirements of the ship owners to the design division, the procurement division and the production department.

• Production Design

Implement standardized and centralized product design and popularize standardized ship types while making adjustments to meet clients' requirements and market changes, namely, to modify or improve design based upon standardized ship type. The production design is tightly linked with the construction process, which is to be finished by the shipyard.

• Integrated Procurement

Material and equipment procurement costs account for over half of the total costs in the supply chain. It is a breakthrough for the designing of the new supply chain to integrate the Group procurement functions and exert the role of the integrated procurement in the new supply chain. The implementation of the integrated procurement not only helps the Group increase the influence of the scale economy and strengthen the Group's position in the price negotiation with the suppliers, but also promotes the coordination between the procurement department and the design department and the popularization of the standardized ship type. Moreover, the integrated procurement may strengthen cooperation with suppliers to establish strategic coalition relationships, effectively reduce procurement costs, ensure the supply cycle and product quality, and provide a guarantee to the production activities of the shipyards.

• Production in Each Shipyard

In the new supply chain, the construction

of the vessels is distributed in different shipyards. According to different geographic locations, main facilities and human resource factors, the Group will control production activities based on the respective advantages of the shipyards and each shipyard will have its own fist product. Shipbuilding work is reasonably divided to realize specialized and batch production. Shipyards can gain experience rapidly, improve production efficiency and reduce production costs.

III. INTEGRATED PROCUREMENT BASED ON THE NEW SUPPLY CHAINS

1. CONCEPT OF INTEGRATED PROCUREMENT

- Integrate the internal resources within the Group, mainly to concentrate not on the trading but on the process of procurement. Use the theory of modern logistics management as guidance to transform stock-oriented procurement into order-oriented procurement.

Aiming to improve the efficiency of the procurement, reduce storage and save costs, make analysis from the view of the logistics, attempt to eliminate the unreasonable, the waste and the low efficiency in the production and the procurement activities, making each link reasonable and efficient.

- Use the scale effect of the Group, and transform simple internal management toward external resource management.

The essence of procurement management in the new supply chain is to expand the enterprise's value chain, fully utilize its external resources, establish stronger relationships with Suppliers and fully achieve the procurement function. Instead of daily scheduling and expediting, emphasis is given to the design, plan, routine management and optimization of the supply chain to accomplish the two wins of the Group and suppliers.

2. Necessary conditions for implementing and utilizing the advantages of integrated procurement in the supply chain.

- Improve the quality of personnel in the integrated procurement divisions.

The personnel for the integrated

procurement will be responsible for designing the supply chain, choosing qualified suppliers, managing suppliers day-to-day, establishing strategic cooperative relationships and coordinating and organizing the work inside the enterprise. Their professional and overall quality needs to be further improved.

- Continuous improvement of the design of the standardized ship type based on extensive surveys.

Standardized design and ship types are the basis to achieve the scale effects of the integrated procurement, and establish the long-term cooperative partnerships between the procurement division and suppliers.

- Shipyard production process reforms aimed at precise construction.

Accomplish on-time production in the shipyards. Each process uses the requirements of the next process as the starting point, and transfer the demand information among processes through signboards. The former process fabricates and supplies the same quantity of components taken to the subsequent process to eliminate excessive production, accomplish "one flow" and "prompt production" and finally realize zero storage.

- Establishment of information platform Application and establishment of the information system must conform to the specific activities and processes of the Group and its subordinate companies, and promote the efficient transmission of information regarding material flow, capital flow and business flow. The information platform of the supply chain should be integrated, applicable and extensible.

- Reasonably allocate rights and responsibilities between the Group and its subordinate companies and that among departments, and establish suitable performance incentive systems.

3. Design of the new procurement process

Figure 2: Chart of the new procurement process

When the design and development of the standardized ship type are completed, most material and equipments are standardized also. As the

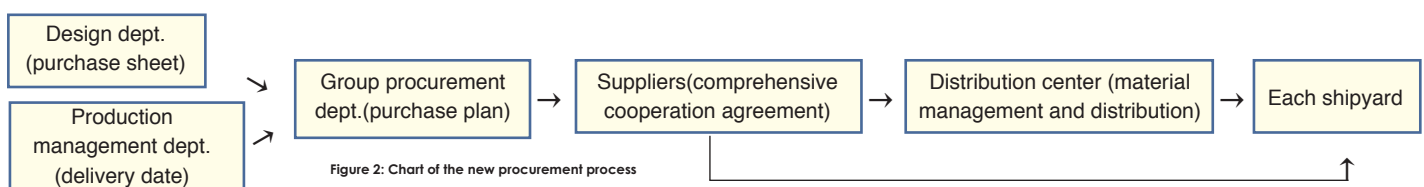


Figure 2: Chart of the new procurement process



overall procurement scale expands, the Group has increasing negotiation ability with suppliers. The procurement department can choose the proper suppliers and sign long-term cooperative agreements with them. The suppliers must guarantee the quality and delivery of their products. When the business division receives orders, equipment procurement sheets compiled by the design division and equipment delivery date sheets created by the production divisions of each shipyard will be submitted to the procurement department of the Group. Then the procurement department will prepare purchase schedules and transfer them to each supplier. The supplier will carry out the overall cooperative agreement and deliver acceptable equipments and components in a timely manner to the material handling center of the procurement division or directly to the construction site of the yard. The material-handling center will distribute in an orderly fashion these materials in a tray form or a suppositional tray form to each shipyard production site to accomplish punctual production.

Compared with the old procurement process, the new process has three significant changes. First, individual procurements of each shipyard become an integrated procurement, which helps

the Group develop and cultivate its external supply system and network. Second, relationships with the suppliers change also. Instant contracts and short-term cooperation are transformed to long-term strategic relationships backed by overall cooperative agreement. The confirmation of long-term cooperation relations with critical suppliers, the increasing mutual involvement and share of benefits and risk, dramatically reduces not only the trade costs with the suppliers but also the QC costs inside the enterprise. It also leads to better utilization of the materials. Third, the strengthened material-dispatching function provides better services for production, and puts the production progress under more clear and prompt control, helping to carry out procurement on time and accomplish punctual production.

4. DESIGN OF THE MANAGEMENT FUNCTION FOR INTEGRATED PROCUREMENT.

- Intensively participate in the early stages of the sale and the design to advance the process of popularizing the standardized ship type.

In the traditional procurement pattern, each shipyard conducts its own procurement work. Procurement departments don't have enough

capability and motivation to get involved in earlier stage of the design and the sale. In the new procurement process, integrated procurement activities will establish a platform for the communication with the unified design department and the unified business department so as for better involvement in the sale and design activities. Their direct relationship with the suppliers will greatly affect the design of the standardized ship type.

- Carry out effective management on external resources and establish new business relationships with suppliers.

In the new procurement pattern, suppliers can make a timely response to the requirements of the procurement divisions and may get involved in the process of product design, process improvement and quality control. The procurement division may also assist suppliers to promote production of standardized products and improve quality systems for better cooperation and mutual benefit. The integrated procurement division can also help foster potential domestic suppliers and domestic equipment mating centers to improve the rating of domestic mating equipments installation on board and cut costs.

- Comprehensive support to production activities (Establishment of the new logistics pattern).

Establish precise procurement to guarantee punctual production, namely, to provide the proper materials with the proper quantity and quality at the proper time and to the proper place. The necessary condition for the Group to establish precise procurement is to set up powerful and efficient logistics system. Integrated procurement provides the main body and the platform. In the integrated procurement pattern, the new procurement process effectively links suppliers and shipyards, ensures the centralized and smooth flow of material and equipment to each shipyard, and makes sustained improvements to cut circulation and stock. The procurement department, the production divisions and the suppliers, in responding to the requirement, are to take action simultaneously through coordination to eventually achieve punctual shipyard production.

IMPLEMENTATION SCHEME OF THE NEW SUPPLY CHAIN

As shown from the analysis above, management of supply chains is a systematic process, including business

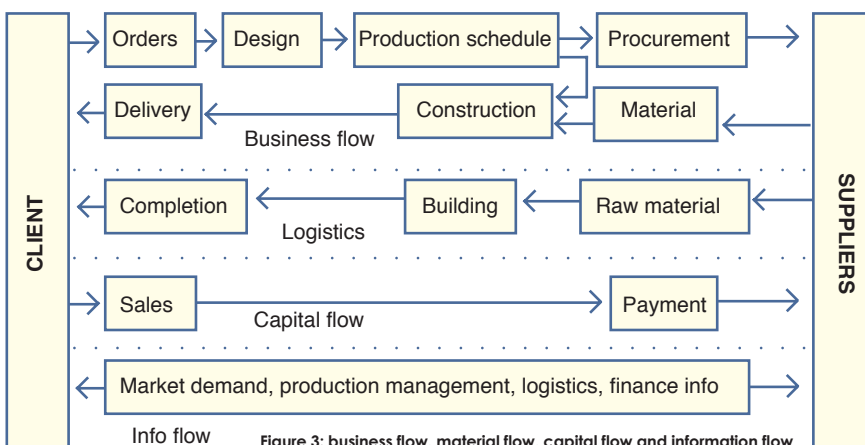


Figure 3: business flow, material flow, capital flow and information flow

flow, material flow, capital flow and information flow (see Figure 3). It's like a public pipeline in which there are four cables. The optimization of material flow and capital flow depends on the design of the business process; the information flow is the nerve system for the whole supply chains and the basis for the successful operation of supply chains.

Figure 3: business flow, material flow, capital flow and information flow

The management of the supply chain aims at the optimization of the process to improve efficiency and reduce costs and it covers all the divisions and processes of the shipbuilding enterprise. As a systematic project, the overall design of the whole supply chain shall be optimized for the implementation of the supply chain management, and the more important is to carry out four flows level by level and step-by-step, ensuring the mutual support of each step and guaranteeing the accomplishment of the overall target.

Based on current conditions and strategies of X Shipbuilding Group, we consider that integrated procurement is the key for the implementation of the management of the supply chain. We should design the new business flow based on integrated procurement to reconstruct the old capital management structure and to establish the information flow with integrated procurement as the starting point.

1. DESIGN THE NEW BUSINESS FLOW BASED ON INTEGRATED PROCUREMENT

1. RECONSTRUCT THE ORGANIZATION OF INTEGRATED PROCUREMENT

The procurement department of each shipyard will be separated and then combined into the procurement department of X Shipbuilding Group, which takes charge of the integrated procurement of marine material and equipments and the cost control.

- Since a business entity is targeted on pursuing benefits, the procurement department is not a business entity; otherwise it will increase the costs of the shipyards and neglect the control of procurement costs.
- The procurement department is not a functional management department but a business management department, which directly engages the market to implement procurements and is under the supervision of the Group functional department.
- Internal organizational structure of the procurement department.

Organizing principle: to organize divisions according to the procurement business instead of specific shipyards.

2. COST CONTROL REQUIRES THE PROCUREMENT DEPARTMENT TO EXPAND ITS FUNCTIONS.

A. The procurement department must participate in the design process.

The procurement department must

participate in the following work:

- Development work of the design department in the early stage.
- Provide the list of the suppliers at home and abroad and the material and equipment according to the technical requirement of the design department.
- Selection of equipment and preparation of the list of the suppliers;
- Advice and suggestions on the utilization of the equipment and the estimated price according to the requirements of the development and design.
- Cooperate with the design department to control and reduce costs upfront in the designing phase.
- Utilize the advantages brought by the batch production of the same ship type to establish the costs database for single vessel, and fix the design of the material, equipment and standards.
- Positively push the suppliers to adopt new procedures and technologies, develop new products, improve the quality and technical content of the material and equipment to promote the overall improvement of ship design and R&D and enhance the competitiveness of marine technology.
- Provide the business divisions with information about the vendors at home and abroad, material and equipment prices and the quotation of critical materials for reference when receiving new orders.



- In accordance with procurement costs provided by design division and business division, estimate costs and put forward the measures to control the procurement costs so as to ensure the achievement of the target costs of procurement.
- Prior to signing the new contract, make sure the major technical conditions and the prices of critical material and equipment are sufficiently represented to avoid price risks and to control procurement costs. Estimate prices and fix the delivery time of the material and equipment in shortage.

B. Management of procurement should be extended to suppliers.

As the starting point of the supply chain, the suppliers directly affect the prompt supply of the materials and then affect the smooth production. Management of the suppliers is the core of integrated procurement, integrates procurement into the policy of the company, and extends management to the suppliers. Three main aspects decide the final competitive position of the company: first, its position to the key clients; second, core advantages compared with direct and indirect competitors; and third, its position to the main suppliers and its strategies of the supply chain. Costs and price are the focus in the negotiation with suppliers. Quality and delivery date are also important. We can set up a modern shipbuilding pattern in the shipyards of the Group and integrate the suppliers into the value chain of the enterprises while implementing punctual production.

• Classify the suppliers.

Classify suppliers according to different products and carry out different management strategies. As for the suppliers of strategic products, we should establish and focus on a long-term cooperative relationship with them. The relationship needs strengthening and maintaining and the two parties should share their information. For leverage products, bidding should be adopted to achieve optimum short-term transaction, and the supplier database should be set up to collect information about qualified suppliers, whom need to be assessed and well managed. Along with the rapid development of China's shipbuilding industry, the competition among suppliers has become intensified. Under such circumstances, we'll achieve these objectives in dealing with the suppliers: decrease price and costs, improve quality, shorten delivery cycle and improve service. With the participation of

the suppliers, procurement and logistics should be optimized to decrease costs. Meanwhile, we should pay attention to diverse suppliers since they concern themselves with different problems, and the factors to assess them should be different, too. In addition, according to the specific conditions of the products purchased, reasonable adjustment should be made for the number of suppliers.

• Guide the suppliers to participate in R&D and to establish site service stations.

Encourage suppliers to take part in the early stages of R&D, and apply the new products and new practices to the vessels, decrease design costs and implement JIT in the procurement process through the establishment of tight cooperative relationships.

Suppliers should create site service offices in the shipyards to actively serve the yards. If a malfunction occurs, the supplier is positioned to respond quickly and get the equipment repaired soon.

• Require the suppliers to establish fixed delivery mode.

It is required that suppliers should deliver according to a standard mode and adopt standard trays and transfer boxes directly

to the production lines to improve the management of the suppliers. The use of standardized transportation instruments and procedures is to replace manual handling. The implementation of standardization may reduce the work load of stocking, inspection, check and dispatching and decrease manpower costs.

Provide suppliers with a site place where general components could be stored. Suppliers will set a minimum stock according to the production capacity of the shipyard to ensure timely supply, which will enormously lessen the management work of the warehouse and will reduce storage costs.

• Assessment of the suppliers.

The following work shall be done for better assessment on suppliers. First, promptly provide the list and assessment information of the suppliers; second, participate in the site audit of the suppliers; third, establish performance archives of the suppliers; fourth, control the suppliers and strengthen assessment. According to quality, price, service and lead time, etc., evaluation and corresponding adjustment will be made.

ERP management system shall be implemented inside and through B2B online procurement, bidding and

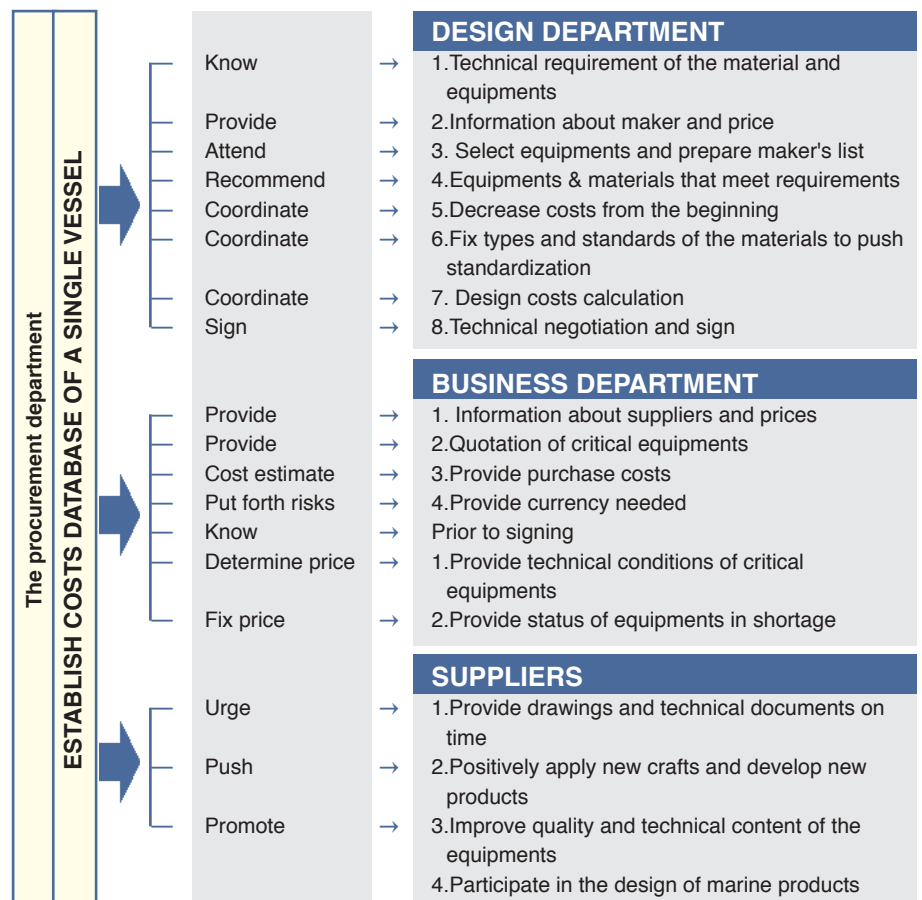


Figure 4: the relationship of the procurement/design/business department with the supplier

payment based on ERP management system, the information share of the production, stock, sales, finance and HR of the Group with information of the suppliers will be realized for shortening the procurement cycle to the maximum extent.

II. BASED ON INTEGRATED PROCUREMENT TO IMPROVE LOGISTICS AND CARRY OUT PRECISE PRODUCTION

- Organize the ordering of the materials in time, the technical and commercial negotiation, and the signing of contracts according to the delivery sheet provided by production divisions and the technical requirements by the design department.
- Urge confirmation of drawings approval from makers through the shipyard's design division.
- Trace the production and delivery of material and equipments, develop the receipt and storage schedule, and promptly convey information to the production divisions. If necessary, adjust receipt date according to requirements of the yards to ensure normal production.
- Distribute production material and organize equipment inspection before delivery if necessary.
- Organize the inspection, checking and handover of the delivered material and equipments and provide prompt feedback to the database.
- According to the complete requirements of the shipyards' production plan, to implement JIT distribution, and timely make up for damaged pieces as required by ship owners.
- Provide timely site service and promptly contact service engineers to provide technical service, and trace the service conditions of the service engineers and contact equipment suppliers to handle defective equipment and material and claim compensation.
- Collect comments from the shipyards to gain experience for subsequent vessels.
- The original assessment measures of the procurement personnel by the original shipyards should continue. The reward structure for the site service personnel are decided on the basis of the assessment.

Shipyards should improve the quality and management of planning, provide complete production schedules and strengthen plan controls, strictly follow the production milestone and create better conditions for JIT distribution. The procurement department prepares and strictly implements the distribution plan according to the above production



schedule to ensure the timely arrival of the equipment and material at the production sites to achieve on-time logistics and reduce stock costs.

Along with the shipyards' transformation in the shipbuilding pattern described as "taking the interim products as carriers to realize regional management of production," batch production and standardized design have been generally accepted by shipyards. Traditional ways of shipbuilding while designing and modifying is continuously improved. This reduces the disturbance by the modification and makes the procurement more accurate and efficient.

Figure 4: the relationship of the procurement/design/business department with the supplier

III. IMPROVE THE MODE OF CAPITAL ACCOUNTING

1. The capital accounting center is to be set up under the integrated capital management platform of the Group. Financial personnel from the Group's finance department are sent to the procurement department for the management of the yard's procurement account.

2. Budget making procedures of procurement capitals

- When the Group issues the targeted procurement costs, the procurement department will prepare the initial procurement plan according to the construction progress and the signing of

the procurement contracts for the reference of the shipyards to raise fund.

- In the end of each year on the basis of the shipyards' production situation and annual procurement plan, the procurement department will predict the procurement capital, prepare the procurement plan for the next year, and submit to the Group's procurement capital accounting center for examination.

- In the end of each week and month, on the basis of the situation of the payment, stock, procurement contracts and capital balance, the procurement department will prepare the procurement capital plan for the next week and the next month. The procurement department will then submit to the Group's procurement capital accounting center for examination for the reference of the payment.

- The procurement department summarizes and analyzes the annual and monthly use of procurement capitals and coordinates with the Group's capital accounting center to allocate emergency or large amounts of funds to ensure timely arrival of those important equipments and material.

IV. ESTABLISHMENT OF A POWERFUL INFORMATION PLATFORM IS THE BASIS OF THE CONTROL OF THE SUPPLY CHAIN

The establishment of the procurement information platform and the application

of advanced management tools will help promote the internal auxiliary management system inside the Group's procurement department, meet the demands of the business process, achieve the informational operation of the Group's procurement department, realize the modernization of procurement management, and accomplish the sharing of integrated procurement information. The extension system of the procurement department will create a supply chain management platform with the Group's procurement department at its core and linking related enterprises, the suppliers at home and abroad, and logistics service companies to meet the requirements of the date exchange and the platform interface unity for the Group's departments as well as shipyards and qualified suppliers.

1. VISUALIZATION OF IMPLEMENTATION SCHEMES:

• The setup of the informational system network.

The overall system is set up through VPN technology to achieve auxiliary management of the Group's integrated procurement. Taking the current Shipbuilding Website as the basis, integrated procurement will be conducted through E-business and the data center resides in the Group's procurement department.

• Information system software setup is as follows:

Figure 5: system functions framework

2. INTERNAL AUXILIARY MATERIAL MANAGEMENT SYSTEM

• **PROJECT MANAGEMENT SYSTEM:** Define and control shipyard projects and conduct progress management based on the data of other systems and taking projects as the priority.

• **MATERIAL CODE MANAGEMENT SYSTEM:** Maintain the basic codes, such as material codes, inside the system.

• **PROCUREMENT MANAGEMENT SYSTEM:** Handle the process from the project material plan to the procurement sheet, material receipt and warehouse storage. Control the process according to the condition of each process, and adjust and approve data in each phase.

• **STORAGE SYSTEM:** Simulate the complete condition of the warehouse, and provide real-time query of detailed ledger of the storage.

• **PLAN MANAGEMENT SYSTEM:** Manage material and demand plan, including the collection and control of information about the material and the demand plan. This system provides a sorting function for material procurement to satisfy the procurement allocation of the procurement department and the trading company.

• **CONTRACT MANAGEMENT SYSTEM:** Manage the procurement orders and other business contracts, including basic information, detailed data, contract execution progress and finance execution schedule.

• **TECHNICAL ARCHIVES MANAGEMENT SYSTEM:** Collect technical archives

provided by the suppliers and each shipyard. The system provides general document control functions such as sorting, query, etc.

• **MATERIAL TRACING SYSTEM:** link the procurement management platforms and trace current material management systems of each shipyard.

3. SYSTEMATIC FUNCTIONS OF THE EXTERNAL B2B PLATFORM

• **CLIENT RELATIONSHIP MANAGEMENT SYSTEM:** Manage shipyards' clients and related information. The system allows ship owners and clients to search the types, specifications and relative technical parameters of the equipments and material.

• **ENQUIRY AND QUOTATION SYSTEM:** Provide enquiry and quotation support for design, quotation, procurement, etc. Shipyards, the procurement department and related units can realize the quotation and enquiry with key economic indexes and technical specifications through the system directly with suppliers.

• **PO TRACING SYSTEM:** Trace procurement orders based on the data of the contract management system, production and technical, logistics information provided by the suppliers and the service companies. Assist in the adjustment of the procurement schedules.

• **SUPPLIER MANAGEMENT SYSTEM:** Collect basic data on the suppliers, including basic information, qualification and certificates. Assess qualified suppliers,

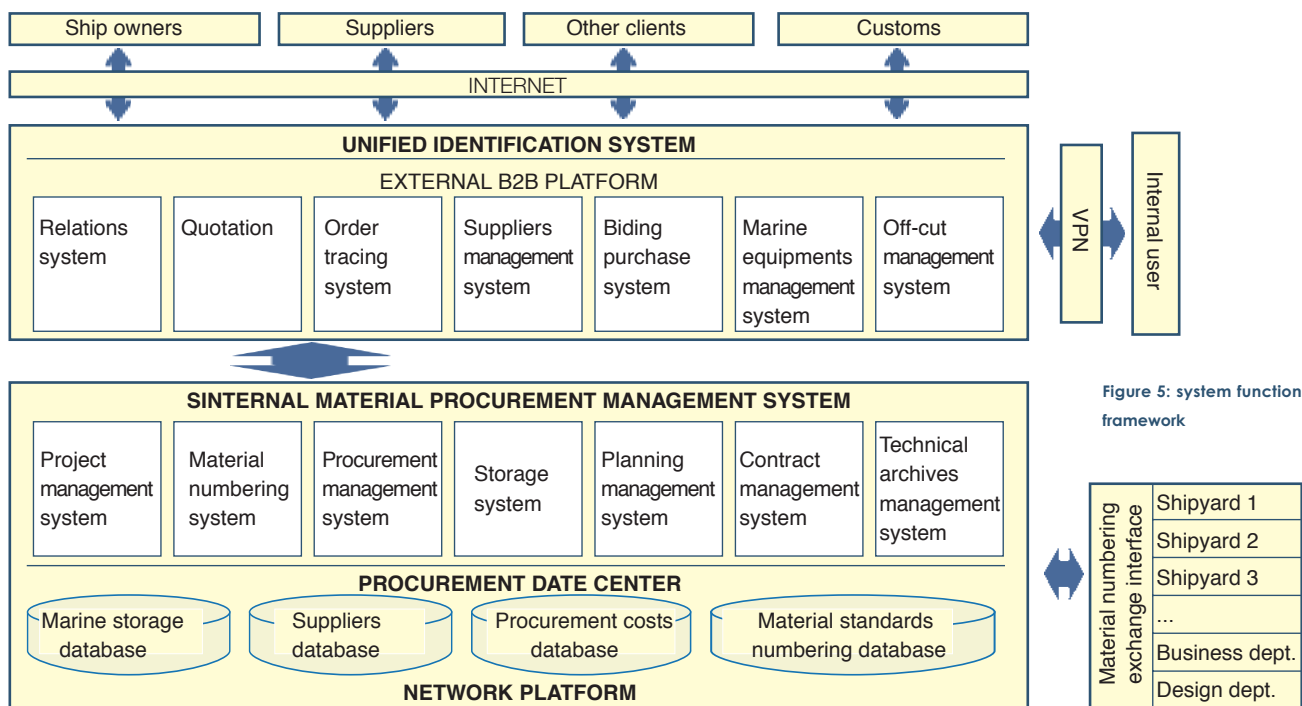


Figure 5: system functions framework

including their bank and tax related information.

- **BIDDING PROCUREMENT SYSTEM:**

Provide the complete process of online invitation to bid, or partially the process that can be achieved online.

- **MARINE EQUIPMENT MANAGEMENT SYSTEM:**

Collect and manage the product data. Suppliers can directly log in their own data zone for maintenance, including price and other technical and economic indexes.

- **OFF-CUT MANAGEMENT SYSTEM:**

To provide off-cut material management, and provide a reliable basic foundation for the comprehensive tracing of the usage and transfer of materials.

ANALYSIS ON PROSPECTS OF THE NEW SUPPLY CHAINS

The new supply chain of X Shipbuilding Group has formed a management model for the systems and relationships inside and outside the Group. This model focuses on the strategic management of each component in the supply chain. Through combination and adjustment of the divisions inside the Group, internal resources can be centralized and optimized, the friction and management costs reduced, balance and synchronization of the production and circulation, and the optimization of time and costs achieved. Through close cooperation with ship owners and suppliers, potential and instant needs of the owners are satisfied to the greatest extent, while costs for procurement and material storage are accordingly reduced. The future competition among shipbuilding groups will extend from single stage competition, such as engineering or production, to the competition of the whole supply chain. The new supply chain will help X Shipbuilding Group possess an advantageous position in future competition and lay a solid foundation for the accomplishment of long-term strategic goals.

Integrated procurement is one of the core stages in the new supply chain. Successful implementation of the new procurement process can fundamentally solve the problems existing in the traditional supply chain, promote the organic integration of the core competitiveness at all levels, reduce transaction costs and make the whole supply chain more powerful.

At present, X Shipbuilding Group has carried out the integrated procurement of steel plates and the favorable effect is becoming clearer in the fierce steel

material markets. Taking domestic marine steel plates as an example, the Group's integrated procurement department has signed long-term contracts with many main domestic steel mills. The long-term contracts can guarantee not only the supply of the materials, but also gain favorable price and payment methods.

In terms of the reconstruction process of the X Shipbuilding Group supply chain, it is expected to take several years before the new supply chain can be fully realized. The effects of the new supply chain will emerge gradually, and the gap with Japanese and Korean advanced shipbuilding groups will be obviously narrowed, and X Shipbuilding Group will compete with advanced shipbuilding groups in a comprehensive way through a highly efficient and competitive supply chain.

CONCLUSION

The new supply chain focusing on integrated procurement is an important tactic for X Shipbuilding Group to actively respond to the opportunities and challenges in the new millennium. It also plays an important role for X Shipbuilding Group to carry out the low-cost strategy. But the procurement process reconstruction that is based on integrated procurement is a complex and tough project, and there will be various problems during the implementation of the new procurement process. X Shipbuilding Group must be practical and realistic when strengthening execution, conducting timely and comprehensive analysis on the actual situation for sustained improvement.

During the reconstruction of the whole value chain, major contradictions that may be encountered are as follows:

Current interests framework is broken down. Each shipyard is an independent legal entity. Integrated procurement will absolutely break the current business structures, and some personnel at the management level may have emotional fluctuation.

Fundamental reform from customized shipbuilding toward standardized shipbuilding requires the reconstruction

of each process including market survey, R&D, marketing, production and operation. It requires that the basic management system, information management system and human resources system to be well improved. In such a large state-owned enterprise, the implementation of these improvements may be very difficult.

However, top-management personnel and the majority of the employees of X Shipbuilding Group have been clearly aware that in a market with fierce competition, it is no longer necessary for us to discuss whether to change or not. We should focus on how to change. To become a large and great modern enterprise in the world's shipbuilding industry, X Shipbuilding Group needs to accomplish the following three urgent tasks:

First, set the goals. X Shipbuilding Group aims at becoming the leading supplier of high quality, fairly priced mainstream types of vessels. X Shipbuilding Group will employ a low-cost strategy and establish the core competitiveness based on modern supply chains. Second, establish the system composed of the process and the mechanism. Corresponding work processes will be established on the basis of the new supply chain and be further improved. Meanwhile, related mechanisms for the Group and each shipyard should be clarified as quickly as possible, such as profit allocation, performance and objectives system, and mobilization and activation of the personnel, etc. The last but probably the most important is the establishment and popularization of the enterprise culture. While the process and the mechanism are rigid rules and must be implemented without reservation to guarantee the reconstruction of the enterprise, enterprise culture is like the tender and steadfast Kwan-yin Bodhisattva with boundless supernatural power. It emphasizes the spirit of communication, understanding and teamwork, and a common belief.

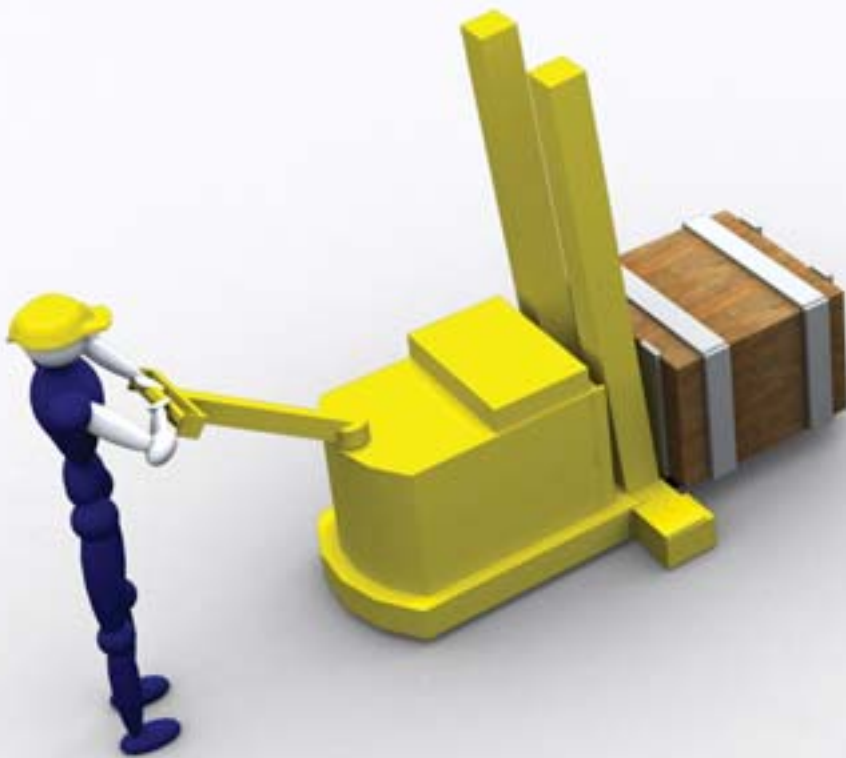
Through the use of the three above-mentioned weapons, X Shipbuilding Group will ultimately accomplish the overall strategic objective of becoming a world class shipbuilding group.





INTELLIGENT SOURCING IN CHINA

By Gert Gijbels



Global sourcing has become less a strategic advantage and more a competitive necessity. Fierce competition is driving many companies to source in low cost countries. The expectations of more return on investment combined with increased competition drive executives to seek reductions in expenditures, making an immediate and direct impact on the bottom line. At the same time, they are challenged to maintain service levels and prevent any loss of control.

Many Western companies are eager to source Chinese parts and products in order

to achieve these goals. Retailing giants such as Carrefour are buying an expanding range of Chinese-made goods for up to 40% less than the cost of comparable goods made in developed countries. Driven by a continual margin squeeze, an increasing number of industrial players also found their way to source basic chemicals and commodities, small machining, molds, packaging and much more in China. Ford Motors, for example, has spent considerable effort to source more parts in China, but still those goods represent only a fraction of the components used in their vehicles. Aware of the savings opportunity of sourcing half of their basic parts in China, they plan to vastly increase their purchases of China-

made components. Although the opportunity is certainly enticing, the current stage of development creates skepticism about the ability to get right the many pieces of a sourcing operation in China. Some companies reportedly did not meet their target volume of sourcing in China, largely because the job of evaluating suppliers and establishing and managing supply chain connections was more complex than the companies had understood.

The emergence of sourcing portals and specialized sourcing fairs has facilitated searching suppliers in China. Procurement managers will probably find numerous suppliers that comply with their



requirements at first sight. With an attractive website or booth and a convincing sales proposition suppliers may convince companies of their professionalism. But finding high-quality suppliers and negotiating agreements with them are problems many companies face. Difficulties ranging from due diligence or intellectual property infringements and customs delays to poor communication make the sourcing opportunities less appealing. Moreover, the widespread use of trading companies does not offer the transparency companies need in order to monitor the process. Additionally, there are issues such as cultural and language differences that companies rarely face at home.

Many companies have fallen into traps because they only consider the cost factor instead of realizing that global sourcing is only effective when it involves the evaluation of all factors including the cost of materials, transportation, inventory carrying costs, taxes and tariffs, quality and operational risks.

In order for companies to benefit from China's unrivaled potential as a global sourcing center, they should first deal with a few important internal stumbling blocks that may slow down the whole setup. A prerequisite for success is for top management to understand this broader picture and sell it internally, making a persuasive case for their sourcing strategy in China. Middle management should be convinced that the benefits of lower-cost purchasing outweigh the increase in operational costs and risks. Moreover, incentives and performance measures should be adapted as inventory costs and logistics costs will rise. Organizational adjustments will be needed to deal with the new risks of managing suppliers in China. A step by step approach enabling managers to learn gradually about the new methods of selecting vendors, negotiations, and logistics will help minimize the pains of the transition phase.

The capabilities that need special attention when sourcing directly include quality assurance and control, logistics coordination, and satisfying customs regulations. Quality assurance and control start with an in-depth assessment of pre-selected suppliers against the company's specific criteria. During this assessment companies may want to gain more insight into the suppliers' production processes, quality procedures, R&D activities, current client base, financial stability, and due diligence. Quality management is a continuous process. Once a suitable supplier has been recruited and

contracted, its performance needs to be measured consistently. This insight enables companies to optimize supplier interaction and performance, and thus improve product and service quality and delivery. The logistics activities include packing, managing inventory and consolidation, inspecting container loading, arranging shipments and satisfying customs regulations. Many activities have to be managed and many detailed decisions have to be made while sourcing in China. Small details, which are obvious in Europe, can go wrong. Hence, a hands-on approach is required to monitor the supply base and take quick action when corrective measures are necessary. Control is a vital element to successfully capitalize in China.

Taking these issues into account, companies can lay a foundation to enable the relocation of bigger and more crucial pieces of their supply chain operations.

Companies may find it appropriate to bring in consultancy services during the transition stage, assisting them in establishing effective sourcing capabilities. These parties help identify reliable suppliers, provide quality assurance and control, perform logistics activities and help recruiting personnel. This enables companies to set up sourcing offices in China, reduce reliance on traders and thus gain control and capture savings.

Companies seeking to drive more value out of procurement are considering the outsourcing of selected product groups and procurement processes, and in this way leveraging third party knowledge and experience with sourcing in China. Unlike traders, these procurement managed service providers represent your company in China, giving the company the transparency, control and savings that should be expected.

Sourcing in China can certainly create a real competitive advantage, but this does not happen overnight. A company that wants to build value for the future should start to lay the foundations today. Of course, every structure is unique and needs more than foundations alone but these are the prerequisites for success. Considerable time and effort should be spent first to lay the foundation, but those who place their stones in a thoughtful way can create value and competitive advantage for the future. **THELINK**

Gert Gijbels is CEIBS2003 exchange alumnus. After his study at CEIBS, he decided to start up an international career in China. Today, he is Partner at EUNASCO Ltd.



RIDING GLOBALISATION

By Katherine Wu



“Globalisation” is too fashionable a word to be ignored. The earliest phase of globalisation made Britain the first world super power and then the United States after emerging from World War II. How will the world evolve in this new era? With wide-open eyes we started our overseas module in July, flying to New York and Philadelphia.

Travelling with a group of 28 CEIBS classmates, it turned out to be a rewarding trip. The sharing of thoughts and the time spent among classmates was such a great experience.

Globalisation is about information. If the late nineteenth century brought globalisation through industry revolution, the late twentieth century brought a new era with technology, finance and information revolution. Even before the US trip, we got full access to the financial performance, history, and latest news of the nine companies that we would visit. Nowadays, information is easier to shop for than groceries. Imagine two hundred years ago, Chinese could trade silk for an equal volume of gold, since nobody had a fair, global market value for either. Now, nearly everything you can imagine is priced, indexed, and openly shown in front of you at home. Such information transparency has deprived many companies of trading privileges but brought in a lot more clever information surfers.

Why can American Express charge a premium commission to its stores? The answer is information. By providing stores the shoppers' behaviour and purchase information, American Express gains an advantage that is not so easily copied by its competitors like Visa. The information about the cardholders is definitely one of the biggest assets of American Express. How can Harrah's make its top customers happy and get them to come back again to spend more money? The answer is information. By introducing the Total Reward Program and analysing customer profiles, it can launch promotions at the right targets and make sure it manages each individual's mood during every gambling experience. It is interesting that Harrah's mentioned the "predictive value of data." We are very much used to historical performance measurement, but the introduction of new Key Performance Indicators (KPIs) look at the same history from a different angle. Here they are using information to make forecasting the future another competitor advantage. However, it is also worth noting that this can be a slim advantage. In this open, fast changing world, competitors can catch up in the blink of an eye. The only way you can combat this, as Harrah's put it, is

"hopefully by then we have another great idea that keeps us in the lead".

Globalisation is about business model innovation. A lot of companies that we visited are "old" with many years of history. The most important reason that they still stay at the top is that these companies never cease recreating themselves. It's amazing that American Express started as a parcel delivery firm and Johnson&Johnson started by producing baby powders. Looking back, their history is about endless acquisition, spin off, strategy revolution, and evolution. I question the prosperity of Saks Fifth Avenue, whose long term successful "prestige" has reached a comfortable status but also an end. When ABC wants to stick to the good old traditions in its news division, we have to admit that this is not only a world of value and pride, but also, maybe more a world of price and cost. When we talk about innovation, we used to mean product innovation, technology innovation, and so on, but now it's the time for business model innovation. It's not about displaying things better on the shelf and getting more variety shipped in from around the world, it's about a virtue marketplace called eBay. So what is next?

Globalisation is about focusing on what you do well. The world is getting too sophisticated for any single specialisation. However, bigger size and more specialisation are unavoidable. Someone is good at branding, someone is good at manufacturing, and someone good at servicing. When the whole world is moving towards offshoring, Vanguard says that it will keep the call centre in house "because this is not a priority since our strength is not in low cost, but better, more professional and focused service." You don't win because of no weaknesses or no mistakes, you win because of your strengths and a few big successes. Johnson&Johnson's decentralised operating model causes a lot of pain from a lack of global co-ordination, inconsistent culture, and wasted resources. However its attention has never diverted from its strategic focus on innovation, flexible marketing, and portfolio management. When Liu Xiang

won the gold medal in the Olympics he commented, "I just have better rhythm. We all know that African athletes have the fastest flat running speed, I can never compete in that, so instead my coach trained my rhythm and consistency." Just imagine if Liu Xiang had been trying all these years to improve his running speed?

How can China compete with the US? Today, China's GDP per capital is around USD1,000 while the US' GDP per capital is 37 times more. Assuming that the Chinese economy grows at an annual rate of 8% and the US at 1%, it would take China more than 50 years to catch up. But nobody knows what will happen in fifty years. China is now becoming the "factory of the world," a good sign since this is exactly where China lost the market more than a century ago. Before the Industrial Revolution, China accounted for one third of the world economy and Britain only around 5%. After the Industrial Revolution, when China failed to follow, the economy lagged.

Back from US I learned how the Americans made America successful. There are some things that we are still lagging behind, such as business sense, innovation capability, financial systems, and efficient systems. Maybe the only thing that we can compete with is a large population of hard working and intelligent people. But don't forget that people are also the market. A few Chinese companies like Lenovo and Haier have started to enter overseas markets, acquiring foreign businesses, and setting up overseas factories. However, in my view, the foundation for Chinese businesses is still the local market. We have the talent, technology, and local support to succeed.

The Chinese government still has a long way to go since the success of the past 20 years does not make the next 20 years any easier. On the contrary, unreasonable industrial structure, an aging population, rural poverty, environmental threats, immature financial markets, social stability, etc., are all issues confronting China and its leadership. We still have a long way to go. **THELINK**

Katherine Wu is CEIBS EMBA2005 student and Finance Director, Unilever.

DANCING WITH WHARTON

CEIBS EMBA OVERSEAS MODULE FORGES INTERNATIONAL PLATFORM

By Audrey Wu



Twenty nine participants from the CEIBS EMBA programme stepped onto the campus of Wharton Business School in Philadelphia for the first time on July 13. With tiredness still on their faces from the long journey, these participants soon caught people's attention. What distinguished them was not only their black eyes and black hair but more impressively was their impeccable English, the high quality questions they asked, the deep analysis they made during case study, their maturity, confidence and aggressiveness and the beaming look on their faces. These are all a reflection of their years of rich business experience.

Globalization is a trend in today's world economy and the emerging Chinese market has been involved into the global market more than ever. Chinese companies must face international competition with or without going overseas. This sets in front of the Chinese managers a new challenge to acquire knowledge of global market. A business school should adapt to the changing economic environment over time and provide managers the most up to date knowledge of current business practices. Established in 1994, the China Europe International Business School (CEIBS) is the first business school in Mainland China to provide EMBA and Executive Education Programmes. The CEIBS EMBA

Programme, one of China's most reputable, was listed #20 in the latest Financial Times ranking. With a yearly enrollment of 550 students, it is the largest programme of its kind in the world. It is equipped with world class faculty and comprehensive experience in programme operation. This programme regards innovation as its doctrine and once again sets another benchmark in China as the CEIBS EMBA programme is the first to initiate an overseas module.

This is not the first contact between CEIBS and Wharton. The cooperation actually began several years ago with CEIBS receiving groups of Wharton EMBA students every year since then. Students from the two schools exchange their



ideas and experiences, compete in virtual business negotiation, and build friendships. In addition, Wharton's outstanding faculty has been invited to teach at CEIBS. These contacts have left Wharton with a deep impression of the high quality of CEIBS' programmes and students. A result of this relationship is this year's CEIBS EMBA Wharton Study Trip.

The CEIBS EMBA overseas module is composed of attending lectures and visiting companies. With support from Wharton, the CEIBS students took a lecture on global strategy management given by Dr. Paul Tiffany, one of the most riveting faculty members at Wharton. Together with their Wharton counterparts they visited nine leading US companies, including American Express, ABC, Goldman Sachs, Johnson & Johnson, Merck, and Vanguard.

The schedule of the module was coordinated with both schools. The subjects to be studied, the cases, and companies to be visited were all the result of administration discussions. All the students had to make full preparations by working on pre-reading materials before the trip. The intensified workload in preparation for the trip made the students aware of the coming challenges. At the same time it also

provided them with a unique opportunity to broaden their minds, further build up their international management capacity, develop a wider international network, and enhance their companies' international competitiveness. One student said, "You can't buy experience like this." The students even suggested another overseas module at the end of their two year programme for further exposure to the international business environment.

During the company visits, the students carefully observed and analyzed each company, and obtained a deeper understanding of the real business practices of multinational companies. One student said afterwards, "The schedule is very tight, but we did learn a lot of useful knowledge. The trip would be meaningless to us if it was just sight seeing, which is the norm in many overseas activities of the local schools. This module is worthwhile to take."

The 6-day trip left lots ideas for the students to reflect on. After returning to CEIBS, they wrote down their thoughts which cover 92 pages all together. The module provided them with the knowledge to compare Chinese companies with the leading multinational companies, finding gaps,

and learning experiences. One student's reflection is presented here to detail some of the fruits of the trip.

The module has successfully forged an international platform for the participants, as they were able to communicate directly with the business elites at Wharton and the participating companies. At every company, the CEIBS EMBA students were received by the top executive of each company. They met 38 top executives from the nine companies. Also, friendship was built between CEIBS and Wharton students during the trip. Some of the Wharton students have expressed their wish to visit China and the CEIBS students' companies in the near future.

While the CEIBS EMBA is going a broad, the overseas business schools are also coming to CEIBS at the same time. This July, the CEIBS Executive Education Programme hosted students from IESE and Rotterdam School of Management, providing them with a special "China Week" as part of their studies on emerging markets. In the globalizing world market, it is undoubtedly an added value activity for managers with deep understanding of international competitors, partners, and an international alumni network. **THELINK**

GRASS IS GREENER ON THIS SIDE OF THE HILL

FACULTY DEVELOPMENT AT CEIBS

By Yang Yuling

"In the past nine months, over 200 applicants sent in their CVs to apply for the six permanent professor positions at CEIBS. The competition is fierce."

"Recruiting faculty is actually getting easier. Take our faculty in the field of finance, HR and organizational behavior as example. We have built an outstanding faculty team in the past few years. Our professors are internationally well known. Good groups always attract more good professors, thus forming a healthy cycle."

- Rolf D. Cremer, Dean and Vice President of CEIBS

How to attract top professors from leading business schools around the world to teach? This is a bottleneck trapping the development of most business schools in China now. While his counterparts of other business schools are taking extra efforts to solve the problem, Prof. Rolf Cremer, Dean and Vice President of the China Europe International Business School (CEIBS), comments in confidence: "Recruiting faculty is actually getting easier at CEIBS." What has attracted so many world-class professors to apply for the permanent faculty positions at CEIBS? What makes the school's faculty so different? What is the school's plan and goal for faculty development? With these

questions, *The LINK* reporter recently interviewed Dean Cremer and two new professors who joined CEIBS in July.

INTERNATIONAL FACULTY WITH LOCAL KNOWLEDGE

Since its creation, CEIBS has positioned itself as a China-based international business school. The faculty members at the school, as Prof. Cremer points out, have a unique combination of truly international standard business education and research and an expertise in China. Foreign business schools that have come to China are good at what they do - teaching business - but when they send their faculty here, these faculty members often do not know China. And therefore what they

teach is often too much grounded in their home expertise. But it surely isn't what Chinese companies and students need. They demand China expertise. They want faculty to be knowledgeable in Chinese affairs and institutions and to do research relevant to China, to do business with China. CEIBS faculty has an advantage in this local knowledge.

Although nowadays many other business schools in China also have an international faculty, CEIBS is the first school whose professors are regular residents of China. Thanks to its joint-venture school structure and operation, CEIBS has successfully invited top overseas professors to work and live in China. Prof. Cremer says, "We now have more than 30 full-time regular professors

on the ground in China. These are internationally trained faculty, one-third of whom hold Chinese passports. Another third are Americans and the remainder are Europeans. These are faculty members who teach and live here, not with a suitcase next to their hotel bed but as regular residents of Shanghai. Compare this to the alternative: At many foreign business schools operating in China, the faculty just travel here, arrive at Pudong International Airport, get picked up by a car, get taken to a hotel room and the next few days or weeks teach either in hotels or classrooms and then go home again. This is a huge difference to the people we have who work here, day after day."

The quality of international faculty is much related to its China experience. Granted, CEIBS international faculty members have been living, working, and doing research in China for a long time. They have learned and acquired in-depth knowledge of China-related business issues. They understand what perplexes (E)MBA students, managers and senior executives of companies operating in, or planning to enter China, and know how to help them avoid making mistakes. Therefore, what they teach is very China-specific and to the point.

Ever since the establishment of its predecessor, the China-EC Management Institute (CEMI), in 1984, the school has invested heavily in faculty development. Primarily educated in North America or Europe and teaching in China for almost 20 years, these professors have extensive academic and professional achievements in China and abroad. They are especially good at combining the advanced Western theories on business management with the real business practices in China, which has gained strong recognition amongst the students. Their substantial international standing and deep understanding of the Chinese market brings their teaching an unparalleled advantage over their peers at other business schools.

WORLD CLASS BUSINESS SCHOOL ATTRACTS WORLD CLASS SCHOLARS

On July 1st, CEIBS welcomed two new full-time professors to its Shanghai campus. They are Dr. Kwaku Atuahene-Gima, Professor of Marketing and Innovation Management, and Dr. Zhao Xinge, Associate Professor of Finance. In September, there are another three full-

time professors joining CEIBS. Dr. Atuahene-Gima and Dr. Zhao shared with the reporter on why they chose to come to CEIBS as full-time professors.

Prior to joining CEIBS, Dr. Atuahene-Gima was Professor of Innovation Management and Marketing at City University of Hong Kong for more than ten years. He is also an Honorary Professor of Renmin University, Beijing, and the founder of the Asia Innovation Society (AIS). He has consulted for companies and organizations in Australia, Hong Kong and mainland China. When talking about why CEIBS is attractive to him, Dr. Atuahene-Gima says, "CEIBS is a world class business school in Asia-Pacific, so it provides new challenges as well as a lot of opportunities for the work I do. First, coming to CEIBS grants me with a great opportunity to do research on China and to enhance innovation in China. Secondly, CEIBS student body is high-profiled, made up of top management in China, so it presents a perfect environment for me to do research relevant to managers."

In addition to the factors mentioned by Dr. Atuahene-Gima, another reason why renowned overseas professors are attracted to CEIBS are its state-of-the-art teaching and research facilities and a nurturing academic environment. Yet to professors returning from overseas, the joint-venture school's structure and operation is another selling point. Prior to joining CEIBS, Dr. Zhao was Associate Professor of Finance at School of Business Administration, College of William and Mary. Having been in the U.S. for 13 years, Dr. Zhao characterizes CEIBS as a "No Barrier" school when asked why he chose to come to CEIBS. Dr. Zhao further explains, "The school structure of CEIBS is quite similar to that of Western schools. Therefore, coming to teach at CEIBS needs less time for adjustment than going to other universities. Besides, the relationship between CEIBS professors/students and government/industries is more interactive than it is at other schools. Of course, Shanghai is a great city to live. Coming back to China and working in this exciting city is another reason why I chose to come to CEIBS."

Perhaps very few people know that CEIBS has been recruiting full-time faculty only since 2000. In just five years, the school already boasts over 30 renowned professors both from home and abroad as its permanent faculty, a stable and high-profiled team. When talking about the situation of this year's recruitment, Prof. Cremer provides the following

statistics: "In the past nine months, over 200 applicants sent in their CVs to apply for the six permanent professor positions at CEIBS. The competition is fierce."

While his peers at other business schools are taking extra efforts to recruit top professors from world leading business schools, Prof. Cremer says that CEIBS has no problem whatsoever to draw full-time professors, because: 1) the school is constantly enhancing facilities, creating better research environment to attract top professors; 2) CEIBS is very competitive internationally in its remuneration packages; and 3) "Recruiting faculty is actually getting easier. Take our faculty in the field of finance, HR and organizational behavior as example. We have built an outstanding faculty team in the past few years. Our professors are internationally well known. Good groups always attract more good professors, thus forming a healthy cycle."

THE "FIVE-YEAR" PLAN FOR CEIBS FACULTY DEVELOPMENT

Currently a common difficulty facing the management education market in China is how to build an excellent faculty pool. Coming to CEIBS, what are its goals in faculty development in the next five years? Let's listen to Prof. Cremer again on his blueprint for 2005-2009:

First, CEIBS plans to recruit six full-time faculty members per year. The school will continue to offer internationally competitive remuneration packages to attract top professors both from home and abroad to join CEIBS.

Second, CEIBS plans to build several strong groups of faculty in such key areas of accounting and finance, manufacturing and production, economics, and marketing.

Third, CEIBS plans to support research stronger and better than before, because good professors need good research environment. The school is a member of the European Case Clearing House (ECCH), and besides, it has established a range of research centres including Centre of Organizational and People Excellence, Centre of Chinese Private Enterprises, Centre of Entrepreneurship, China Centre for Financial Research, and Centre for Emerging Market Strategy. These efforts will help the school become the preferred source of management education in China and the think tank on the best Chinese business practices. **THELINK**



5 NEW FACULTY ON BOARD

This summer CEIBS welcomed 5 new full-time faculty on board. After the joining of Dr. Kwaku Atuahene-Gima, Professor of Marketing and Innovation Management and Dr. Zhao Xinge, Associate Professor of Finance in July, three more new professors, Dr. Thomas E. Callarman, Professor of Operation Management, Dr. Per V. Jenster, Professor of Management and Dr. Zhu Tian, Professor of Economics became members of the ever growing CEIBS faculty body on September 1st.

Their joining much strengthens CEIBS' teaching and research capacity and also reflects the international character of the school. The total faculty on campus of CEIBS is increased to 33 up to now.



ATUAHENE-GIMA, KWAKU

NATIONALITY: Ghana

Professor of Marketing and Innovation Management

Ph.D., Department of Management, University of Wollongong

RESEARCH INTERESTS:

Strategic decision making in product development

Market orientation and innovation management

New product development

TEACHING INTERESTS:

New products management

Marketing strategy for new products and technologies

Technology management and entrepreneurship

New products and technology marketing

SHORT BIO:

Dr. Kwaku Atuahene-Gima is Professor of Marketing and Innovation Management at CEIBS. Previously, he was Professor of Innovation Management and Marketing and former head of the Department of Management at City University of Hong Kong (February 1996 - July 1999) and founder and Director of the Center for Innovation Management and Organizational Change. He is also an Honorary Professor of Remin University, Beijing. He has previously taught at the Queensland University of Technology and the University of Wollongong. He is the founder and foundation President of the Asia Innovation Society (AIS) (1997-1998) and currently Vice President. He has consulted for companies and organizations in Australia, Hong Kong and mainland China. Prior to starting his academic career, he held executive positions

in product development, marketing and materials management in the pharmaceutical industry for several years.

Dr. Atuahene-Gima has published in the top tier journals in several disciplines including *Journal of Marketing*, *Journal of Product Innovation Management*, *Academy of Management Journal*, *Management Science*, *Organization Science*, *Strategic Management Journal* and others. His research work has received several best paper awards. He has been ranked among prolific researchers worldwide for contributions to the international marketing management literature. He is member of Product Development and Management Association (PDMA), Academy of Management, American Marketing Association, and the Strategic Management Society. He is on the Editorial Board of 3 scholarly journals: *Journal of Product Innovation Management*, *Industrial Marketing Management* and *Australasian Marketing Journal*, and *Journal of the Academy of Marketing Science* (2001-2003).



CALLARMAN, THOMAS E.

NATIONALITY: US

Professor of Operations Management

Ph.D. in Management, Purdue University

RESEARCH INTERESTS:

Process improvement

Process reengineering

Manufacturing management

Supply network integration

Operations strategy

TEACHING INTERESTS:

Supply chain management

Operations and logistics management

SHORT BIO:

Dr. Thomas Callarman is Professor of Operations Management at CEIBS. Before joining CEIBS, Dr. Callarman was Associate Professor of Supply Chain Management in Arizona State University. He was Director of Institute for Manufacturing Enterprise Systems, President-elect of the Decision Sciences Institute, Past-President of the Western Decision Sciences Institute and is Past-Chair of the Board of Directors of the Materials Management Group of the National Association of Purchasing Management. Dr. Callarman is a Certified Purchasing Manager (C.P.M.) and is certified by the American Production and Inventory Control Society as a Certified Production and Inventory Manager at the Fellow Level (CFPIM).

Dr. Callarman has over 25 years experience in research associated with operations management. He has consulted with several Fortune 500 companies in the various areas of operations management.

Dr. Callarman's research has been published in *Academy of Management Journal*, *Decision Sciences*, *European Journal of Operational Research*, *Journal of Managerial Issues*, *Innovative Higher Education*, *Operations Management Review*, *International Journal of Operations and Production Management*, *Journal of Purchasing and Materials Management*, and other research and practitioner journals.



JENSTER, PER V.

NATIONALITY: Denmark

Professor of Management, Academic Advisor to Executive Education Programmes, Director of the Centre of Entrepreneurship
Ph.D. in Strategic Management/IS, University of Pittsburgh

RESEARCH INTERESTS:

International business marketing
Strategic leadership development

TEACHING INTERESTS:

International business marketing, Strategic leadership development

SHORT BIO:

Dr. Jenster is Professor of Management at CEIBS. He has over ten years been Professor of International Marketing & Strategy at Copenhagen Business School, and served as Associate Dean for the CBS's MBA programs. He was formerly on the marketing faculty of IMD. At IMD, Per Jenster was the director for the Institute's programs, Managing Industrial Market Strategy, Corporate Planners' Workshop and founder of The Owner-Manager Program. At Cimid S.A., he has been responsible for a number of programs tailored to specific companies. Prior to joining Cimid S.A. and IMD, he resided nine years in the USA, during which time he was a faculty member at the University of Virginia.

Dr. Jenster's industry experience includes extensive senior management consulting in the areas of strategic management, marketing planning, competitive analysis, and cost evaluation studies. His past clients include diverse organizations such as Alcoa, AON, Caterpillar, East Asiatic Company, Exxon, IBM, Philips, Kellogg's, Unilever, Nestle, Norske Shell, and Volvo Construction Equipment, to mention just a few. Prior to his academic studies, he worked in product management of branded goods bound for Africa and the Far East for the East Asiatic Company.

In 1988, Dr. Jenster was appointed by U.S. Secretary Varsity as advisor and member of the Virginia Export Council, U.S. Department

of Commerce. During his years residing in Switzerland, Dr. Jenster held the Royal Appointment as Honorary Danish Consul to Switzerland (Cantons Vaud, Valais, Neuchatel, Fribourg).

Dr. Jenster's award winning research is widely published in more than 95 articles, books and case studies. He continues to work with CBS's Ph.D. students and their research. Dr. Jenster has lectured at various universities, such as INSEAD, UCLA, and University of Tübingen, and has been visiting professor at University of Tongji, Shanghai, and University of Geneva, Switzerland.



ZHAO, XINGE

NATIONALITY: China

Associate Professor of Finance
Ph.D. in Economics, Northwestern University

RESEARCH INTERESTS:

Mutual funds
Investments
Portfolio management

TEACHING INTERESTS:

Portfolio management
Financial management

Managerial economics

SHORT BIO:

Dr. Xinge Zhao is Associate Professor of Finance at CEIBS. Prior to joining CEIBS, he was Assistant Professor of Finance at School of Business Administration, College of William and Mary. He is a member of American Finance Association and Financial Management Association International.

Dr. Zhao has published in *Journal of Business*, *Journal of Banking and Finance*, and *Financial Analysts Journal*. He also co-authored an academic book. His research has been featured in global media, such as CBS MarketWatch in the U.S. and The Edge Singapore in Singapore. Dr. Zhao has presented his research at various international conferences and was invited to the Academic and Practitioner Conference on Mutual Funds by Investment Company Institute (ICI), the trade association of the U.S. mutual fund industry.



ZHU, TIAN

NATIONALITY: China

Professor of Economics
Ph.D. in Economics, Northwestern University

RESEARCH INTERESTS:

Theory of the firm and contracts
Industrial organization and China's economic transition

TEACHING INTERESTS:

Managerial economics

Economics of organization

Chinese economy

SHORT BIO:

Dr. Zhu Tian is Professor of Economics at CEIBS. He joined the School in Fall 2005 after teaching economics for ten years at Hong Kong University of Science and Technology. Before his academic employment, Dr. Zhu also worked as an Industry Analyst for the First National Bank of Chicago. He has been a Senior Fellow of the National Center for Economic Research at Tsinghua University since 1996.

Dr. Zhu's research has been published in *China Quarterly*, *Economic Inquiry*, *International Economic Review*, *Industrial and Corporate Change*, *Journal of Comparative Economics*, *Journal of Economic Behavior and Organization*, etc. **THELINK**



DR. LIANG NENG OF CEIBS WINS THREE TOP AWARDS FROM ACADEMY OF MANAGEMENT

Dr. Neng Liang, Professor of Management and Director of the Executive MBA Programme at CEIBS has won three prestigious awards from the Academy of Management (AOM) at this year's annual conference in Hawaii. The two papers on management education written by Dr. Liang and his two co-authors won the (1)

Carolyn Dexter Best International Paper Award, (2) the 2005 Best Paper Award for the Academy of Management Learning and Education, and (3) the Best Paper in Management Learning Award. The first two awards are all-academy awards of AOM, and the third, is from the Management Education division of AOM. Since the Academy's establishment 65 years ago, this is the first time that the Academy has given

two all-academy awards to two papers authored by the same scholar at the same time. This is also the first time that a scholar from mainland China has received such a prestigious award from the Academy of Management, which is an association of 16,000 business academics, made up primarily of academics (80%), executives (7%), PhD students (12%), and emeriti (3%) from all over the world.

Every year the Academy selects six best papers and researchers are awarded during the annual conference. Selection is made by selecting four papers from the Academy's academic publications and the other two from submissions to the annual conference.

This year, close to 4,150 papers were submitted from various disciplines by management scholars from all over the world. Of these submissions 2,537 were accepted. Only 550 of which were selected as candidates for the Carolyn Dexter International Award. To further narrow the winner of the Carolyn Dexter International Award, the papers go through two rounds of anonymous selection. During the first round, the Academy's 21 divisions nominate 39 papers for the Award. The second round is made up of 55 reviewers who make the final selection of four papers and finally, one of these is selected for the Carolyn Dexter Best International Paper Award.

This year, the winner of this award is "Erroneous Learning from the West: An

Empirical Study of Chinese Cases Published in 1992 and 1999" co-authored by Prof. Neng Liang, CEIBS EMBA Director and Professor of Management, and Lin Shu. As winner of this year's Carolyn Dexter Best International Paper Award, and the Management Education 2005 Best Paper Award issued by the Management Education and Development Division, Prof. Liang has been invited to be a member of the Academy of Management's International Committee, and the reviewer for 2006 Carolyn Dexter Paper Award.

In addition to this award, another paper co-authored by Prof. Liang Neng with Wang Jiaqian, "Implicit Mental Models in the Teaching Cases: An Empirical Study of Popular MBA Cases in the United States and China" also won the Academy of Management Learning and Education 2005 Best Paper Award. Papers are selected from all academic papers published in 2004 in the Academy's journal by its editorial board. Winning the award in 2004 was Professor Pfeffer from Stanford

University in the United States and an authoritative academic in the field of organizational management.

Over the past couple of years, there has been much criticism on the current practices of MBA education and use of case studies; however, little analysis has been made on the problems of case-usage for MBA education. Currently, usage of cases written by prestigious universities like Harvard Business School, known as "Harvard-styled" cases, have been adopted by schools as a popular method for teaching in business schools all over the world. The challenges and problems that have risen in MBA education can be greatly attributed to the extensive use of cases. Prof. Liang and his colleagues, have found that case-method, whether it be an actual Harvard or "Harvard-styled" case used for educating MBA students are made up of many wrong mind-sets, which explain many of the problems of MBA education.

The research done by Prof. Liang and his colleagues has cast a new way of thinking about educating MBA students. In addition to this, it has made graduate business schools re-think the usage of cases in the classroom and its implications for the future development of management education not only in China but the world's.

These three prestigious awards are a demonstration by peers in the academic and professional community of learning from research and making movements forward in this area. As Director of Asia Pacific's leading graduate business school in the world's EMBA programme and Professor of Management, Prof. Liang's achievements are an example of CEIBS' pioneering work in research in recent years that are being recognized by peers not only in the local, but the international community. CEIBS' research output has gathered significant momentum in recent years and now represents an impressive body of internationally published studies.

The Academy of Management is the leading professional association for scholars in management. Founded in 1936, the Academy of Management is the oldest and largest scholarly management association in the world. Today, the Academy is the professional home for 16,000 members from 89 nations. Every year the Academy holds annual conferences to award scholars and entrepreneurs who have made great contribution to the development of management during the year. The theme of 2005 conference is "A New Vision of Management in the 21st Century". **THELINK**

THE FIVE MAJOR BIASES EMBEDDED IN MBA TEACHING CASES -A BRIEF DESCRIPTION OF THE TWO AWARD-WINNING PAPERS

Many regard the case method and Harvard Business School cases as bible for management education. In fact, Harvard Business School cases and Harvard-style cases developed by other schools are now the dominant teaching vehicle in most business schools in the world. In two award-winning papers, Professor Liang Neng and his collaborators have identified five important biases that are embedded in most MBA teaching cases, and called management scholars to develop more balanced cases.

According to Professor Liang, in an ambiguous and uncertain world, the most difficult question facing managers is often not choice making, but "sense making", that is, how to understand and diagnose the real problems. MBA cases play an important role in this regard. Through the study of hundreds of cases, managers and MBA students develop not only the tools to solve the problems in the business world, but also the mental model of that world. If MBA cases convey a wrong image, students will react in a wrong way. Unfortunately, most of the MBA cases contain important biases. Professor Liang and his collaborators identified five important ones.

The first is an overemphasis on a rational choice framework, neglecting the importance of many non-economic factors in the management process. MBA cases tend to treat organizations as mere tools, not a social entity with a life of its own. The second is an overemphasis on strategy decisions, neglecting the importance of organizational building. They tend to convey the mistaken notion that an organization can be changed simply by making a strategy decision at the top, without the hard effort of effecting thousands of little changes throughout the organization. The third bias is to focus on each problem in isolation, devoid of organizational contexts and institutional history, neglecting the fact that most managerial problems in organizations are intertwined and cannot be dealt with in isolation. Optimization of a single problem is often infeasible; it is more realistic to search for compromise solution that meets multiple constraints. The fourth is an overemphasis on intellectual analysis that portrays managerial work as a detached analyst, neglecting the interactive, social nature of management. The fifth is an overemphasis on the instrumental utility and scientific aspect of management, neglecting the moral foundation and underlying value of managerial education; most cases tend to portray CEOs as hero and blame organizational problems to subordinates and workers.

Professor Liang's research also calls attention to the fact that Chinese MBA teaching cases written after the infusion of Western management theories have now acquired many the same problems that are commonly found in Harvard Business School cases. Chinese case writers should be cautious against a wholesale adoption of Western management approaches.

FEEL THE REAL CHINA IN THE CHINA WEEK

By Audrey Wu



Mr. Maurits van den Berg is the European accounts manager at Akzo Nobel, a global leader in the pharmaceuticals, coatings and chemicals industry. Akzo Nobel has established many subsidiaries around the world, and is investing heavily in China. Mr. van den Berg's work is strongly connected to China and he needed to know more about China to get a real sense of how business is developing here. This was becoming increasingly important, both to his career and to the development of his company. Currently an EMBA student at the Rotterdam School of Management, Mr. van den Berg availed himself of the opportunity to take an overseas module to come to China and study at the China Europe International Business School (CEIBS). The "China Week", a one-week Programme specifically designed for overseas EMBA students by the Executive Education Programmes of CEIBS, comprehensively met his requirements and left a lasting impression on him. The following text is a record of interviews with van den Berg by *The LINK*.

THELINK: What do you feel about China and studying here?

This is my first visit to China. It's a good opportunity for me to come here, look around and get a real sense of China and the companies here, since many of our investments are focused on China. I read many articles at home and it is interesting to come and see it with my own eyes. It's always different when you come and experience what's happening. I am very impressed to see how Shanghai is growing and developing and how eager people are to learn and to pick up what's happening in the world.

THELINK: Had you heard of the CEIBS China Week before?

I had learned that Chinese business schools and the business education sector are growing very quickly and doing very well. CEIBS ranks as the foremost amongst them and I am very happy to attend here.

THELINK: Did you find the pre-arrival materials from CEIBS useful?

Yes. The preparation was good, useful and well-related to the ensuing studies. We were provided with pre-reading materials, including a number of case studies on Philips and Emerson. These were very practical in content and related directly to the companies we visited here.

THELINK: What do you think of the programme? Do you think it is well-designed and well-organized?

It is extremely well organized and well balanced. The diversity amongst the Professors was most interesting to see and we readily assimilated their experiences. Prof. Wang started the first day by explaining the general political and economic environment of China, from a traditional viewpoint. Then we had a Belgium Professor, Wilfried Vanhonacker, whose long-term experiences in China as a European were invaluable. The following day our lecturer was Prof. Fernandez, another European, who approached the subject from a different angle. The same could be said of Prof. Willem Burgers, the Professor of Marketing. Their experience, as Westerners in China, I found to be completely different from that of the Monday lecturer. Today we had Prof. Xu Bin, who is absolutely amazing. He was extremely interesting and I listened attentively to the entire 3 hour lecture. Prof Xu Bin is very perspicacious and gave an excellent analysis and explanation of the Chinese economy. For me, all of the professors were very good, and Prof. Xu made a lasting impression upon me. A balanced program, good content, informative lectures! It was great!

THELINK: Would you say that, by taking this programme, you have learned more about

China? Including a different perspective on marketing, HR and economics?

Yes, I also now know more about the young people. Some of whom work in the private sector. They are very good business people, very aggressive and flexible, yet still open and friendly. That's something I have learned here that you can't learn from articles at home, and has given me a sense of the real China!

THELINK: How about your company visits?

We went to different kinds of companies: Shanghai General Motor, which is a successful joint adventure, and Zijiang Color Printing & Packaging Company, a booming start-up. I am involved with the printing industry, so I know little bit about it. It's a very modern company with modern facilities, which is just like a European or US corporation. It is small but very well organized, clean, and very professional. I am impressed by many of your companies, which are ready to compete in the global market. The communications with the company personnel I found to be very rewarding.

THELINK: What do you think of China's development?

China is part of the world economy. We are accustomed to having goods from Japan and Korea, but China is far bigger than those examples, so who knows what its future influence will be on our lives?

It's impressive. I can see both opportunities and benefits. I don't see that it poses a threat; unlike some people seem to think. We are young and dynamic and can work anywhere and we are coming to China to visit, live, trade and be interactive.

THELINK: Do the evening activities give you a flavor of life in China?

I arrived two days early, which gave me some extra time to explore the city. We visited lots of local places, both modern and traditional. We went to Xin Tian Di, which has a fine mixture of western modernism and the flavor of Old Shanghai. We also visited the Oriental Pearl Tower, followed by the history museum. It was nice to learn some local history. One cannot but be impressed by how much Shanghai has grown. In 1990, Pudong, the flourishing place where we are now standing was only barren farmland. I am sure that, when I come again, there will be even more skyscrapers, both here and everywhere. Shanghai is unbelievably dynamic and active 24 hours a day. Sometimes it's difficult to find time to sleep because I want to get out and meet people. I've found that there doesn't seem to be much of a difference between Chinese and western people as we seem to like a lot of the same things.

THELINK: What is your impression of CEIBS in general?

CEIBS is very professional, very dynamic and enthusiastic. It is located in the economic and financial center of China, which means it has an advantage over the others with respect to cross-cultural issues and foreign contacts. I think China should be proud to have such a business school. It's a nice place, with excellent buildings and facilities. I can't think of one negative point. We were well looked after and our coordinator and project manager were very helpful. Everything was wonderfully organized, from the hotel pick up to the company visits.

THELINK: Do you have any suggestion to this programme?

I don't really think I have. When I get back, I will recommend to my company and my colleagues that they should spend a week at CEIBS to learn what I have learned. Businessmen who come here are commercially minded, and it is both valuable and worthwhile to spend a few days at CEIBS. I will take this message back to Akoz-Nobel, and send a lot of its personnel to CEIBS. **THELINK**

CHINA WEEK ATTRACTS INTERNATIONAL ATTENTION

By Audrey Wu

The booming Chinese economy has made the country the centre of world attention. As it is playing an increasingly important role as the driving engine of today's world economy, China has been included by more and more overseas business schools in their international study module of MBA programmes since increasingly more overseas companies are eager to have a better and deeper understanding of this dynamic country.

Three years ago, the Executive Education department of CEIBS launched the first "China Week" program in China, which is specifically designed to meet the increasing need of overseas business schools. Building on a wealth of two decades' international management education experiences, this one-week programme offers a panoramic as well as an insider's analysis of the developments of the Chinese market, covering such important areas as business strategies, marketing, human resources (cross-cultural management), finance, and the economic and political environments in China. The programme is also flexible, making adjustments to meet the specific needs of different participants.

Ever since its first introduction, "China Week" has attracted EMBA participants from leading international business schools which include IESE from Spain, Rotterdam School of Management and Nyenrode University from the Netherlands. Some business schools even include the "China Week" in their lists of required courses.

A typical day in this one-week programme usually starts with lectures in the morning, followed by visits to local enterprises in the afternoon, and ending up with networking activities or city tours in the evening. Classroom learning, field visits, and cultural exposure are combined to help the participants understand the business practices and cultural environment in China in the shortest time possible.

Until today, CEIBS is the only business school in China that has offered the "China Week" programme. To ensure the benefits of such a programme, a business school must enjoy a high international reputation, a wealth of experience in executive education, and a faculty team who is well versed in both international and Chinese business practices. As a forerunner of business education in China and the leading business school in Asia, CEIBS boasts all of these three advantages.

Besides the "China Week", CEIBS also offers a variety of other international programmes targeting expatriates doing business in China, among them are the China International Executive Programme, CEIBS-Columbia Business School Joint Advanced Marketing Management Programme, and the forthcoming CEO Programme in cooperation with Harvard Business School and IESE. For any overseas business school or any multinational company who wants to understand China, CEIBS would automatically be their first choice. **THELINK**

MULTINATIONAL BIG NAMES TARGET CEIBS MBA GRADUATES

INTERVIEWS IN THE CEIBS MBA CAREER WEEK

By Yang Yuling



On August 15, the China Europe International Business School (CEIBS) kicked off its annual on-campus recruiting event, the MBA Career Week. 20 world-renowned multinational companies were invited to the CEIBS main campus in Shanghai, providing a variety of management positions to the 126 CEIBS MBA graduates. Among these big names were longtime recruiters such as GE, CICC, Cummins, AT Kearney and Lucent, and new comers such as Microsoft, Black & Decker, Pepsico and Eaton. As the top graduates among the business schools in the Asia-Pacific region, the 126 students (19% from overseas), with an average working experience of six years, boast strong backgrounds in a variety range of industries, including consulting, logistics, marketing, manufacturing, finance, etc. More than one year's study at CEIBS has armed them for the coming challenges and opportunities. To take a closer look at this exciting job hunting season, our reporter interviewed one recruiter, some CEIBS MBA alumni and MBA students. Here are the voices from them:

"CEIBS MBA GRADUATES PROVE TO BE THE BEST."

- the Recruiter

THELINK: WHAT ATTRACTS YOUR COMPANY TO RECRUIT THE CEIBS MBA GRADUATES?

LINDA SHI (HR Director, East Asia, Cummins (China) Investment Co., Ltd.): Actually Cummins (China) began to recruit CEIBS MBA graduates early in 1999. This tradition has been resumed last year after a short "break" due to the full-occupation of our positions. Now more hands are needed, and we naturally think of CEIBS again. Last year three CEIBS MBA graduates joined our company. Their performance is satisfying, which reassure us that the CEIBS MBA graduates are the best among all the business schools in China and reaffirm us to target the CEIBS graduates as our main recruiting candidates.

THELINK: WHAT KIND OF UNIQUE QUALITIES OF THE CEIBS STUDENTS IMPRESS YOU MOST?

LINDA SHI: Firstly, CEIBS students are more

experienced. This, I think is due to a strict screening process at enrollment, ensuring the high quality of the graduates. Secondly, CEIBS students are mature in handling matters in different situations. Their knowledge has also been enhanced and consolidated through the CEIBS MBA programme. And last, CEIBS students have a very clear vision of their personal development and they are very initiative at work.

THELINK: HOW DO YOU THINK OF THE PERFORMANCE OF CEIBS STUDENTS?

LINDA SHI: We are lucky to have those experienced students work at our company. All of them are quick learners. They are very independent and are growing rapidly inside the company.

THELINK: CHINA'S MBA EDUCATION HAS EXPERIENCED 15 YEARS' DEVELOPMENT. WHAT ARE THE CHANGES ON THE CHINESE MBA STUDENTS AND YOUR RELATIVE RECRUITING PLAN?

LINDA SHI: We used to "import" foreign MBAs who could speak Chinese. From around 1999, we began to recruit local MBA graduates. Some of them came from CEIBS. My feeling is that many MBA students in China are not down to earth. Their eyes only focus on those so-called "fancy" positions, without taking their personal experience into consideration when applying for a job. But CEIBS students are different, as I mentioned above they are experienced, hardworking and mature. My suggestion to the MBA graduates is that they should use their advantages to compete with others. For example, if you had experience in manufacturing before attending MBA, it's much more promising for you to return to the manufacturing sector and apply the management skills you've learned rather than stepping into the other business sector. Companies usually hope that the MBA graduates can actually apply what they have learned from the school to the real world practices.

“THE 18-MONTH STUDY AT CEIBS BROUGHT ME A SUBSTANTIAL CHANGE.”

- Alumni

THELINK: HOW HAS THE MBA STUDY AT CEIBS HELPED YOU IN YOUR CURRENT JOB?

SEAN LI (CEIBS MBA2003 alumnus, and Senior Marketing Specialist of Cummins Corporation Beijing Branch): I had already had nearly ten years' work experience before my MBA study. At that time I felt I was reaching a bottleneck in my career and needed to enhance myself in learning more business theories and practices. The 18-month study at CEIBS brought me a substantial change within a short period of time. Actually I am applying a lot of knowledge learning from CEIBS now at work, especially the mindset formed during the time. I think there are two main features of CEIBS: one is internationalization which is reflected everywhere from teaching methods, faculty, classmates, teaching language, to the way people think. All these help the MBA graduates easily adapt to the working environment at multinationals; the other is high pressure. MBA study needs hardworking, which familiarizes and enables us to work under big pressure in the future position.

THELINK: WHAT ARE THE ADVANTAGES OF CEIBS MBA GRADUATES COMPARED WITH STUDENTS FROM OTHER BUSINESS SCHOOLS IN CHINA IN JOB HAUNTING AND AT WORK?

SARA DAI (CEIBS MBA1999 alumnus, and Special Projects Manager of East Asia, Cummins (China) Investment Co., Ltd.): The quality of CEIBS MBA students is generally higher than MBAs' from other schools. Three reasons can explain this. One, the school sets a higher admission requirements to ensure the quality of the students. Most students already had multinational exposure before attending CEIBS, so it's surely easier for them to adapt to the culture and work environment at multinationals after being educated at CEIBS. The last reason is that CEIBS professors not only teach advanced Western management theories, but are familiar with the real business practices in China as well. Such veteran faculty is rare to be found at other business schools in China.

SEAN LI: The advantages of CEIBS students are mainly reflected in the following three aspects: 1) the CEIBS MBA programme is entirely taught in English, which helps the students to build a strong language ability; 2) CEIBS students have an international mindset, the same as their overseas counterparts in world-class business schools,

which you can not find at any other schools in China; and 3) CEIBS students have outstanding analytical skills, which I think are benefited from the strong statistics and marketing research courses provided by the MBA programme.

THELINK: HAVE YOU BENEFITED FROM MBA'S OVERSEAS EXCHANGE STUDY?

SARA DAI: I went to the University of British Columbia (UBC) in Canada for my Exchange Study. Through the exchange programme, I recognized our own capabilities though I also saw some gap existing. Compared with students from the top business schools such as Yale and Harvard, I found that the CEIBS MBA students are still relatively weak in theories, especially in creating models. Our business sense, such as market sense, however, is the same as theirs.

SEAN LI: I have been involved in the field of sales and marketing through my working years. I took my exchange study at Cornell University, where I learned a lot of valuable knowledge on marketing, such as the methodologies of marketing research, negotiation, pricing strategy, etc. A well-developed school with a history over 100 years, Cornell offers more than 50 elective courses on business management each semester, 20 on marketing among the total. The 7-month exchange study is an exceptional learning experience for me.

“CEIBS GRADUATES ARE COMPETITIVE IN THE LOCAL JOB MARKET.”

- Chinese MBA Students

THELINK: AS YOU ARE COMPETING IN THE JOB MARKET AGAIN, WHAT DO YOU THINK ARE YOUR COMPETITIVENESS COMPARED WITH THE RETURNING MBAS FROM OVERSEAS B-SCHOOLS? AND WHY?

JUSTIN DAI (MBA2004 student): As far as I know, we are quite competitive in the local job market. Probably only MBAs from the Top 30 US business schools are more popular than us. This is quite understandable. Because with more than 100 years' development, the MBA education in the U.S. is already mature. A whole set of tools, mindset, and approaches have been established. While on the other hand, the history of MBA education in China is only about 15 years. But CEIBS students are still comparable with the students from those Top 30 US business schools in terms of intelligence and ability.

THELINK: WHAT DID YOU DO BEFORE PURSUING YOUR MBA? DO YOU THINK THE MBA EDUCATION WILL BE BENEFICIAL TO

YOUR CAREER DEVELOPMENT?

JANE XI (MBA2004 student): I worked as Manager of Sales and Marketing in the private education sector for four years before taking the CEIBS MBA programme. With my knowledge on marketing replenished at CEIBS, I am well prepared to pursue my career path in the same field after graduation.

NANCY ZHANG (MBA2004 student): I was interested in HR management and worked as a consultant before MBA study. I have learned a lot from the CEIBS MBA programme. I will return to my beloved consulting work after graduation.

“GOOD PROGRAMME, NETWORKING, A CAREER IN CHINA.”

- International MBA Students

THELINK: WHERE DO YOU CHOOSE TO WORK AFTER GRADUATION?

PAUL FOO (MBA2004 student, from Malaysia): I am looking for a job in the finance industry in Shanghai. In fact, I want to develop my career in Shanghai, which is one of the main reasons why I came to CEIBS. Although there are more job opportunities in Hong Kong and the payment is also higher there, there is more space for career development in Shanghai because the finance industry is under-developed here, and it provides potential opportunities. So Shanghai is my first choice.

EMANUELE J. VENDER (MBA2004 student, from Italy): I would prefer to stay in Shanghai. Actually 99% of our international students would like to stay in China for further career development. One of the most important factors of MBA study is networking. We came to CEIBS because of its impressive ranking and the high quality of the programme. What's more, we came here to build up our business network, to learn the Chinese language and culture. We hope that we could find a satisfying job in the Chinese local market.

THELINK: HAVE YOU BENEFITED FROM THE NETWORK BROUGHT TO YOU BY CEIBS?

PAUL FOO: Yes we have. Such as the alumni sharing sessions organized by CDC (Career Development Centre). And some of them are especially for the international students. This provides us the opportunity to communicate with the students in MBA 2003 and 2002 and seek their advice on how to successfully find a right job here. One advice is opportunities will surely come after you prove your ability in the work and you will be promoted very quickly, even if you accept a lower position when you join the company. **THELINK**

CEIBS CASES: INTERNATIONALISATION AND LOCALISATION ON EQUAL FOOTING



By Gary Liu

The mission of business schools is to create intellectual capital and in so doing case development plays an important role. Case study has always been regarded as the core and soul of business school teaching systems, as proven by the philosophy cherished by Edwin F. Gay, first Dean of Harvard Business School, when the school was still in its infancy phase - business schools' teaching should concentrate on business problems in the real world, and cases are the most effective tool to practice such a principle.

Explosive growth of business education in China has spurred great demand for quality teaching cases. In this setting, most domestic business schools try to rapidly reduce the gap with world-class business schools by buying teaching cases from abroad directly. However, Chinese students hope that there will be more cases concerning local companies, as experience from companies in Europe and the U.S. is less compatible with China's realities. Meanwhile, given that the rise of China's economy has kindled strong interest in the international academic community, foreign business schools have begun developing China-related cases. The European Foundation for Management Development (EFMD) has designed a special category, namely, Emerging Chinese Global Competitors, in its annual case writing competition. Even so, the number of China-related cases developed by foreign business schools is very limited, and the main focus of those cases is how foreign capital enters China rather than problems faced by local Chinese companies in their operations and management.

To better meet teaching requirements, the China Europe International Business School (CEIBS) established its Case Development Centre in 2001. As a China-based international business school, CEIBS has devoted considerable resources to case development. Presently, the CEIBS Case Development Centre has six full-time personnel, most of whom hold a Ph.D. in their respective professional field. With the joint efforts of the Case Development Centre and CEIBS professors, the CEIBS case database has accumulated more than 100 cases, about 80 of which are sold globally through the European Case Clearing

House (ECCH). CEIBS has already formed a full-range of categories, which cover finance, business environment, strategy, human resource management, entrepreneurship, marketing, production management and others.

Support and cooperation from the business community are indispensable to case development as case writers typically get deeply involved in the companies to get first-hand information from interviews in order to "make an honest presentation of business decisions". CEIBS has emphasized that cases are written only for teaching purpose rather than for companies to promote themselves. However, the companies can take the case writing process as a free "health check" for their organizations. Many companies regard case development as an example of their support for education. Among those companies supporting CEIBS' case development are CEIBS' sponsors (such as Michelin and Philips), companies where CEIBS alumni work as key executives (such as Target Media, Beijing

Four Dimension Group, Weihao Aluminum and Tsingtao Brewery) and other famous companies (like Haier, Emerson, Sony, BP and others). Case development at CEIBS also benefits from the requirement that EMBA students submit individual or group reports concerning operational or managerial problems faced by the companies they work for, some of which have provided valuable case leads.

In developing cases, CEIBS has paid equal attention to internationalisation and localisation. To be specific, internationalisation means: 1) the cases should be developed in line with international conventions and standards and localisation can never be an excuse for inferior quality; 2) cases are provided in both Chinese and English so that they can be shared globally; and 3) CEIBS seeks extensive international cooperation in case writing. CEIBS has co-developed cases with Wharton, IMD, INSEAD and other first-rate business schools in the form of co-branding, sold the Chinese version cases of IMD and WHU, authorized IES Publishing

to sell CEIBS cases in Spanish, and authorized IVEY, world's second largest case development institution, to sell some of CEIBS' cases globally in the form of "co-branding". CEIBS' insistence on internationalisation has won international recognition for its cases, as evidenced by the fact that more than 30 international business schools have purchased CEIBS cases, including INSEAD, the Hong Kong University of Science and Technology, University of Oxford, Copenhagen Business School and others. Localisation refers to focusing on operation and management practices in the Chinese context. Now, CEIBS cases cover nearly all kinds of enterprises including joint-ventures, foreign-funded companies, SOEs, private companies, etc. The long-term objective of CEIBS Case Development Centre is to become the leading database for China-specific cases worldwide. In 2004, CEIBS published *Human Resource Management & Organizational Behavior, Volume I* of CEIBS' case book series, as its contribution to the standardization of domestic case development. **THELINK**

CEIBS CASE BOOK SERIES HUMAN RESOURCE MANAGEMENT & ORGANIZATIONAL BEHAVIOR (VOLUME I)

In contemporary society, the criterion for business success has gone beyond national boundaries. It is the objective of many Chinese enterprises to join the rank of the top 500 companies of the world. However, almost half of the top 500 companies ranked by Fortune in 1981

were kicked out of the 1989 ranking. Then the question is: how do organizations achieve continuous and sustainable success like General Electric and Wal-Mart? To this end, the company needs to have a wonderful combination of vision, innovation and persistence. To respect employees, however, is a point with which all visionary companies will concur. With the intensification of the war for talent, managers are paying increasing attention to human resource management and organizational behavior.

People are the DNA of an organization. In fact, no organizational capability or strategy can be built and implemented without people. The meaning of human resource management has extended beyond traditional domains such as recruitment, assignment, development and retention of employees. Managers should think at a higher level and ask the following questions: What is the strategy of the organization? What kind of organizational capabilities are needed? How to align the organizational capabilities with the strategy? How to reach a balance between globalization and localization? Organizational behavior abandoned Taylor's

mechanical management, and raised the understanding of personnel management to a new level by focusing on individual and group behavior, incentive and delegation, conflicts and negotiation, and so on.

This book aims to help readers grasp the principles and methods of human resource management by learning from best practices and lessons from case studies. Hopefully, readers can apply what they learn to solve practical problems in their organization. Peter F. Drucker once said, "The management of an enterprise, in the ultimate sense, is the management of human resources." That is part of the reason why we make this book the first of CEIBS case book series.



Cases included in this book are:

- Emerson Electric (Suzhou) Co., Ltd. (A)
- Emerson Electric (Suzhou) Co., Ltd. (B)
- WL Gore and Associates (China) Co., Ltd.
- Sony (China) Ltd.:
- The Learning Organization
- AsiaEC.com:
- Delivering E - business in China
- Haworth Asia Pacific and China :
- Leading Strategic Change
- Philips China :
- Towards One Philips Program
- Managing Performance at Haier (A)
- Managing Performance at Haier (B)

Welcome MBA 2005 Class



On August 29, CEIBS welcomed our new MBA class as they started their 18-month journey in completing their full-time Masters of Business Administration programme. It is up to the school's Board of Directors to decide on the number of enrolment of students each year, and this year, it was decided that enrollment would increase to 180 students, which is 60 students bigger than the last.

Despite the enormous demand for graduate business education, the school has decided to gradually, but progressively, increase their MBA programme size one class larger to ensure the school's priority on its high-level selectivity recruitment process and to ensure that students are taught by experienced and knowledgeable academics.

This year approximately 36 of our 172 students (21.4% of the class) come from countries including: the United States, Thailand, Sweden, Spain, Korea, the Netherlands, Luxembourg, Italy, Ireland, India, Guatemala, Germany, France, Canada, Belgium, and Australia. Some of them have graduated from renowned colleges including Cornell, Princeton, and Oxford. In addition to this, they have worked for leading companies including Bain & Company, Accenture, Morgan Stanley, and Deutsche Bank.

Local Chinese students are also from an elite group, graduating from Peking University, Tsinghua University, Fudan and Jiaotong, with experience in the industries of consulting, manufacturing, marketing and finance. **THELINK**



CEIBS EMBA 2005 Beijing Class Opens



August 25 marks the start for the China Europe International Business School's (CEIBS) EMBA 2005 Beijing class. The 183 students attended the opening ceremony.

Mrs. Catherine Hsiao, Deputy Chief Representative of CEIBS Beijing Office, hosted the ceremony. On behalf of the school's Management Committee, Prof. Liu Ji, Honorary President of CEIBS, extended a warm welcome to the new participants. During his address to the crowd, Prof. Liu emphasized the school's strict adherence of its participants to follow the school's code of ethics and to be socially responsible. He encouraged them to be both ambitious and down-to-earth using every effort to contribute to China's revitalization.

CEIBS' Dean and Vice President, Prof. Rolf R. Cremer explained that China has become the most influential force in the world's economy since it adopted the reform and opening-up policy 20 years ago; globalization has its impact on every corner of the country. He believed that the international features of CEIBS will facilitate the participants to better meet the challenges of globalization.

Representing faculty, Prof. Juan Antonio Fernandez, spoke about the responsibilities of faculty and he clarified the responsibilities a participant should take during the two years' programme. Mr. Xiong Meng from the State-owned Assets Supervision and Administration Commission of the State Council, and Mrs. Song Yufang from the China Minmetals Corporation, representing new and old participants respectively, also gave the speeches at the ceremony.

The VIP speaker, Mr. Yao Jingyuan, General Economist and Spokesman of the National Bureau of Statistics of China, gave a speech entitled "The Analysis of Current Operation of the National Economy".

The final speaker was Prof. Liang Neng, EMBA Director of CEIBS, who briefed the



profile of this year's class and the curriculum of the EMBA programme. Prof. Liang also elaborated on the system of course grading and programme evaluation. His focus on codes for both academic honour and behaviour/etiquette impressed the new participants deeply with the school's strict academic discipline.

With rankings as one of the world's top 20 EMBA programmes by the Financial Times last year, admissions were very competitive with 1,100 applications from around the world, this year. After a 3-stage rigorous screening last November, March and June of this year with both written exams and interviews, 183 were selected from 440 qualified applicants. This year, the percentage of participants from mixed ownership enterprises is 31%, which is the largest surpassing the percentages of those from state-owned enterprises (21%), WFOEs (21%), private enterprises (10%) and EJVs (10%). This phenomenon reflects the trend of China's enterprise system as a result of ownership reform in the country.

With an average age of 38 and average working experience of 15 years, the newly enrolled participants possess a high profile background, with over 30% received master or PhD degrees. They are widely distributed in various industries of IT, manufacturing, finance and investment, energy, health care, real estate, media, logistics, trade and commerce, science, education, culture, and public administration.

It has been ten years since CEIBS launched China's first EMBA programme in 1995. Up till now the school has enrolled 3,300 EMBA participants with 2,300 graduates. Now the programme has become the most sizable, influential and prestigious of its kind in China. According to a domestic survey by the Global Sources in September 2004, CEIBS EMBA programme achieve visibility of 72%, a percentage much higher than the second placed school. **THELINK**

PRESIDENT OF THE EC, JOSÉ MANUEL BARROSO, VISITS CEIBS



On July 16, 2005, the President of the European Commission, José Manuel Barroso, visited the China Europe International Business School (CEIBS).

This was President Barroso's first visit to CEIBS, which included a tour of the facilities, guided by the school's Management Committee including Honorary President, Prof. Liu Ji; Executive President, Prof. Pedro Nueno; Dean and Vice-President, Prof. Rolf Cremer; and Vice-President, Prof. Zhang Weijiong. The visit's highlight was President Barroso's speech titled "The Dragon Awakes: The EU and China's Economic Rise" at the Shanghai Petrochemical Auditorium, attended by members of consulates, students, alumni, and senior executives of local and multi-national companies.

Starting off his speech, President Barroso referred to CEIBS as a very successful symbol of EU-China cooperation. Created in 1994, the school provides what may be considered the most crucial resource to support China's fledgling economic progress: highly capable human capital. By committing to support the school on a permanent basis, President Barroso allows the EU to congratulate itself not only for putting its money where its mouth is, but for contributing to form China's hearts and minds through the school's graduate business programmes. President Barroso expressed how he could not hope for a more and enlightened self-interest.

China's rise, as noted by President Barroso, has been a blessing to the world as much as it has been to itself. China's rise should be considered an opportunity, not a threat and this is largely due to China's lucid leadership, with whom President Barroso had held very open talks during the previous days and, in the President's words, are committed to an open, reformist and stable China.

SPANISH MINISTER OF FOREIGN AFFAIRS, MIGUEL ANGEL MORATINOS, VISITS CEIBS

The Spanish Minister of Foreign Affairs, Miguel Angel Moratinos, visited the China Europe International Business School's (CEIBS) Shanghai main campus on July 24. He was welcomed by the school's Executive President, Professor Pedro Nueno, and Vice President, Professor Zhang Weijiong.

During his meeting with the school's Management Committee, Mr. Moratinos expressed how the institution's operation model has been innovative allowing for its success. He also explained that the Spanish government will continue to support the development of CEIBS like it has in the past with its donation such as the school's Spanish Centre and Spanish Residence.

Mr. Moratinos' visit follows the visit of the President of the



Spanish Senate, Mr. Francisco Javier Rojo, visited CEIBS earlier this year in April.

EU SECRETARY GENERAL PRAISES CEIBS AS AN EXAMPLE OF CHINA-EU COOPERATION

On the morning of September 6, 2005, Secretary-General of the Council of the EU and High Representative for the Common Foreign and Security Policy Mr. Javier Solana visited the Shanghai Campus of the China Europe International Business School (CEIBS) and spoke to over 300 assembled diplomats, faculty, students, alumni and sponsors about the China-EU Strategic Partnership. This was the second visit by a senior delegate of the EU to CEIBS in less than two months, a first for any business school worldwide, after EU President José Manuel Barroso visited CEIBS last month.

In his speech, Mr. Solana emphasized the importance of cooperation between the EU and China in their bilateral relationship and that both are working together on the issues outlined in their strategic partnership. He cited CEIBS as an example of this cooperation and encouraged students to take advantage of their positions and opportunities, "to make the



world a better place". "What has been done here is of great importance," he said of the school that is a partner between the Chinese government and the EU. "I have closely followed its development as an international centre of excellence."

This was the first visit to CEIBS by Mr. Solana, who spoke openly about his meeting in Beijing the previous day with Chinese President Hu Jintao and Chinese Premier Wen Jiabao, saying it was a good and warm meeting with frank exchanges. Mr. Solana discussed the strategic partnership that was launched two years ago, saying the meetings held the previous day proved they, "really do have a partnership which is growing both deeper and wider".

HARMONIZING CHINA'S HEALTH CARE SYSTEM



Chen Wenling



James Killingsworth



Lei Haichao



Yu Zonghe



Zhou Haiyang



Song Ruilin



Xu Shuqiang



Pilar del Castillo



Xiong Xianjun

September 5, 2005 marked one of the country's largest and most prestigious health care industry forums. The CEIBS 2005 China Health Care Management Forum, held at the China Europe International Business School (CEIBS) in the institution's main campus in Shanghai served as a venue for the country's major policy makers and industry players to discuss their views on the reform of China's health care industry. With an attendance of more than 300 participants, the forum looked at China's major health care issues.

An important theme of the forum was the promotion of the coordination and harmonization of the development of China's health care industry. This theme was explored during the forum through five different sessions. Although unable to attend, Mr. Han Qide, Vice Chairman of the Standing Committee of the National People's Congress of the PRC; and Mr. Gao Qiang, Minister of Health of the PRC, extended their congratulations and support for this forum.

During the morning session, Ms. Chen Wenling, Director General of the Comprehensive Affairs Department, Research Office of the State Council of PRC, and Dr. Lei Haichao, Head of the Policy Study Office and Regulations Department of the Ministry of Health of PRC, spoke openly and frankly about the prospects for China's health care reform.

The second morning session had internationally invited speakers from the member of the European Parliament, Ms. Pilar del Castillo; Associate Professor from Boston University School of Management, Dr. Roberta Clarke; and the Managing Director for International Relations, Joint Commission International, Joint Commission on Accreditation of Health Care Organizations (JCAHO), Dr. James Killingsworth. Each of the speakers shared their experiences and views about various health care systems around the world.

The afternoon's first session was attended by Mr. Yu Zonghe, Deputy Chairman of the Chinese Hospital Association; Mr. Bruce Krider, President of Advanced Healthcare Systems, LLC; Dr. Xu Shuqiang, President of China-Japan Friendship Hospital; and Dr. Eric Chong, Consultant for Bayer China Hospital Development Fund and Chairman of Asclepius Health Care. This session examined the local health care system and possible systems suitable for China. During the second last session, speakers

including Mr. Xiong Xianjun, Deputy Director of the Health Care Insurance Department of the Ministry of Labour and Social Security of PRC; Mr. Domingos Sugranyes, Vice Chairman and CEO of Corporacion Mapfre; and Mr. Zhou Haiyang, Director of the Shanghai Medical Insurance Bureau discussed the issues of making health care affordable for China's population.

Closing the session were experts and world industry leaders in pharmaceuticals and medical equipment including Mr. Song Ruilin, Deputy Director of Department of Education, Science, Culture, and Public Health, Legislative Affairs Office of the State Council and Adjunct Professor of CEIBS; Dr. Jurgen Dahmer, CEO of Bayer Greater China Group and President of Bayer Material Science Greater China Group; and Mr. Jeffrey Li, Company President and Chief Representative of Novartis China. This closing session demonstrated how the private industry plays a role as an important stakeholder helping to bring about better health for Chinese people. **THELINK**

WORKING TOGETHER TO ENSURE CEIBS THRIVES

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In just ten years CEIBS has grown to be the # 1 ranked Business School in Asia (Financial Times, January 2005). This unprecedented rise is thanks in large part to the philanthropic support and active involvement of our Corporate Sponsorship Partners.

By 2010, CEIBS has a goal to be amongst the top 10 Business Schools in the world. CEIBS MBA and EMBA programmes are currently ranked in the FT global top 25. The growing importance of the China economy will certainly be one positive factor in achieving this goal. But even more important, we believe, will be the investments made by CEIBS in attracting the best international faculty; in innovating the latest research; and in expanding the school's facilities to other cities, notably our second campus in Beijing, due for completion by the end of 2007.

Part of the funding and guidance for these initiatives comes from the generous support of our Corporate Sponsorship Partners through CEIBS Foundation. Together with our Partners, the goal of the CEIBS Foundation is to ensure continuous investment in the school for short- and long-term growth and success:

To date, CEIBS has invited 50 leading Western and Chinese companies to become part of CEIBS Corporate Sponsor Partner Network. Our sponsorship funds

and projects include:

• **CEIBS CHAIR ENDOWMENT FUND:** investment of Euro 1 million over a number of years.

• **CEIBS RESEARCH FUND & CENTRES OF RESEARCH EXCELLENCE:** investment ranging between Euro 200,000 and Euro 1 million over a number of years.

• **CEIBS DEVELOPMENT FUND:** investment of Euro 100,000 over 3 years.

• **CEIBS CAMPUS FUND:** investment in "naming rights" for a specific building/facility at CEIBS ranging between Euro 50,000 and Euro 2 million, depending on the facility.

All of CEIBS Sponsorship Partners feel a strong satisfaction in supporting the education of the next generation of business leaders in China. They also benefit from a number of special services tailored for CEIBS Sponsor Partners. These include:

MEMBERSHIP OF CEIBS CORPORATE ADVISORY BOARD:

CEIBS Corporate Advisory Board (CAB) is an exclusive forum in which our Sponsor Partners' senior executives can support and influence management education

in China. As an example, CAB members act as distinguished guest lecturers in CEIBS MBA classes. Individual CAB members also volunteer to work closely with the CEIBS management to advise on specific areas of development for the school - such as strategy, international branding, and fundraising.

CEIBS INTERNATIONAL MARKETING PLATFORM AND VISIBILITY:

Our Sponsor Partners' company brands enjoy high visibility amongst business, government and academic leaders in China and overseas. In appreciation of their contribution to the school, our Sponsor Partners' company brands are recognised in CEIBS brochures, in our marketing publications, on CEIBS' website, and in this publication, our quarterly Alumni LINK magazine (current circulation of 40,000).

PRIORITY ACCESS TO CEIBS MBA STUDENTS:

CEIBS Sponsor Partners enjoy priority access to our MBA students for recruitment, internships and group consulting projects:

• **Recruitment:** 4 weeks priority access to recruit CEIBS MBA graduates. Throughout the month of July 2005, 15 Sponsors enjoyed on-campus presentations one month in advance of non-Sponsor Partners.

• **Group Consulting Projects/Internships:** 4 weeks priority access to CEIBS MBA students.

OTHER IMPORTANT SPONSOR PARTNER BENEFITS & RECOGNITION:

- Priority Placement on Executive Education and EMBA Programmes
- Priority Access to Faculty for the Development of Company Specific Programmes
- Priority Access to Research Projects, Case Studies and Faculty Resources
- Access to CEIBS' Campus Facilities to host company events
- Priority Invitations to CEIBS' many diverse academic, business and cultural events
- Opportunity to speak at CEIBS' Executive Forums as well as participate as guest lecturers in CEIBS' MBA and EMBA programmes

For Further Information on CEIBS Corporate Sponsorship Projects and Funds, please contact Ms. Seanie Comerford, Development Director:
Tel: +86-21-28905120 / Email: cseanie@ceibs.edu or development@ceibs.edu

See what CEIBS Current Sponsor Partners Say: www.ceibs.edu/support



"LA CAIXA" SPONSORS FIVE MBA SCHOLARSHIPS AT CEIBS



"la Caixa", a non-for-profit Spanish savings bank has sponsored five full MBA scholarships for the 2005 MBA class at CEIBS. The scholarships have been rewarded to

five Spanish candidates who arrived in Shanghai at the end of July to commence their MBA programme.

The generous sponsorship from "la Caixa" assists to nurture a greater understanding between Spanish and Chinese post-graduate students and to develop long-term partnerships between the two countries.

Commenting on the sponsorship, Mr. Ricardo Fornesa, Chairman, Caja de Ahorros y Pensiones de Barcelona "la Caixa", said, "la Caixa" is very pleased with the establishment of a fellowship programme, in association with Casa Asia in Barcelona, aimed at sending every year some of the best Spanish graduates to CEIBS, a top quality school which plays a key role as a bridge for international business between East and West."

"la Caixa" is a non-for-profit private savings bank whose governing body consists of contributing depositors, local authorities and employees. "la Caixa" allocates its net income to the establishment of reserves while the rest goes to finance projects in the areas of science and environment, community activities, culture and education.

APAX PARTNERS WORLDWIDE LLP JOINS CEIBS' CORPORATE SPONSOR PARTNER NETWORK

Apax Partners Worldwide LLP has joined CEIBS' Corporate Sponsor Partner Network with a view to hiring China's brightest and



best MBA graduates. Apax Partners, one of the world's leading private equity investment groups will sign a 3-year Sponsorship agreement with CEIBS, gaining priority access at CEIBS for MBA group consultancy projects and MBA graduates.

Over three decades, Apax Partners has achieved a position of international leadership in private equity investment. Apax Partners has raised or advised approximately \$20 billion and invested in over 340 companies around the world. Its track record of strengthening and building internationally successful companies in its chosen global sectors: telecommunications, IT, retail and consumer, media, healthcare and financial/business services, is exceptional.

The mission of Apax Partners is to create wealth for the investors who have entrusted them with their capital by investing the Funds it advises actively in companies. As the firm's business continues to expand in China and Asia, Apax Partners seeks the highest calibre of MBA graduates who share its values of trust, excellence, long-term relationships and a contribution to a common goal.

On signing the new agreement between Apax Partners & CEIBS, Mr. Max Burger-Caledron, Snr. Partner, Chairman Asia said, "I am impressed with what has been achieved at CEIBS in terms of quality of professors, curriculum, students and infrastructure. This is another testimonial to the inspiring and entrepreneurial spirit which drives the Chinese economy."

Professor Rolf D. Cremer, Dean & Vice President of CEIBS warmly welcomed the decision of Apax Partners to become more closely aligned with CEIBS: "The internationalisation of outstanding Chinese firms needs two things: excellent management, and private capital. The new partnership of CEIBS with Apax Partners Worldwide LLP strengthens CEIBS' interface with the best of Chinese enterprises and entrepreneurs. We are delighted about our new association with Apax Partners."

ABN AMRO ADVANCES RISK MANAGEMENT KNOWLEDGE IN CHINA



On Sept 22nd, 2005, ABN AMRO Chair in Risk Management was officially inaugurated at CEIBS. CEIBS' Professor Chang Chun has been appointed to the prestigious position of ABN AMRO Chair Professor to steer all research, teaching and seminar activities under the auspices of the Chair.

Through the Chair and Professor Chang's work at CEIBS, ABN AMRO's goal is to heighten the awareness and importance of risk management issues in



China and to increase the quality of risk management education and disseminate knowledge in China to the country's banking and finance sectors. Together, the design of an executive education programme on Risk Management is already in progress.

Professor Chang Chun expressed gratitude to ABN AMRO for their vision and support in advancing the field of risk management in China; "Establishing a modern risk management and control system is a top issue facing Chinese banks today. ABN AMRO's support is very timely; their willingness to support risk management research and training through the ABN AMRO Chair in Risk Management at CEIBS will greatly assist to modernize China's banking system."

Commenting on the new partnership between CEIBS and ABN AMRO, Sam Zavatti, Vice Chairman, Global Financial Institutions, in ABN AMRO's Wholesale Clients business said: "This initiative, in collaboration with China's finest MBA school, illustrates ABN AMRO's strong commitment to education and innovation in risk management in China."

"The partnership with CEIBS is not just about providing financial support, but more importantly about sharing ABN AMRO's best practice and expertise in risk management, through the design of a programme that will benefit the professionals China's banking sector will so critically require on its road to maturity," Mr Zavatti added.

DEGUSSA ESTABLISHES PARTNERSHIP WITH CEIBS



On Friday September 23rd, Degussa officially signed a three year Sponsor Partnership agreement with CEIBS. At a ceremony hosted by Professor Pedro Nueno, Executive President; Professor Rolf D. Cremer, Dean and Vice President and Professor Zhang Weijiong, Vice President and Co-dean of CEIBS, and attended by Dr. Alfred Oberholz, Member of the Board of Management of Degussa AG and senior management members from Degussa China, the signing of the agreement marked the practical start of Degussa's cooperation with CEIBS.

Under this initiative, Degussa will take an active role in the school by supporting and sponsoring CEIBS' operational activities and development, particularly

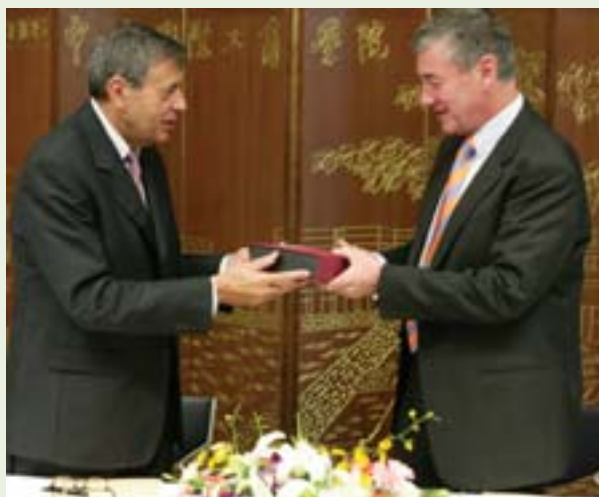
in terms of recruitment and executive education programmes. Through the cooperation Degussa has priority access to CEIBS MBA students for internships, group consulting projects (GCPs) and for campus recruitment. The new partnership will have immediate effect and will be effective for three years continuously.

Dr. Alfred Oberholz, Member of the Board of Management of Degussa AG, expressed that; "Degussa treasures this great opportunity to cooperate with CEIBS, one of the best business school in Asia. We value this symbiotic joint effort as we can learn a lot from CEIBS and obtain fresh ideas from the students. At the same time, we are pleased to share Degussa's global operation experience with the future senior executives of China and have confidence that this knowledge will help them, to some extent, on their way to building a stronger China."

Degussa now joins a community of world class leading companies to become part of the school's Corporate Sponsorship network. By doing so, Degussa demonstrates a sincere commitment to management education in China and fulfils an important part of corporate citizenship responsibilities within China itself by partnering CEIBS to develop highly competent, internationally oriented managers. This in turn, assists to secure the future flow of talent and sustainability of this country.

Professor Nueno, said that CEIBS is honoured to establish a partnership with Degussa: "CEIBS' Cooperation with the world's leading specialty chemical company Degussa, allows the school to offer additional advanced and practical management experience for our students; we appreciate the long-term vision of Degussa and believe this partnership will be mutually beneficial for both Degussa and CEIBS."

"Today marks another milestone for Degussa as we further reinforce our strong commitment to China by collaborating with a renowned business school like CEIBS." Added Mr. Eric Baden, Chairman of Degussa (China) Co., Ltd. "In order to cope with the fast



pace of growth in the China market, Degussa is dedicated to attracting and retaining a motivated workforce as a preferred employer and the partnership with CEIBS will be value-added to our strength in this initiative."

CEO OF CITIGROUP CHINA MEETS CEIBS MBA STUDENTS



Mr. Richard D. Stanley, CEO of Citigroup China, visited CEIBS on July 5th to address an overcapacity room of CEIBS 2nd year MBA students. Mr. Stanley spoke frankly about his own career at Citigroup and Citigroup's strategy for growth within the rapidly evolving banking sector in China.

Through the moderation of CEIBS' visiting professor Rafael Gil-Tienda, Global Head of Wholesale Bank and Emerging Markets, Standard Chartered Bank, the CEIBS MBA students and Mr. Stanley spent an hour in a lively discussion spanning a wide range of topics - including Citigroup's China credit card venture with Shanghai Pudong Development Bank, the importance of cooperation with local banks, Citigroup's branding strategy, the challenges and opportunities presented by China's stock of non-performing loans and the importance of intellectual capital and developing home grown talent as a key driver of Citigroup's success in China.

In the context of this last point, Mr. Stanley highlighted the tremendous ongoing growth of the Citigroup organization within China, and warmly welcomed CEIBS MBA students to consider a career with the bank.

**CEIBS MBA: No. 22 Globally
No. 1 in Asia**

Source: "The top 100 full-time
global MBA programmes",
Financial Times 2005

CEIBS MBA Info Session 2005-2006



Global Perspective, China Focus

2005

Sept. 10	Shanghai	Nov. 5	Qingdao
Sept. 17	Guangzhou	Nov. 6	Xiamen
Sept. 24	Beijing	Nov. 12	Xi'an
Oct. 16	Hangzhou	Nov. 13	Dalian
Oct. 22	Nanjing	Nov. 15	Shanghai *
Oct. 23	Suzhou	Nov. 17	Beijing *
Oct. 29	Chengdu	Dec. 4	Wuhan
Oct. 30	Chongqing		

2006

Jan. 7	Shenzhen
Mar. 4	Hangzhou
Mar. 11	Nanjing
Mar. 12	Suzhou
July 8	Tianjin
July 15	Harbin
July 22	Changsha

* CEIBS will participate in World MBA Tour.

Shanghai Campus Visit

2005	2006
Oct. 29	Jan. 7 Feb. 25 Mar. 25 Apr. 30 May 28

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A PH. D'S MBA CHOICE

By Vincent Bricout

In 2002, Yao Ming left the Shanghai Sharks, starting his starring role at the Houston Rockets. The same year, I was taking a flight from Houston to Beijing on an assignment to lead a software product development effort that would span two Schlumberger product centres in these two cities, as well as our research center in Cambridge, England. This was my first trip to China. I could not wait to walk the Great Wall and the Forbidden City and to discover one of the oldest civilizations on earth.

These trips allowed me to sample delightful cuisines from different provinces in China each and every time. I even took a horse-back riding trip to Inner Mongolia. Indeed, in order to function more as a co-located team should, our virtual team met physically every two to three months, once in Houston and once Beijing. I ended up spending over four months in Beijing during the two-year project.

After four years in R&D, I had successfully transitioned to project management and gained experience in cross-centre, cross-cultural management. I was also being considered for a product development manager position in our technology centre in Japan. I was ready for the challenge of an MBA.

Like all other MBA applicants, my mind was boggled by all the different rankings out there, each of which seemed to paint a different picture. Having spent three years at Cornell University to receive a Ph.D., I knew that I did not want to spend two years to get an MBA. This ruled out most of the top programmes in the U.S.. In addition after ten years in the U.S., I was eager to spend time in either Europe or Asia.

I read about the China Europe International Business School (CEIBS) in an Asian business magazine in the spring of 2004 and became more interested in spending time in Asia, particularly China, than in Europe. So in the spring of 2005, I decided to apply to CEIBS. I had also

applied to HKUST and received a scholarship there, but the programme was no longer considered the top programme in Asia or even in China. Furthermore, they offered no structured Mandarin Chinese language course.

One of the reasons I decided to come to CEIBS and to China was to learn Mandarin. I have taken roughly eighty hours of an accelerated Chinese language course so far, but learning Chinese is still a big challenge for me. Another reason for choosing CEIBS was to meet the future CEOs of Chinese companies. Building a rapport is even more important for doing business in China than just about anywhere else. Last but not least, I have always liked to do things a little differently.

Going to INSEAD would have been a good choice had I wanted to do strategy consulting, but I already turned down an offer to join McKinsey & Company after my Ph.D. Ultimately, I am not interested in businesses that do not serve some societal purpose. I have always been

interested in the field of energy and its impact on the environment. I have worked in solar energy, coal combustion, pollution control, and oil & gas. Energy has been the leitmotiv of my career.

My long-term goal is to help shape the energy policy of a country or group of countries such as the European Union. In the short term, I am interested in petroleum consulting where I can leverage seven years of experience or in joining a major oil & gas company, such as BP in the Far East. Recent developments in world energy economics have made this an exciting time full of business opportunities. Countries like Brazil, Russia, China and India are now in the picture and making the world a far different place.

With a two-digit growth rate, China has in many cases overlooked the impact of its development on the environment. Soon enough though, as it reaches a standard of living comparable to the West, clean-up and pollution control will open up lots of opportunities in terms of environmental consulting or energy-saving commercial and industrial products. An MBA from CEIBS will place me in an ideal position to catalyze business in those areas between the European Union and China.

Having already been to Beijing, it is time for me to discover Shanghai. Seventeen years ago, I chose to go to an engineering school that was also about ten years old but already had a solid reputation. This September, they are starting a two-hundred-student programme in Shanghai. What a coincidence! Perhaps soon I will be teaching there as an adjunct professor alongside an environmental consulting business? **THELINK**

Vincent Bricout is CEIBS MBA2005 student.





SOCIAL VENTURE CLUB AIMS TO PREVENT ANOTHER ENRON

By Paul Foo

The massive corporate scandals involving companies such as Enron, Worldcom and Parmalat have caused misery to many, from shareholders who lost billions of dollars when the value of their investments collapsed overnight, to employees who unexpectedly lost their jobs and pensions. However, the fallout from these dreadful events is not all bad as it has raised to the fore the debate on the role of corporations.

Proponents of the CSR (Corporate Social Responsibility) movement hailed these scandals as a vindication of their growing concern over corporations and their myopic focus on maximizing shareholder value. They claim that companies should instead focus on stakeholder value which includes the welfare of employees, customers and the wider community. Their assertion is that social and environmental issues must also be on the executive agenda and measures such as the triple bottom line and SROI (Social Return on Investment) be used to assess performance.

On the other hand, conservative supporters of shareholder value maximization refute this line of reasoning, maintaining that increasing the burden on companies to pursue several and often conflicting objectives will only serve to confuse and result in reducing creation of wealth. They believe that it is the role of the government to regulate the companies and the business of business should be purely business.

It is topics such as these that the Social

Venture Club aims to discuss and debate within CEIBS and the wider community. The club, founded in July 2004 by a group of MBA 2004 students has the objective of raising awareness of such social issues. Although China has been experiencing rapid economic growth, income disparity has also widened. CEIBS graduates, who are likely to become future business leaders, are therefore in the position to effect change. In order to achieve this objective, the Social Venture Club has three main functions, namely fund-raising, community service and social entrepreneurship.

As a young club, the first priority was to raise funds. To this end, the club has successfully raised approximately RMB15,000 within its first year. A charity auction was organized with overwhelming participation from students, faculty and staff. It was an eye-opener to many as this auction was different from other auctions. Instead of physical goods, students offered their services, ranging from creative ideas such as yoga classes to outrageous ideas such as allowing others to throw cream pies on their face. This event was undoubtedly one of the highlights of the year and brought students closer together.

In order to raise additional funds and to bring students closer together, another innovative idea in the form of a calendar sale was initiated. The calendar was unique in the sense that it contained pictures of MBA2004 students in amusing poses with individual birthdates included. Despite the lack of corporate sponsors, the generosity of students, staff and in

particular faculty made this project a resounding success. These calendars will eventually serve as fond memories of student days long after graduation.

The second function of the Social Venture Club is community service. As students, we are all aware of the importance of education and efforts have therefore been focused in this area. To date, the money raised has been used to support education of underprivileged children. Even with a small tuition fee of RMB500 per annum, many families cannot afford to send their children to schools. The club currently supports the education of 3 primary school children and will be widening this support to include migrant school children and teacher training programs.

In addition to providing financial assistance, members of the Social Venture Club have also taken time out of their busy schedules to volunteer as teachers. Some have conducted careers workshops for university undergraduates whilst others have taught basic economics to primary school children through the effective use of games and role playing.

As described earlier, the third function of the club is to expose students to the concept of social entrepreneurialism. As a result of discussions amongst its members, a business plan was submitted by the Social Venture Club to the Global Social Venture Competition, an annual competition organised by Haas Business School, Columbia Business School and London Business School. Despite being a first attempt, the plan made the shortlist in the regional finals.

Although the club is still young, the enthusiasm of its members has made it one of the most active student clubs. The first year was spent laying the foundation and establishing contacts with other charitable organisations such as Shanghai Charity Foundation, Junior Achievement and Shanghai Hope Project. However, it is the ambition of the club to extend its reach to the wider business community, through organising forums on social issues and to involve companies in its activities. However, without the support of the students, none of this would have been possible. The Social Venture Club is therefore eager to engage EMBA students and alumni and welcome their involvement. **THELINK**

Paul Foo is CEIBS MBA2004 student, and Founder and President of the CEIBS MBA Social Venture Club. For those who are interested in participating in future activities, kindly contact the club at socialventure@ceibs.edu.



MY HOUSE IS HERE!

HOW CEIBS BECAME PART OF MY LIFE

By Paulo Menegusso

"When was the decision to come to CEIBS made?"

I kept asking the question, but it's hard to say. Maybe it was during my childhood, when my family followed my father's global quest in pursuit of knowledge. His academic career took us from Brazil to America, Europe and Africa. It left us with sweet memories of snow fighting in Michigan's inclement winter, hiking up the French Alps, and building my first tree house on a pine in the middle of Rwanda's Virunga Mountains. But that was all so long ago that it would take forever to tell our story starting then.

Maybe 2002 would make for a better beginning. After having crossed several major hurdles life thrusts upon us - like obtaining a college degree, a job, and later convincing someone to marry you (in my case she's called Silvia) - life had reached a relatively comfortable plateau that year. Resting on these little laurels seemed like a legitimate and deserving option. However, what seems to have happened was the inauguration of the Maslowian need for fulfillment.

"Am I being all that I can be?"

More significant accomplishments were needed. When I shared these thoughts with my wife, we agreed that our whole family would benefit greatly by breaking out of the comfort zone. Although we didn't know what our lives would be like in the future (that's part of the problem of being mortal), we idealized what our next step should look like: it should be a move that would generate long-term returns, have little risk of obsolescence despite our fast changing world, be multiplied to all members of the family, be completely within our financial means, and be fulfilling. When imagining an ideal next step, we took the word "ideal" very literally!

The problem was: such an investment probably didn't exist. Or did it?

Looking back into my past, I recognized a pattern that came very close to what we were looking for: my childhood travels.

Moving to different places as a child earned me different languages and cultures that helped me well grow into adulthood, socially and professionally. The adaptability and flexibility garnered went well with our changing

world. Everyone in my family had benefited. So did such an ideal investment exist? Yes it did! We could go abroad for some years!

Was it within our financial means? Since we had been setting apart money for our new house, a ranch in the Serra da Mantiqueira, we had just enough.

Deciding for China as a place seemed natural. Opportunities between Brazil and China are obvious and many. Both are large developing economies, both have lots of room to grow. Most importantly, they hardly know anything about each other, being at opposite ends of the globe and vastly different between themselves. Obviously, coming to China would give the whole family much to learn, and the accumulated knowledge would generate dividends for everyone, for a long time.

Opting for the CEIBS MBA Program as a means to go to China was due to a parallel, reinforcing factor: At the time, my career at Embraer, a major manufacturer of regional jets, had topped six years, during which I had the opportunity to participate in or manage several major projects, among them were the company's first business jet and the Brazilian contribution to the International Space Station. The accumulated experience formed critical mass that called for an investment in the form of a world class MBA. Pursuing one in China turned out to be a handy choice indeed!

In January 2003 I began to study Chinese in my spare time. By the end of that year I was applying to CEIBS. In May 2004 I was landing in Pudong. The following September my family joined me. Today I am four months away from graduation.

How has it been so far?

During the last year I have mingled with China's best and brightest, having formed a network of friends that promises personal and professional dividends well into the future. Silvia has had a blast organizing most of the entertainment activities of the Brazilian community in Shanghai. Marina enjoys being the only foreigner in kindergarten (and will soon be teaching me proper Mandarin). Even little Caio, barely 1.5 years old, is taking a shot at a baby model career!

What about all that money I was saving for our house? Well, it's all being spent here. When I say my house is here, I mean it! **THELINK**

Paulo Menegusso is CEIBS MBA2004 student.

REFLECTIONS ON ZHEJIANG ENTERPRISES

By Li Zhidong



We had been looking forward to May 20 since the day we decided to take a business trip to Zhejiang Province last April. This is the first cross-class activity organized for the new class of EMBA students. This trip provided us with the opportunity to directly observe the development models of companies in Zhejiang, as well to get to know our classmates better. Our enthusiasm and eagerness, therefore, were no surprise. I'd now like to share some of my reflections on the trip and company visits.

BRAND AND R&D

These two themes still seem hard for most Chinese companies to achieve, but in Zhejiang the private enterprises have accomplished it.

We used to think the reason for Zhejiang's development was that people there were compelled to do business out of their hometowns due to their diligence and scarce farm land. It also seems that everyone there is engaged in business. Zhejiang has impressed us as a province whose development relied mostly on daily necessities, small profits, and quick turnover. These opinions were typical among us before we met the Zhejiang businessmen face to face.

In Xiaoshan we visited the development zone. Our first visit that morning was to a garment company and then in the afternoon we went to the

Zhejiang Glass Group's factories.

The garment company exports 80% of its production. The owner, with lots of experience in dealing with foreign trade, told us her ideas about foreign markets with ease and confidence. They were planning to open franchise shops and build their own brand.

The Zhejiang Glass Group started from brickwork. However, now we saw digitally-controlled production lines built with an investment of RMB300 million. The factory director told us that their technology for producing ultra-thin glass was in the lead domestically. They are also entering the liquid crystal glass market and breaking the monopoly of foreign manufacturers. This new R & D results in annual fixed investment as well as being a measure of the company's confidence and long-term planning skills.

FACTORS DRIVING THE DEVELOPMENT OF ZHEJIANG ENTERPRISES

After our visits, we communicated with the entrepreneurs face to face to learn the secret of their success. The entrepreneurs' determination, farsightedness, and sensitivity to the market was obvious. These are characteristics shared by all the Zhejiang businessmen. Seizing the opportunity of reform and opening up of China, they dared to make breakthroughs and take risk. They succeeded. Today, the "Zhejiang Model" has become the focus of a nationwide discussion regarding the future development of Chinese companies.

Later in the evening, the Vice Mayor in charge of industry in Shaoxing (Xiaoshan is under the governance of Shaoxing City) offered us further explanation. According to him, three factors contribute to the success of the province. First, the business atmosphere created by Shaoxing's long-standing history and culture of doing business have been great assets. Second, the government has positioned itself to serve the companies. The last factor is the companies' awareness of the need for breakthroughs.

From a closer perspective of Zhejiang, there are two more characteristics that stand out. First, is the government's and bank's attentiveness to the importance of serving enterprises. Second, is that the owners realize the need to offer generous compensation to their staff. These two aspects contribute to the internal and external stability of a company during its development. A stabilized external environment and the incentives it provides make the owners more confident about the future.

From a macro economic perspective of China, the Zhejiang model is a miracle. Its economic dynamism has resulted in large part from the high percentage of private business development, which is incomparable to any other province. Further evidence of this success is that some of these private companies have become industry leaders. The Zhejiang model might be the most promising for China's future.

However, the Zhejiang businessmen still face challenges, such as the gap between their current management and the technology level that is standard in developed countries. In fact, this is a problem that Chinese enterprises will need to confront and solve together during the process of internationalization. **THELINK**

Li Zhidong is CEIBS EMBA2005 participant and Vice President of Marketing, Shanghai Baud Data Communication Ltd.



CEIBS EMBA STUDENTS DONATE A HOPE SCHOOL



By Shen Jia

It took us eight hours to get to Geyang in Jiangxi Province, the hometown of Fang Zhimin, a hero in the Chinese liberation war. The hope school we would donate is situated in Gexi, a 20-minute-drive from Geyang. Looking through the windows of the bus, greenery presented before our eyes, a fresh view different from what we see in the big cities. Suddenly we saw a red banner in the distance. Though the words on it were still not clear, we'd already known it was to welcome our arrival.

More than 200 children were standing on the two sides of the mud road, waving colorful ribbons in their hands and greeting us. Seeing their bright and happy eyes, we could not help to touch these lovely faces. They showed the most honest and pure expressions in the world, a mixture of bit nervousness and happiness to see the people who came to help them.

We seven, representing our classmates, came to Gexi to donate a hope school. Here people didn't even know the name of China Europe International Business School, not mentioning its global ranking that we often talked about proudly. But they were grateful that some people were going to donate a school that would benefit them greatly. The school arranged a grand welcome ceremony.

Some one of us joked the attention they paid to us was comparable to that received by Mr. Lien Chan, the Nationalist Party Chairman when he visited the primary school he attended in his childhood.

Back several months ago, it was at the suggestion of Flora, our class coordinator that we decided to donate a hope school as our graduation memento. And I drafted the donation proposal- Where We Will Meet in the Year of 2010?

The year of 2010 is a time Shanghai has long awaited, when the World Expo will be held. What will the year of 2010 mean to us students who once gathered at CEIBS in Shanghai?

In 2010, five years after graduation, will we remember half of the terms taught by those foreign professors? Will those heavy teaching notes bound in white covers still stand on our shelves? Will we still meet often and remember our dear classmates and campus life?

It is education that brings us together, and then can we make a perpetual reunion possible under the name of education again?

If we can help to build a new campus, the mission of education can continue with those children after our graduation. And we could take our own children to visit the school and tell them knowledge guides one's life.

In 2010, we will meet at the hope school to hold a more significant ceremony to celebrate the 5th anniversary of graduation.

Let's get involved and make our due contribution to show our love and care for the children!

No matter of the position, social status and income, all of the classmates shall make donations.

Actually to CEIBS EMBA graduates, the obstacle does not lie with money, but the awareness and recognition of the importance of the donation. Motivated by the class committee headed by Hong Feng, our donation was soon gathered together. Some classmates launched company activities to further help this. Li Dexiao, President of Viewsonic China, launched the activity "Ten Yuan from each sale of Viewsonic display for CEIBS hope school". And Fan Liu, head of a furniture company, said she could donate some furniture.

When it was Flora's turn to express her opinion, she invited a boy to shake hands with her. Holding his hand, she said this was just cooperation. "CEIBS is the outcome of cooperation between China and the European Union, while the hope school is the outcome of cooperation between CEIBS and you. The future of the world would become all the more beautiful because of cooperation." **THELINK**

Shen Jia is CEIBS EMBA2003 participant and Chairman of Shanghai Liren Computer Co., Ltd.

MY TEN YEARS AS CIO

By Wang Quangeng

CIO EFFECTIVENESS = GOOD ATTITUDES + COMPREHENSIVE SKILLS + RIGHT TIMING, WHERE NONE OF THESE THREE CHARACTERISTICS ARE DISPENSABLE.



Five years ago, out of my ignorance of what a CIO should do, I focused on analyzing the existing problems in corporate management, observing the development trends and characteristics of competition in the industry, and then detecting the bottleneck in the company's current and future development. I have devoted more than 60% of my energy to analysis and research of these problems and didn't hesitate to implement the solutions once a clear idea came forward. Of course, my thinking has been mainly directed by IT-based solutions. Reflecting on this information focused practice that I have been undertaking for the last ten years, I find that this may be what a CIO does and should do.

SKILLS ARE THE BASIS

In my opinion, a CIO's utmost mission is to continuously promote change within the business, innovate its business model, enhance the company's core competencies, and build its core competitiveness through IT innovations. Such a mission requires the following skills of a qualified CIO.

CAPABILITY IN STRATEGIC PLANNING: Information can fully display its real value only when IT is combined with corporate strategies. If the design and implementation of information utilization in a company does not take this into account in its strategies, if its CIO undertakes information management on the sole basis of technology, commits most of their time to finding solutions for the company's existing problems, and is always compelled to address only arising problems, then the company will end up with two separate IT systems and business concentrations taking shape inside the company. These two may be mutually supportive in a superficial way, but are probably unrelated and may even be destructive to each other.

Therefore, a CIO is required to have a full understanding of the corporate

strategies. Currently, many domestic companies have no definite strategic systems at all. Under such circumstances, a CIO has to research the corporate strategies by themselves, which is, of course, very difficult and counts as the toughest job among their tasks. Personally, I like researching corporate strategies and have been responsible for making the annual budget and strategic plans for my company for four years. Such experience is greatly helpful for my job of setting up information systems.

CAPABILITY TO UNDERSTAND THE BUSINESS OF THE INDUSTRY: In traditional corporate operations, IT itself doesn't produce any profits. Its value lies in the functions of solving management problems and supporting the specific businesses which directly generate profits. As a result, if a CIO knows nothing about the industry and the business of the company, then their IT knowledge can neither solve problems nor help to increase profits.

Fortunately, I have engaged our company in strategic planning, market analysis, and management of the sales organization. Moreover, I have been running logistics delivery for about ten years and am now managing the company's production and sourcing. All these experiences give me a comprehensive knowledge of the industry and all the businesses of our company. The ERP system of our company has been developed internally. In its developmental phase, I worked as the general designer of management principles, management framework, and business process. By no means could I have become such a qualified designer without the professional background I acquired over the years. It is no secret that for all CIOs what are integrated into the ERP system are actually the corporate management principles, management framework, business process, and managerial experience of the company. These are where the core value of the information system will be found.

CAPABILITY TO COMMUNICATE: It is not an

exaggeration to say that all of a CIO's tasks need be accomplished through communication: they need to communicate with managers at all levels, for example, upper management and the Board of Directors, to secure investment, they need to communicate with all business departments to gain their support and to ensure smooth implementation and promotion of the IT system, they need to communicate with the professionals within the IT Department to organize project development and services, and finally, they need to negotiate and communicate with external suppliers when purchasing software, hardware, and IT services. Given the omnipresence of communication in a CIO's work, their communication ability determines their overall effectiveness in a company.

Communication is a science, a political skill, and more importantly, an art. It is a science, for it requires knowledge. It is a political skill, for success requires certain techniques and demands a political mind. It is an art, for it involves the pursuit of an ideal.

In my opinion, there is no so-called 'orthodox' way or mode of communication. It has to be done with the right timing, in the right situation, and with the right people. Generally speaking, it would be ideal if all IT projects could secure support from upper management, obtain the leadership of a team of senior executives, get all staff constructively involved, and be accompanied by dynamic change. It would be great if all of the above were ready beforehand. However, such a company is scarcely found. Should a CIO refrain from implementing a system until everything is prepared? To some CIOs, the answer is yes. They believe that no implementation of the information system means waiting for the last day, while implementation of the information system means heading for the last day. As for me, I have adopted guerilla tactics in communication, a strategy completely contradicting the 'orthodox' way and successfully realized transformation to effective information utilization.

CAPABILITY TO ADVANCE CHANGE:

When information strategy is aligned with corporate strategies, implementation is neither a purely technical task nor a managing job within the IT Department, but a systematic project involving business changes throughout the company. These changes will involve readjusting the interests of all parties concerned and also transforming people's mindset. Pushing change is the responsibility of the leaders as well as of all the staff. It would be extremely difficult for a CIO to influence or push forward the changes without help. However, information implementation can only be instilled in the soul of a company with real business change; otherwise, it will only be superficial.

CAPABILITY TO UNDERSTAND IT TECHNOLOGY: The invention of the steam engine started the industrial civilization, while the emergence of IT brings human beings into the information society. Therefore, during the process of pushing forward information systems, a CIO should never underestimate or ignore the power of technologies, since a strong business capability does not mean everything to them. At present, without a sound technical framework, the value of a good business model and a vanguard management framework can hardly be fully displayed. In this light, without a deep understanding of IT technology you cannot be counted as a qualified CIO.

I have no IT-related background, but I was once addicted to computers and acquired a great deal of IT technology knowledge by myself. At the same time, with my experience in the IT field for about 10 years, I have obtained sufficient knowledge about all aspects of IT technology.

ATTITUDE IS EVERYTHING

I often hear that the success rate of ERP implementation in China is very low and was even zero several years ago. In my opinion, an important reason for this is that China has a great shortage of CIOs with the aforementioned skills. However, given China's large size, there should be countless CIOs who have these skills. Therefore, a question comes to mind, is it true that a CIO is bound to succeed in pushing forward information change as long as they have all the skills listed above?

In fact, skills only indicate the potential of a CIO to succeed in implementing information systems. However, the extent of their success will be determined by their attitude. A good attitude lays the foundation for success.

Determination: Information management is a revolution taking place inside the company. No change or innovation can be achieved in a short time period without some degree of difficulty. Moreover, many domestic

companies are not yet ready for implementing information management. For this reason, the IT revolution can never be accomplished with IT technology alone. It has to rely on the CIO's determination, confidence, and perseverance.

This is what I've learned from my first-hand experience. During the past 10 years of the information management process, I have many times been pushed to the brink of giving up. However, I managed to overcome it. What has been sustaining me until today is my will power rather than excellent pay and an attractive working environment.

Motivation: No one will keep asking or forcing you to do a job. Even if there was someone like that, it would be of no use to you at all since no one other than yourself can manage to keep motivated. As for the incentives from the outside, such as excellent pay and good environment, their functions are very limited and short-lived. Therefore, without enough motivation from within, you can never achieve anything.

Motivation requires that a CIO has a vision for their work. People are always inspired by their beautiful wishes and longing to go ahead. A CIO should never wait passively or blame others for failure. Only by taking initiatives can they possibly change the situation.

Methodology: A good methodology is indispensable for the success of any work. To find the best way of doing things, a CIO should know themselves thoroughly, always keeping a clear understanding of 'who I am'. It is of great importance to be adaptable to various circumstances. Keep telling yourself that success and failure are routine, praise and criticism come hand in hand; and achievements and obstacles always follow each other. By managing and adjusting emotions and behaviors, a CIO will not stumble during the process of information management implementation.

In addition, a CIO should learn to understand other people and the surroundings. Without sufficient understanding of other people, you cannot communicate effectively with them. How can you turn your ideas into reality in the absence of effective communication with others? A CIO should effectively influence their superiors, peers, subordinates, and partners so as to influence, promote, and push forward change.

Curiosity: IT professionals are usually not as interested in business as they are in technology. Their single-mindedness results from the concentration on IT technology. However, successful information systems require both professionalism and a CIO with a

business-orientated mind. Therefore, only when they become interested and curious of matters outside of technology, can a CIO acquire business expertise and comprehensive knowledge.

Perspective: What is the aim for a CIO to implement information systems change? Is it for the success of your career or for the success of the company? How do CIOs evaluate themselves when the information system implementation comes out as a failure or a success? How can a CIO curb their complacency when they realize their increasing significance in a company where IT is becoming more and more indispensable for running the business?

In fact, both the failure and success of a company's information systems can bring risks. Therefore, a CIO's perspective counts a great deal. It has been proven that a CIO who sees things in perspective can ensure sustained success. Otherwise, success is only transient. I think that proper values and beliefs are prerequisites for having a good perspective.

Once the company's management understands the skills and attitudes a qualified CIO is expected to have and sees more clearly the crucial role a qualified CIO may play in the company's information system implementation, they will probably ask where they can get such a CIO.

Indeed, society is requiring more and more competencies from their CIOs. They are expected to have an understanding of strategy, business, technology, and, more importantly, soft skills that facilitate communication and change. Such a CIO is an expert in almost all aspects. But how on earth is such a qualified CIO produced? Without rich experiences and plenty of opportunities, you can never develop the skills and attitudes listed above. The reason is as simple as this; the comprehensive competencies regarding strategy, business, and communication have to be acquired from practice. There is no other way of training a competent CIO. Given plenty of opportunities for practice and advancement, a qualified CIO can be produced. As for me, the right timing offered me the opportunities that I needed.

Now looking back and thinking about my past 10 years as a CIO, I acknowledge that, probably, it was proper timing that eventually led to my success. In whole, what determines a CIO's effectiveness? In my opinion, a CIO's effectiveness = good attitudes + comprehensive skills + right timing, where none of these three characteristics are dispensable. **THELINK**

Wang Quangeng is CEIBS EMBA2004 participant and Vice President of Metersbonwe. The article is licensed by CEO & CIO China.

A TALE OF TWO CITIES

By Tony Tong



The characteristics of this city and the character of its citizens are both homogeneous and complementary. The Beijingers's broadmindedness and their concern for all matters in the world are the most direct reflection of the imperial city's characteristics. Everyone, even the taxi drivers, talks about the economy and destiny of the country. They pay greater attention to spiritual life than citizens of other cities, although they also have some materialistic tendencies.

Beijingers attach great importance to friendship and brotherhood and they believe that friendship is something they are destined for. Their worst remark about a person is "he is boring." Here "boring" has two meanings. One is that he does not deserve the description "friend" as he will gain personal benefits even at the cost of his friends' interests. If one breaks the underlying rule upheld by The Beijingers, that is, one should give up benefits for the sake of their friends, they will be called "boring." Often, this means the end of their friendship. Moreover, the power of the description

"boring" can never be underestimated as it will be known among other friends, as well. Therefore, do "boring" things as little as possible, unless you don't want to make friends with any Beijing people. In fact, it is not difficult to be "interesting" as the Beijingers think there are many ways to be "interesting," but one way to be "boring." The other meaning of boring is that the person is a bore, for which everyone has their own definitions. If you can keep your friends interested in certain topics for half an hour at the table, you'll be viewed as an interesting person. Very often these topics focus on cars, houses, and other common issues, as well as political news.

The Beijingers have a reputation for their humor. Many of them are good at making witty remarks. To them, Chinese is just like cards in their hands and their careless combination of them may surprise others. Of course, the fact that they have spoken the language since they learned to talk helps. Shanghai children, on the other hand, are first taught to speak the Shanghai dialect and don't learn Mandarin until

kindergarten or primary school, which also helps to build their capability in learning foreign languages.

The Beijingers are broad-minded, so they seldom treat people from other parts of China as "country folk." In their eyes, as long as one has recognized Beijing's prevailing cultural force and has come to Beijing, they will treat them as one of their own. Of course, there are exceptions. I admit their mentality also originates from their sense of cultural superiority. For example, conductors often bully rural workers with bags on their backs. However, the conductors' actions are unwelcome and usually provoke the aversion of others. The Beijingers often intervene on behalf of the injured party, even if they are old and weak.

The Beijingers place emphasis on respect and integrity. Living in the city that has been the capital city for 800 years, they have developed character best described by the phrase "die rather than being humiliated." They think a man should live as a man. You may see cynicism in their eyes, but seldom fear and cowardice.

Shanghai itself is a paradox. It is characterized by sharp clashes between southern and northern cultures as well as the integration of local and foreign cultures, which typically conflict with each other. Although a city with a history of only 150 years can't be called old, it has experienced many vicissitudes.

This being the safest city in China, all citizens are civilized and order-obedient. Sometimes only those who have been accustomed to orders know their effectiveness. As one can hardly find a street that runs in a strict south-north direction, the four directions (east, south, west and north) that the Beijingers have been accustomed to become meaningless. Many places here are usually defined as "the crossroad of Nanjing Road and Shaanxi Road" or the like. In fact, everyone here has a map in their mind and they follow this map subconsciously. This is an illustration of order. If you want to enjoy the convenience of order, you should learn it as soon as possible, just like you'd better learn the Shanghai dialect.

Whether you are willing to admit it or not, the development of the city is actually leading the development of the whole country. Shanghai was destined to be a legendary city ever since it made its first appearance.

This city is flavored with petty bourgeoisie, which seem to be akin to "professionals." The Shanghainese are also dedicated to their work. When one tries hard to do their work well, it is dedication to work. However, when work and personal life are separated as far as possible, it is called being professional.

Their dedication to work is demonstrated in many aspects. The most obvious examples are that bus conductors and transportation coordinators treat their work carefully at all times. Bus conductors in Shanghai always approach each passenger to sell tickets despite the crowdedness. No one will be asked twice to buy a ticket. Nor is there anyone who can escape buying a ticket. More astonishing is that if someone misses their stop "by mistake," the conductor will rush to him and ask them to pay the additional charge. As the conductor can tell exactly where the passenger gets on and should get off, he often wins, beaming with his "Shanghai-style" pride. How they manage to do that is still a mystery to me, as there are usually dozens of passengers on the bus. Economic incentive may be one of the reasons, but is probably not the only one. Besides dedication to work, doesn't this also show that the Shanghainese's shrewdness that can be seen

everywhere?

The Shanghainese are not as indifferent as you may imagine, they really are very meticulous. They are born accountants. Of course, this has something to do with dedication to working, being petty bourgeoisie, and acting professional. If you travel with a Shanghainese you can enjoy the trip to your heart's content. As for the Shanghainese, they can enjoy double the fun: traveling and accounting.

Shanghai is an enthralling city that is the engine of development for the whole nation. The "Shanghainese," a group of people that did not exist even as recently as 150 years ago, have created history continuously and unintentionally, because most of them are not even aware of what they have done. Again, this seems to be a paradox. A reasonable explanation is that this miracle-making city has genes conducive to the creation of legends.

When I left Shanghai last time, I found that I had come to love the city. Now, 9 years later, I come back to it with the hope that I will be fortunate enough to be involved in the creation of the next legend or to at least be a witness of history. **THELINK**

Tony Tong is CEIBS MBA2004 student.

SHANGHAI

A MIX OF ORDER AND LEGEND.



CHINA FROM THE INSIDE

Understanding and Interpreting
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by Jinglian Wu

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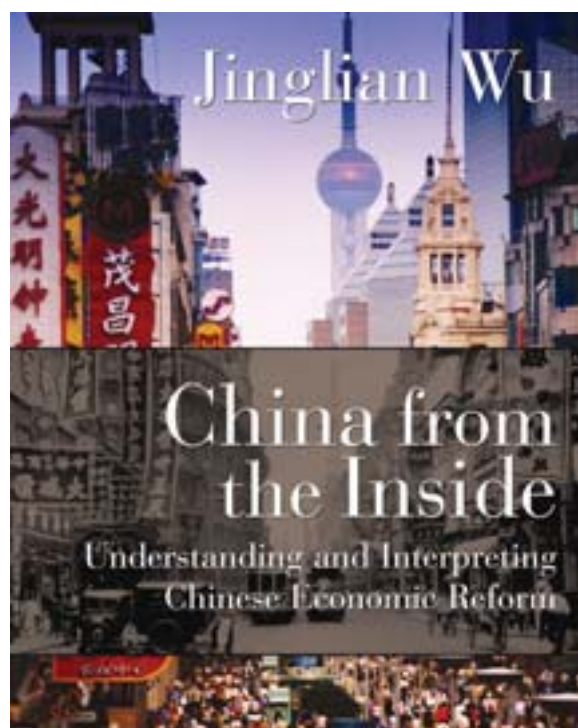
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While economic expansion has made China irresistible to foreign investors, there is concern the red-hot Chinese economy could be on the fast track to crash and burn. But according to leading economist Jinglian Wu, the answer isn't slamming on the brakes. It's frequent, mild adjustments. In *China from the Inside: Understanding and Interpreting Chinese Economic Reform*, Professor Wu makes a case for prudent tightening-up policies that will gradually slow China's monetary supply and ensure a soft landing for the economy. This fascinating new book offers a rare look from the inside as it provides a complete history and in-depth analysis of Chinese economic reform, from the early Soviet model through to today's liberalized market. It outlines macro-economic policy in the transitional period against the wider context of social justice and political reform, as well as presents a blueprint for economic growth and stability.

Jinglian Wu, one of the principal architects of modern economic reform in China, is a Senior Researcher with the Development Research Center under the State Council, Professor of Economics at the Graduate School of Chinese Academy of Social Sciences, and a Baosteel Chair Professor of Economics at China Europe International Business School. He has been a visiting professor at Oxford, Yale, Stanford, and MIT universities.

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