

The LINK

CEIBS Alumni Magazine

2006 Winter



Liu Ji

**An Energetic
Intellectual and a
Charismatic Leader**

**Why Change of Growth Model Is
Easier Said than Done**

**Corporate Brand Thrust:
Is Your Money Well Spent?**

**The Chinese Automotive Industry:
Feasible and Sustainable Development?**

**CEIBS EMBA1995
The First EMBA's in China**

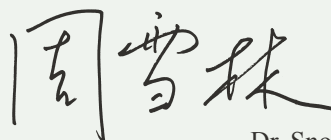
MESSAGE FROM THE EDITOR

As the year of 2006 concludes, it makes sense to look back and reflect upon the progress we have made over the year. It is with great care from our alumni that *The Link* has grown from an infant to a toddler. Innovation is probably the key word that captures our efforts in the past year in revamping the layout, structure and contents of the journal to accommodate the increasing need for knowledge of best business practices. We invited thought leaders to share with us their revolutionary ideas on issues critical to business operation; we created a platform for industry leaders to voice their philosophies of business and management; we encouraged in-depth discussion on effective management through real-life cases; and we wrote cover stories to unveil the inside of a man that makes him so successful. Through these efforts, we want to make the journal a real link between the school and the alumni, and between the academics and the business world.

For CEIBS, the year of 2006 is an eventful year. In January, our MBA programme was ranked 21st globally by the *Financial Times*, a historical high for business schools in Asia-Pacific; and in October, our Executive MBA programme was listed among the world's top 50 for six consecutive years, representing the school's sustained high quality teaching and research. In the same year, we received the important visits of Mr. Josep Borrell Fontelles, President of the European Parliament, the Crown Prince of Spain, and Mr. John Thain, CEO of New York Stock Exchange, making our campus a spotlight of public attention; and we hosted the second Healthcare Forum and the fourth Automotive Industry Forum, stimulating discussions on the new developments and insights in the related fields. Equally exciting are our students and alumni: 13 graduates broke into the "Forbes China Rich List", an EMBA student won the competition of CCTV's "Win in China" with a seeding capital of RMB10 million, and our first group as well as China's first group of EMBA graduates celebrated their 10th anniversary graduation on campus. While acclaiming the accomplishments of the school and its graduates, we regretted to lose one of our important leaders permanently - President Zhang Guohua - who had made important contribution to the creation and rapid growth of CEIBS. However, the sad passing-away of Professor Zhang can only make us stronger in our determination to continue his holy cause and to build the school into a global leader of management education in China and for China.

Coming back to this winter issue, we have prepared a number of interesting articles as a special Christmas and New Year gift. In particular, we want to share with you the inside story of Professor Liu Ji, honorary president of CEIBS – how he started his career, what shaped his philosophy of life, what qualities made him so successful, how he developed his unique ideas on management and management education, what made him an eloquent speaker, and what kept him so active even after his retirement. He is an interesting and insightful personality, from whom we can find the answer to the age-old question - how can an individual lead an exciting and a brilliant life?

Along with Professor Liu's cover story, we'd like to wish all of you a Merry Christmas and a Prosperous New Year!



Dr. Snow Zhou
Editor-in-Chief

PUBLISHER: CEIBS

MANAGEMENT COMMITTEE

Professor Pedro Nueno, Executive President

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EDITOR-IN-CHIEF: Snow Zhou

MANAGING EDITOR: Audrey Wu

CONTRIBUTING EDITOR: Du Qian

ART EDITOR/ PHOTOGRAPHER: Lin Yun

PART-TIME EDITORS:

Cherry Zhong, Yimin Liu

CONTACT US:

EDITORIAL OFFICE: 699 Hongfeng Road,

Pudong, Shanghai 201206, P.R.C.

TEL: 86-21-2890 5501

FAX: 86-21-2890 5273

EMAIL: alumnimagazine@ceibs.edu



CHINA EUROPE INTERNATIONAL BUSINESS SCHOOL

中欧國際工商學院

CEIBS SHANGHAI CAMPUS

699 Hongfeng Road, Pudong,

Shanghai 201206, P.R.C.

Tel: +86-21-28905890

Fax: +86-21-28905678

Website: www.ceibs.edu

BEIJING REPRESENTATIVE OFFICE

3/F Raycom InfoTech Park Tower A,

2 Kexueyuan South Road,

Zhongguancun, Beijing 100080, P.R.C.

Tel: +86-10-82861688

Fax: +86-10-82861678

E-mail: bj@ceibs.edu

SHENZHEN REPRESENTATIVE OFFICE

Room.2303B, 23/F, Han Tang Building,

Overseas Chinese Town, Shenzhen, 518053, P.R.C.

Tel: +86-755-26935750

Fax: +86-755-26935743

E-mail: szo@ceibs.edu

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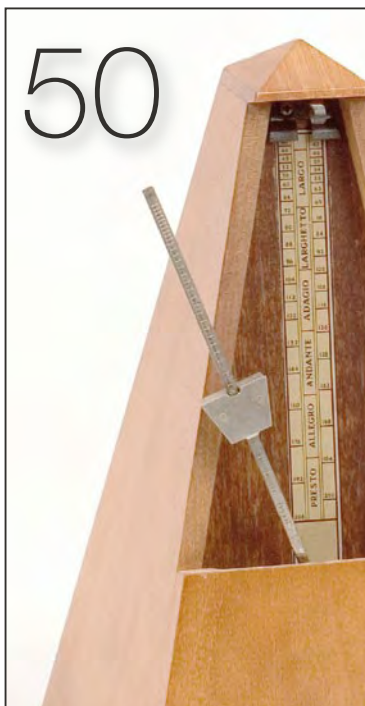
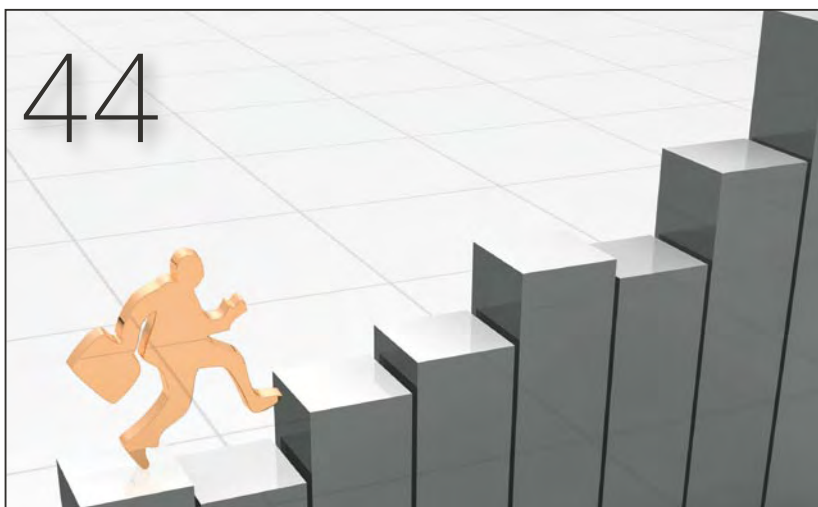
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CREMER'S COLUMN

Dear Alumni

In the theoretical world of microeconomics firms compete with each other. These firms are entities that are clearly defined in terms of ownership and organizational structure.

This, of course, is a simplification. Not only do firms take many forms, but in the globalized market firms work together in transnational supply chains, that often involve dozens of different firms. Important parts of international competition are no longer in the form of one firm competing with others, but of one supply chain competing with others. It can, in fact, be a very dangerous and risky position for an individual firm to stand alone, and not to be part of a network, or a supply chain.

This is true for business schools as well.

For this reason, CEIBS cooperates with other leading business schools both internationally and domestically. There are many reasons as to why this makes sense:

In some cases, a company may locate its Asian regional headquarters to Shanghai. The training and development needs of the company and its strategy involve teams from all over Asia. IBM and CIBA are such cases. They have approached CEIBS to offer a program for IBM together with INSEAD. For almost two years now, CEIBS has worked very successfully with INSEAD. The two schools have not only provided superb programs to IBM and CIBA, but also learn a lot from each other.

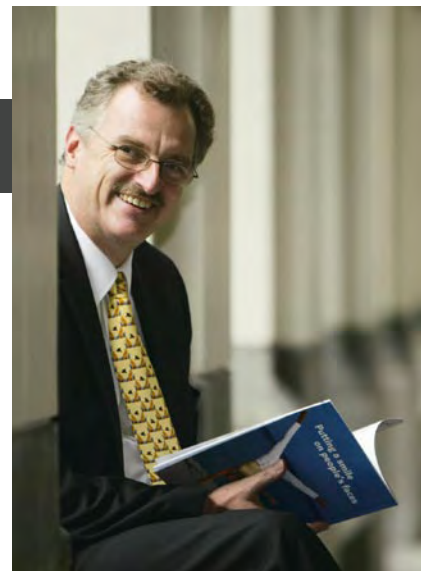
In other cases, especially for CEOs and other top executives, a program involving the best business schools in one single program is a great attraction. The Senior Executive Program China with CEIBS, Harvard, and Tsinghua is an example of such a program. The first joint program of three times two weeks in Beijing in August, Shanghai in October, and at Harvard in December has just been completed. There are very few, if any schools in the world, who can offer this quality of learning and networking experience. Another program of this kind is the CEIBS-Harvard-IESE CEO Program, which has been offered for three years already.

These programs also are signaling a new direction of CEIBS. As Chinese companies are internationalizing, CEIBS is also becoming visible and active overseas. Two examples are the EMBA USA Global Module at Wharton, and the EMBA Europe Global Module, which CEIBS is currently developing with the leading German Business School, the University of Mannheim.

Of course, CEIBS also has more than thirty MBA student exchange agreements with business schools all over the world. These benefit seventy outbound CEIBS MBA students each year, and bring the same number of international MBA students to the CEIBS campus. Students traveling, living and working together and making friends for life is part of modern business education, and future powerful international friendships and networks.

A very important, but more recent development is our closer links with leading domestic business schools. In addition to the already mentioned cooperation with Tsinghua School of Economics and Management, CEIBS has just signed a partnership agreement with the Zhejiang University School of Management, focusing on entrepreneurship. CEIBS is also a leading member of the PCMPCL group of business schools, which involve some sixteen of the best schools in China (Mainland, Taiwan, Hong Kong) and Singapore.

These linkages and co-operations with domestic business schools are important for China's economy and business. CEIBS is a driving force in creating a group of world class business schools in China. Only domestic-based business schools - not imported foreign MBA programs taught by FFF (Frequent-Flyer-Faculty) - can power



international and domestic enterprises in China through educating China-focused and internationally literate, competitive managers equipped with the most up-to-date, relevant research, case studies, and innovative learning methods.

Meaningful and effective domestic and international co-operations are demanding, but absolutely necessary to serve the needs of the business community.

Together with the European Foundation of Management Development (EFMD), one of our founding partners, as well as with our international faculty and management, CEIBS is well placed to meet this challenge. I believe that arguably no other business school in the world is as clearly positioned, focused and designed for this challenge to succeed.

Finally, throughout 2007, I would like to invite and encourage you, our alumni and our current EMBA students, to participate in this challenge by supporting CEIBS in establishing more scholarships. With a scholarship named after you or your company, or named after an EMBA Class, you will make a valuable contribution to attract the very best Chinese and international students to CEIBS as well as to send CEIBS MBA students abroad, thus further contributing to the further internationalization of Chinese business. For further information on the CEIBS Scholarship Fund, please contact CEIBS Development Department (email: development@ceibs.edu / Tel: 2890 5120).

A handwritten signature in black ink that reads "R. Cremer". The signature is written in a cursive, flowing style.

Professor Rolf D. Cremer
Dean and Vice-President



Liu Ji:

An Energetic Intellectual and a Charismatic Leader

By Audrey Wu

On the evening of November 27, 2006, the Petrochemical Auditorium of China Europe International Business School (CEIBS) was fully packed. Even the aisles were crowded with audience. On that evening, Wang Meng, a well-known contemporary writer and the former minister of culture was invited to speak at the Executive Forum of this number one business school in Asia. Even before his speech, the avid audience was applauding vehemently. An elderly gentleman, beaming and buoyant, was giving an introduction to Wang Meng's biography. Not very tall, he spoke with a loud and clear voice and would wave his arms when getting excited. As usual, the philosophy of life and his time-weathered wisdom could be felt in his words. He introduced Wang Meng as a man "who deserves writing home about. ... Wang Meng's contribution to our era was not that he was the former minister of culture. It was his writing and thinking that was immortal." During the "Cultural Revolution", Wang Meng was denounced to be a rightist and suffered a lot. However, even under a big rock, a determined seed could always spout and exhibit vitality. The speaker is Prof. Liu Ji, honorary president of CEIBS. His words are also a portrayal of himself.

Before serving as vice president of the Chinese Academy of Social Sciences and executive president of CEIBS, Liu used to be an outstanding engineer. Later he took on a managerial position and became a brain-truster for the government. He had held the positions of vice director of the Publicity Department of Shanghai Municipal Party Committee, and director of the Commission for Economic Restructuring under Shanghai Municipal Government. He was also a member of the seventh, eighth and ninth national committee of the Chinese People's Political Consultative Conference.

He said: "I was just a scholar... It's history that put me into the managerial position, but I never give up scientific

research. I never take it serious to be a government official, but neither do I regret." Just as he said, he had quite an experience. Starting from the most junior position, he had had his days and sufferings as well, but he never repented the ups and downs in his over 70 years of life. Now he is retired, but still active in all kinds of meetings and forums. "The nation's rise and fall remains the responsibility of every individual". This is an unshakeable belief held by Chinese intellectuals. It may also be the source of Prof. Liu Ji's vitality and everlasting youth.

"PUSH THE CART ALONG WITHOUT STOP"

At the end of last year, a debate on the economists' credibility re-emerged on Internet. The debate was ended by an ar-

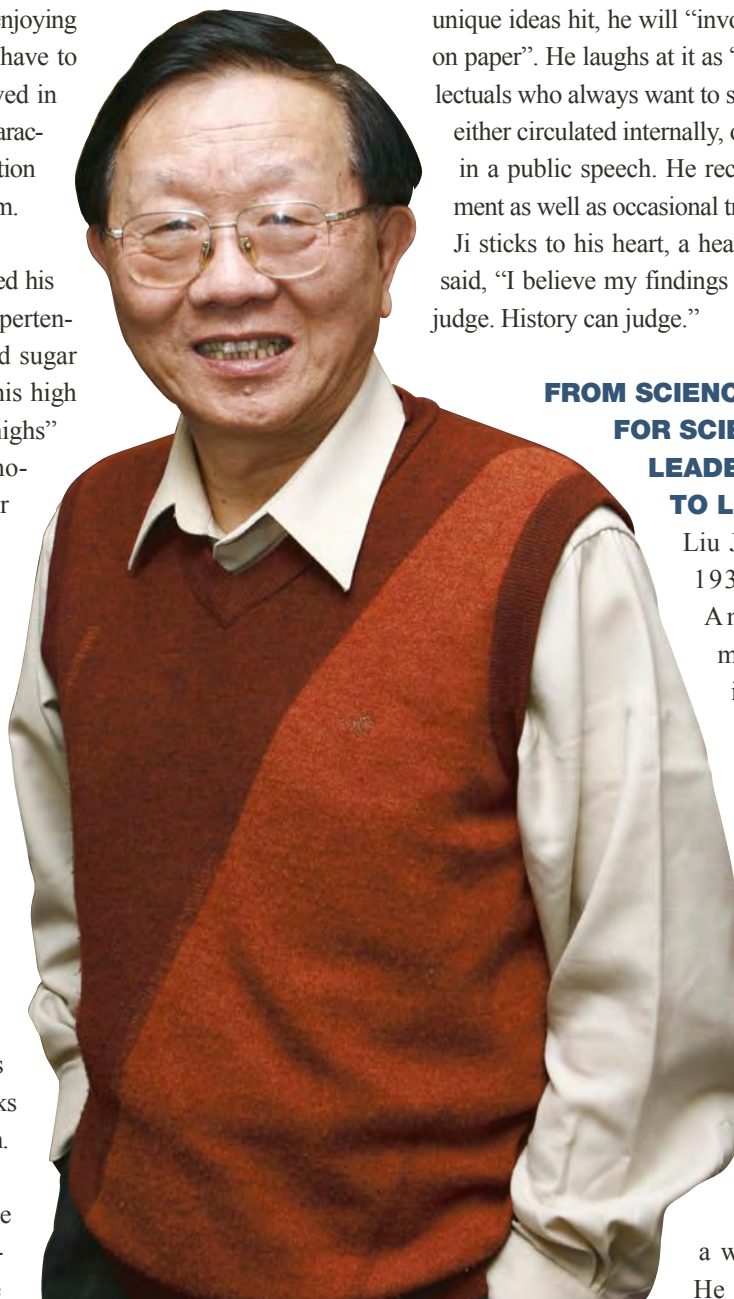
ticle entitled "Economists cannot rely on opinion polls or laymen's recognition" on the *Talents* magazine. The article was written by Prof. Liu Ji. He wrote that "Economics is a serious science. Difference in profession makes one feel worlds apart. Those who don't understand economics should show the same respect to economists as to scientists and writers. That is the scientific attitude." To Prof. Liu, the debate was actually a denial of China's reform and opening-up under the disguise of denying economists. As a person who has devoted his whole life to the construction of new China and who has witnessed its reform and opening up in the recent 30 years, Prof. Liu gives a fair and equitable remark on Chinese economists: "Chinese economists contribute significantly to China's reform and economic development". He

objectively pointed out that “it is a good thing that our media begin to listen to people’s opinion. And it is also desirable to conduct necessary public surveys. But they have to do it in a scientific way. They need to analyze people’s opinion, leading instead of misleading the public.” Prof. Liu’s article was a big rock in this white hot debate. His opponents all pointed their pens at him and threw hard words at him, but soon the debate began to cool down in the media.

Prof. Liu Ji, who should be enjoying his retirement at home, doesn’t have to stand out and get himself involved in this debate and trouble. It is his character and the outlook of his generation of intellectuals that are driving him.

He once humorously described his current status as “4 highs” - hypertension, high blood fat, high blood sugar and high emotion. Because of his high emotion, none of the other “3 highs” drops. Because of his high emotion, he becomes much busier after retirement. He is retained by various government and non-government organisations and social groups. His titles are hard to enumerate, even by himself. One or two assignments from each of them per year will keep him running. In addition, there are various forums, summits, annual conferences... visits and invitations from the business, media, academic, government... and from friends, especially from the youth. Sometimes he is far busier than before retirement. His wife often complains that he works without any concern for his health.

He said: “The outlooks on the world and on life of our generation have been determined. We



do have some selfish ideas and we also grumble, but deep in our hearts, we value the national affairs more than the family affairs, public affairs more than the personal affairs, others more than ourselves.” “Push the cart along without stop” is a vivid analogy to his spirit.

Although Prof. Liu Ji has been in different positions during dozens of years, he keeps the habit of research. He won’t sleep on a problem. Be they assignments from his superiors, debates among friends, questions from the youth, or issues brought forth by newspaper and magazines...he is all interested. Whenever his unique ideas hit, he will “involuntarily put them down on paper”. He laughs at it as “the bad trait of the intellectuals who always want to show off”. His articles are either circulated internally, or published, or delivered in a public speech. He receives lots of encouragement as well as occasional trouble. Even so, Prof. Liu Ji sticks to his heart, a heart in pursuit of truth. He said, “I believe my findings are true. My readers can judge. History can judge.”

**FROM SCIENCE TO SCIENCE
FOR SCIENCES, FROM
LEADERSHIP RESEARCH
TO LEADER**

Liu Ji was born in October, 1935 in Anqing city of Anhui province. His mother exerted the most important influence on him. As his father moved to the home front in Chongqing during the anti-Japanese war, he was brought up by his mother. As a teacher herself, his mother believed in knowledge and was strict with her children. Liu Ji took to reading from his childhood and cultivated a wide range of interests. He made a balanced study

of maths, physics, chemistry, biology, Chinese, history and geography.

Liu Ji went to Nanjing No.1 Middle School, Hangzhou Junior Middle School and Hangzhou Senior Middle School - all were famous schools in the Yangtze Delta with excellent teachers and study atmosphere. Hangzhou Senior Middle School in particular, with its glorious revolutionary and cultural traditions, played a crucial role in the shaping of Liu Ji's outlooks on the world and on life. Up to date, Liu Ji still remembers his teachers and can easily speak out their names. According to him, "The teachers will be forever alive in my heart".

In 1953, the first five-year plan of the new China was implemented. At that time, priority was given to science. The tide of industrialization engulfed Liu Ji into Qinghua University. As China was unable to manufacture automobiles then, automobile engineering became one of the hottest majors, and Liu Ji was one of the lucky students. Five years of engineering study laid a science foundation for Liu Ji. Moreover, it fostered his down-to-earth attitude and precise logic thinking, systematic thinking and teamwork spirit, which benefits him for his whole life.

In 1958, Liu Ji graduated from the university and was despatched to Shanghai Internal Combustion Engine Research Institute. In 1964, he was awarded with his engineer title among the first batch of engineers nurtured by new China. Just when he was proud of it and felt living up to the expectation of the Party and his country, the "Culture Revolution" broke out in 1966. Liu Ji was "under control" for 8 years in this 10-year disaster. He was sent to a factory for labour reform. The workers there

cared for him and let him stealthily read in the changeroom. Having no access to technical books, he could only read the four great books by Chairman Mao. After he could recite the four books, he started to read Lenin's Anthology, Lenin's Complete Works and Marx' and Engels' Anthology. His reading made him a Marxist scholar. His scientific proof thinking and his research on natural dialectics began then. When the "Cultural Revolution" was put to an end, Liu Ji regained his freedom. He made friends with research fellows of natural dialectics and began his research on social science.

After the Third Plenary Session of the 11th CPC National Congress, the focus of revolution shifted from "class struggle" to scientific rules. A new discipline - science for sciences - was born. Liu Ji was among the earliest researchers. He co-authored the first monograph on science for sciences in China - *Fundamentals of Science for Sciences*. His research gained attention of Wang Daohan, the Shanghai mayor then, and Zhou Ke, head of CPC organization in Shanghai then. Shanghai Research Institute of Science for Sciences was founded and Liu Ji was appointed to be researcher and vice president.

Due to the leadership style of that time - decide by personal experience, encourage with flashy words, and simply go away if it doesn't work - the scholars' research output or their proposals, however good, would just disappear into mountains of documents after being approved. There's neither scientific decision-making nor effective execution. Liu Ji went on to collaborate with other comrades to produce thesis like "On Modern Leadership Art" and founded a new discipline "leadership science" in China. In his book titled *Fundamentals of Leadership Science*, he wrote

"Leading is a science, involving scientific decision-making procedure, intellectual structure and leadership quality", and put forward the idea of scientific and democratic decision making. Along with the advancement of China's reform and opening up, he was committed to the research on economic development strategies and economic restructuring.

Liu Ji's research gained wide attention and was recognized by the government officials. The officials from Shanghai municipal government made the suggestion that since Liu Ji was a researcher on leadership science he could try to be a leader. Hence, Liu Ji became a leader. The positions he held ranged from vice chairmen of Shanghai Science and Technology Association up to vice director of the Publicity Department of Shanghai Municipal Party Committee, director of the Commission for Economic Restructuring under Shanghai Municipal Government, and vice president of the Chinese Academy of Social Sciences, etc.

When he was working in the Publicity Department of Shanghai Municipality Party Committee, Liu Ji initiated and hosted the famous "bi-monthly seminar" to encourage discussion on current issues. Intellectuals from all fields in Shanghai were invited to air their views and share their points with the municipal officials. Scientific and democratic decision-making was practised there. One result of this seminar was the idea of joint-stock enterprises. In the early 1990s, enterprises of this nature were quite controversial. The differences between the pros and cons were so huge that their debate lasted into midnight and had to be resumed on the next day. Based on their debate and sufficient understanding of this issue, the Shanghai municipal government eventually de-



Left: Encomienda de Número del Mérito Civil, presented to Professor Liu Ji by Her Majesty Queen Sofia of Spain on March 9, 2003, the 30th anniversary of the establishment of diplomatic relationship between China and Spain. Professor Liu is the first Chinese to receive the honour. Middle: Queen Sofia's signed photo

cided to push the experiment of joint stock system, which has been proved to be correct and timely.

In 1991, Liu Ji took the position of director of the Commission for Economic Restructuring under Shanghai Municipal Government. In 1992, a critical period in China's reform, Liu Ji put forward his thinking and proposals about economic restructuring, which attracted wide attention. In 1993, he was transferred to the position of vice president of the Chinese Academy of Social Sciences. He was dedicated to research on one hand and made suggestions to the central government on the other hand, which served as their reference in making political or economic decisions.

GLOBAL CONCEPT, CHINESE KUNG FU

Prof. Liu Ji rates himself as a person who progresses with the time. He enjoys reading and thinking. He is good at analysis. His outspoken habits keep him focusing on all hot issues and contributing his enlightening opinions.

Regarding the development of Chinese enterprises in the context of economic globalization, he suggested that Chinese entrepreneurs should embrace the concept of "Global thinking, Chinese Kung Fu". He passionately said: "The world walks to China and China walks to the world. Only by developing their enterprises from small to big, from vulnerable to competitive, from local to national, transnational and global can Chinese entrepreneurs fulfil their historical mission – to make due contribution to the renaissance of the Chinese nation in the 21st century." On one hand, Chinese enterprises have to think globally so as to better understand and take advantage of international game rules and cope with the fierce competition in the global market. On the other hand, as part of the global market, China, with its 1.3 billion population, is the largest share. Without China, there's no economic globalization in the complete sense. China's unique culture renders localization a necessity, both the localization of the employees and the localization of business operation.

In this connection, Prof. Liu Ji made

a vertical analysis and a horizontal comparison on "localization". There exists huge differences between Chinese and western culture. Chinese culture deals with mundane affairs, while western culture focuses on seclusion. Confucianism, which has dominated Chinese culture for thousands of years, is an ethical philosophy. Chinese are good at generalization and integration, while westerners are good at individual analysis. Thus, modern management should be multi-dimensional.

Prof. Liu Ji thinks that the developed countries have entered "the post-industrial society", or "the information society", or "the R&D society" in line with his own research, while China remains in the early or middle phase of industrialization. 62% of China's population are engaged in agriculture, while that percentage is less than 5% in the United States and Western Europe. Different phases of development have different demands and require different capabilities to meet the demands. This shall be taken into account in the operation of an enterprise.

His interest in globalization and the development of Chinese enterprises made him become the honorary chairman of China Mergers & Acquisitions Association (CMAA), an organisation that promotes Chinese enterprises to go global in a steady way. When asked why he took the position and his role in that association, he modestly replied that he was dragged in by Mr. Wang Wei, "father of mergers & acquisitions in China". As Wang Wei just started his career, he needed support. Liu Ji was doing research on economic globalization when Wang Wei came to him for the invitation. Inspired by the increasing M&As among transnational companies in the 1980s, Liu Ji readily accepted the invitation.

During the process, he came up with the new concept of “global company” and regarded it as the basic feature of economic globalization.

The Association was first created as “Research Centre on Global Mergers & Acquisitions”, with Prof. Liu Ji as president of the executive council, Yu Yongding, a famous economist, as director, and Wang Wei as secretary general. Its research and social activities in particular gained much popularity among people. More and more professionals, especially those from the business circle, were attracted. Later, it was expanded to be the association, and Prof. Liu Ji was invited to be the honorary chairman.

Today, CMAA is well-known home and abroad. In their research on M&As, Prof. Liu Ji and his fellows raised the concern of national economic security, which deserved the serious attention of both Chinese enterprises and the government, given the increasing M&A activities by multinationals. Their proposal caught the attention from the central government.

CONSCIENTIOUSNESS, INNOVATION, AND EXCELLENCE

In 2000, Prof. Liu Ji took the position of executive president of CEIBS. He went from science to science for sciences, from leadership research to leader, and now to education. The most famous education theory brought forth by him is the “3 quotients” theory, namely, intelligence quotient; emotion quotient, and courage quotient. Entrepreneurs should possess “3 quotients”. Business school should not only disseminate management knowledge but also develop students’ “3 quotients”. And he often refers to the West Point as an

example. However, When speaking of CEIBS construction, he’d first come up with the cultural construction.

He says: “The school culture is an intangible ‘soft strength’. The faculty, curricula and school management can be and must be continuously improved, while culture is everlasting and fundamental. With a good culture, the school’s development sees no bounds.” Considering the importance he attaches to the school culture and its significant role, he puts forward CEIBS motto--“Conscientiousness, Innovation, and Excellence”. On their first day to school, new students are told about the school motto. Later, it will be engraved in their hearts and drive them towards excellence.

His explanation of the school motto seems quite simple. “Conscientiousness is not an elegant, eye-catching or vanguard word, but I rank it first. It is the starting point for an individual, an enterprise or a school to succeed. Without conscientiousness, nothing can be achieved.”

“Innovation is the soul of national progress and the core competence of modern enterprises.” It is self-evident. “If CEIBS wants to achieve something and nurture entrepreneurs who are globally competitive in the 21st century, innovation spirit is critical.”

“Excellence” is a trendy and eye-catching word, but it is by no means a merely perfect vision. Otherwise it would appear to be showy and flashy. What “Excellence” means is “we should always ask ourselves whether we can do better no matter how well we have done in the past.” This question is a real spur that drives CEIBS and its people forward in their pursuit

of excellence.

CEIBS is a business school where students can learn management knowledge and skills, but Prof. Liu thinks it is not enough. He advocates the idea that CEIBS culture should include humanitarian spirit, philosophic thinking, rich knowledge and broad vision. He says: “without proper cultural tutelage, entrepreneurs or senior managers of the 21st century would be merely a vulgar ‘money-making machine’.” Proposed and supported by Prof. Liu Ji, CEIBS starts to host cultural seminars. The prelude of this article is an example. Cultural celebrities are invited frequently. Wang Meng, Yu Qiuyu, Xin Lili, Wang Xiaohui, Jing Yidan, Shang Changrong ... literature, dancing, music, theatre, philosophy.... The school where imparts business is now resounding with the voices of cultural celebrities and is surrounded in a cultural atmosphere. All of the seminars are fully packed with audience, which also reflects, in a way, the cultural aspiration of the business elite.

Prof. Liu Ji advocates comprehensive and thorough learning. He thinks highly of some teaching methods practised in West Point. An article titled “Which is the best business school in the US” let him ponder. He took it for granted that it should be Harvard or Wharton. However, to his surprise, the article awards the laureate to West Point. The underlying reason is that “Business schools give leadership courses, while West Point teaches you how to lead.” By how to lead, Prof. Liu Ji assumes it to be an all-inclusive culture ranging from the way of thinking to habits in daily life. From then on, he began to promote the West Point way. He thinks that business education in China should not only pay attention to high-quality lectures in the classroom but also stress “action educa-



On July 13th 2006, their Royal Highnesses, The Crown Prince and Princess of Spain visited CEIBS on the occasion of the establishment of a new partnership between ICEX (the Spanish Institute of External Commerce) and CEIBS. Left to right: Professor Zhu Xiaoming, President of CEIBS; Their Highness Crown Prince and Princess of Spain; Mrs. and Professor Liu Ji; Professor Pedro Nueno, Executive President of CEIBS

tion” as in West Point.

CEIBS is a school that values “passing on the experience of how to fish”. Prof. Liu Ji often inquires the students and alumni about their major achievements in CEIBS and he will receive the invariable answer that it is the conversion of mentality and way of thinking that makes them different.

In line with his famous “3 quotients” theory, he compares students to seeds and uses the “3 quotients” as the selection criteria. Besides intelligence quotient and emotion quotient, he invents the concept of courage quotient, arguing that a student shall also be evaluated by whether he has the nerve to fight in the business world; whether he has the audacity to seize the opportunity and whether he has the courage to brave adversity. On the business school side, it shall offer to cultivate students’ innovation ability, adaptability and PR capability.

Although retired, Prof. Liu Ji, in his pursuit of excellence, still cares a lot about the school and the cause of

education. His sense of responsibility is not reduced because of retirement. He feels happy and excited for the rapid development of MBA education in China, as it is the “historical requirement of China’s economic development”. In the meantime, he is also worried that the rapid development would bring some negative influence, so he suggests tightening the rein and focusing on the enhancement of teaching quality.

It only took 10 years for CEIBS to become the number one business school in Asia. During the second five years, Prof. Liu Ji’s contribution cannot be ignored. Under the guidance of his “excellence” concept and with the relentless efforts of the school management, CEIBS, whose degree was not even officially recognized by the China Ministry of Education at its inception, has ascended to the rank of internationally leading business schools in such a short period.

Looking ahead into the future of MBA education, Prof. Liu Ji draws our attention to three aspects in particular. The first is the tide of economic globali-

zation. MBA education shall adapt to it and meet the human resource requirement of “global companies” through information management education and multi-cultural education, for example. The second is the trend of “scientific industry revolution”. MBA education shall put more weight on natural science, social science and humanities and integrate them with business to meet the need of “scientific industrial society”. The third is the West Point methods. MBA education shall stress “action”, nurture entrepreneurship, and develop execution ability. The ability to take “effective actions” is what really matters.

ACTIVE AND ENERGETIC

Standing in front of Prof. Liu Ji, I can hardly link him with his actual age. He stands straight, think and act fast, which is rarely witnessed even in ordinary young people.

Back to two years ago, on November 11, 2004, on the CEIBS 10th anniversary celebration party, Prof. Liu Ji and his wife Liao Tongzhu sang the Kongding love song together. They both had a nice voice. The audi-

ence got excited and applauded vehemently. In CEIBS, we are familiar with Prof. Liu's ready tongue in chat, passion in speech, and wisdom in writing, but we don't expect to hear his fabulous singing and witness his emotionality. You just have to admire his vitality.

He is cheerful and humorous. He is conversable and especially takes pleasure in chatting with young people and making friends with them. He says: "when old people get together, they tend to recall the past, or even cry out complaints like Granny Jiujiu in Lu Xun's novel that 'the next generation is even worse. Today's youth are...'. The result is the more you look back the more you avert from the reality. With young people, you always look ahead and are full of expectations. 'The future will be ...'. With young people, you can feel their vitality and passion, which remind me of my own 'passionate youth'". That's the trick of Prof. Liu's everlasting youth.

As an experienced person, he has abundant tolerance and care for the youth. "We were once young. We can share our experience or even mistakes with them." No wonder he is so popular among the youth. He says "in a word, my energy comes from my young friends". That's also the basic reason for his decision to devote himself to education in his old years and work for CEIBS.

He has an open mind by nature. He has a wide range of interests, rich experience and lots of friends. Therefore, he can always find exciting people or issues, which get him involved and demonstrate his vitality. "Sometimes, I do feel tired and hate to be involved, but I cannot escape. So I have to face

them with happiness." That's why he names his sanctum "five-pleasure room": take pleasure in serving others; take pleasure from what he has; try to find pleasure amidst suffering; take pleasure and be content with one's lot; take pleasure in everything. He collects the statues of Maitreya Buddha: "The broad-minded buddha finds nothing unbearable with his big belly; the benevolent buddha shows a playful smile at every fortune seeker."

AUTHOR'S NOTES

On the day of interview, when I walked into the office of Prof. Liu, he was busy with his PDA. He looked up, gave a smiling apology and requested me to allow him a minute. His secretary came in for his short instructions on several matters. Another conference invitation. He said he'd always make his best to attend. He sat down with me and spoke in a casual and friendly manner. After thumbing through my interview outline, he replied that, being fully occupied for the time being, he was unable to give it a good thinking. He suggested me to leave the outline with him and he'd put down the answers whenever he got time. I told him the deadline and he didn't bargain.

Afterwards, I often saw him busy with various meetings and activities and began to worry. However, he did let me have the answers on time and a 16-page handwritten one. His answers are meticulous and his writing is plain and exquisite. I quote a lot from him to polish my article. It's a pity that I am unable to quote all of them here, especially those academic statements.

When I came across him, I only felt that he's energetic and gentle. At the meetings I witnessed his passion. When I sit down to write about him, I start

to realize his profoundness. How can this short article give enough credit to Prof. Liu Ji's colourful life, broad mind and profound thinking? We can gain a superficial understanding from it.

However, he doesn't have endless energy. Two years before, when receiving a foreign guest, he suddenly had a heart attack and was hospitalized. By the sick bed, his wife spoke to him: "Liu Ji, please keep in mind that China will continue to develop and progress without you, but our family cannot!" Her words brought tears to Prof. Liu Ji's eyes. His dedication to work, his concern on the economic development and other issues in China and his care for others leave him little time to look after his family. However, as soon as he recovered, these "alarms" became invalid. He is still the same.

It's his sense of responsibility and mission that keeps him running without stop. He always wants to do more in the limited time. Let me quote Paul Cocking's golden saying in the book *How the Steel Is Tempered* to end this article. This saying is often recited by Prof. Liu Ji and his contemporaries in their youth. It has inspired generations of people like him. He also quoted it in his reply.

"Man's dearest possession is life. It is given to him but once, and he must live it so as to feel no torturing regrets for wasted years, never know the burning shame of a mean and petty past; so live that, dying, he might say: all my life, all my strength were given to the finest cause in all the world - the fight for the Liberation of Mankind and Communism." [TheLINK](#)

The article, originally in Chinese, is translated by Irene Mao.

Why Change of Growth Model is Easier Said than Done



By Xu Xiaonian

The transformation of the role of government is essential for eradicating the institutional foundation of traditional growth model. The government should exit from the economy and market, and focus on institutional reform and institutional improvement.

In the past decades, China's economic growth was solely propelled by the high investment rate. Now this model seems to end. Even if it still works to some extent, there is little potential left. The economic growth rate will inevitably slow down if nothing is changed.

Since China's reform and opening-up, the investment rate (fixed asset investment to GDP) had soared from 25% in 1970s to a record high of 40% in 2003. According to the National Bureau of Statistics, the GDP for 2004 was RMB13.6 trillion, while the total fixed asset investment reached RMB7 trillion! The annual GDP in this period grew around 10% in average. In other words, China had to base this high growth not only on high investment rate, but also on ever-escalating investment rate.

But there is a limit to this. Theoretically speaking, the investment rate can't be over 100%. In light of the experience of China and other countries, it seems that the upper limit of investment rate in practice is around 40%. Some argued that China can still maintain its high growth for another two decades. Based on historical data, this implies an investment rate of over 50%. It's hard to imagine that any country or economy can sustain that in today's world.

Let's look at Japan. During the reconstruction after the World War II, its investment rate increased from 20% in early 1950s to around 35% in 1970s. After then, the rate started to wind down gradually to 25% in 2003 as a result of the first oil crisis. South Korea was roughly the same. Its investment rate hit 40% during the peak period, slowed down in early 1990s, and re-

mained stable at 30% in recent years.

The experience of major countries shows that economic growth simply fueled by investment is unsustainable. Sooner or later, the investment rate will drop. The developed economies have a much lower investment rate than the Asian countries. For example, the investment rate in the US is around 15% perennially. Obviously, sustainable growth relies on technology advancement rather than investment.

To overhaul the traditional growth model, the Central Economic Working Conference at the end of 2004 put forward the guideline of "rigorously improve restructuring and promote the shift of growth model". It emphasized that economic growth means growth not only in quantity but also in quality; growth should aim at efficiency instead of speed; growth should rely on technology advancement instead of input of resources; and investment in production capacity should give way to research and development. The key of the new growth model is higher resource efficiency, not larger quantity.

The previous government leaders all emphasized a lot on the shift of growth model. Even under the planned economy, there were debates about the models of "extensive growth" and "intensive growth". But the investment rate kept rising and extensive growth remained unchecked. The overheated development didn't show any signs of cooling down, instead it spread into more sectors.

The traditional model that suffocates the new growth model has persisted for many years, attributable to the long lasting institutional foundation. As long as the institutional founda-

tion remains unchanged, China's economy won't escape from speed-oriented growth that simply relies on investment and consumption of resources. In that sense, the shift of growth model will only remain on the paper.

The central part of the institutional foundation of traditional growth model is government's dominance in resource allocation, especially in such production factors as land, human resource and capital. As a non-profit organization, the government can not and should not pursue maximization of profits or efficiency in resource allocation, but its inherent motivation mechanism determines its pursuit of scale and speed. Considering the unparalleled position of economic performance in appraisal system, the government officials at all levels usually put GDP on top of the agenda. What's more, the link between scale and personal benefits also encourages the officials and SOE executives to enlarge the scale. Bigger scale means more resources to be allocated, therefore higher grey income can be expected. Based on exactly these reasons, some economists in foreign countries have made the conclusion that the private sector maximizes profit, but the public sector maximizes budget. In other words, public sector prefers to spread out its reach and build as more projects as possible.

The decisive influence of government on investment is evidenced by the concurrence of investment cycle and government officials' term of office. Allow for inflation, the fixed asset investment in 1993 increased by 35%, the highest level since reform and opening-up. Another peak occurred in 1998, registering a real increase of 14%, while the rate for 1997 and 1999 was only 7%



and 6% respectively. Five years later, the fixed asset investment increased by 26% in 2003. In recent years, almost 40% to 45% of fixed asset investment was made by the state sector. If project approval, land and credit policies are also taken into consideration, the government plays a much bigger role in investment.

Another institutional foundation for investment propelled growth model is the price control of production factors. The nominally low costs of land and capital encourage over-investment and negligence of efficiency. The land and capital costs for “development zones”, “governor-head projects” or “face projects” are manipulated at a very low level. Because of limited investment opportunities, large chunk of savings flow to the state-owned financial institutions. The depositors have no option but to accept the low official interest rate, the high price and low return on the stock market caused by limited stock supply. Reckless expansion of enterprises fueled by cheap capital already happened in Japan, South Korea and other Asian countries. The negative impact is still fresh in the minds of many people.

The weak protection of property, especially intellectual property gives strong impetus for short-term expansion by many Chinese enterprises, while neglecting long-term investment,

especially R&D. The new products and new technology can be copied immediately after introduction and the market is swamped by copycat products. The companies are less interested in R&D because they can hardly recover the cost of it. The weak financial system only makes the situation worse. The new product or new technology companies can't get the support from venture capital funds. The reason is that these funds don't have formal legal status up to now. And the non-floating nature of corporate shares also prevents these funds from having an important exit channel.

After the analysis of the institutional foundation of traditional growth model, we can better understand why the Central Economic Working Conference emphasized the guideline of “rigorously improve restructuring and promote the shift of growth model”. To achieve this goal, the government should gradually retreat from the investment and financial sector. The percentage of SOEs in commercial projects should go down and government should no longer plan, initiate, finance or resume responsibility for investment projects other than public utilities. In the approval of investment projects, the government should only focus on the key indicators such as environmental protection and safety and

dismantle all other forms of administrative approval and market access barriers.

Reform of the financial system should aim to abolish the control of capital price, liberalize interest rate, further increase base interest rate, stop the administrative interference in the stock market and bring an end to the abnormal phenomenon of zero cost of equity capital. Price should be determined by market forces. In this way the price mechanism can really do its job in containing overinvestment. There's no doubt the key target of the financial reform is the banking industry. Banks should become independent financial institutions which take profit as the top priority. Loans should be made after evaluating the risk and profit of the project, instead of obeying government orders. So an important gate can be established to rein in overexpansion either by the government or the enterprises. Apart from the banks, the legislation process for venture capital funds and entrepreneurial funds should be sped up. The corporate shares should be floated as soon as possible in order to build an exit channel.

The transformation of the role of government is essential for eradicating the institutional foundation of traditional growth model. The government should exit from the economy and market and focus on institutional reform and institutional improvement. That is the only way to ensure sustainable economic growth in China. **TheLINK**

The author is Professor of Economics and Finance at CEIBS.

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Corporate Brand Thrust

Is Your Money Well Spent?

By Lars Ohnemus & Per V. Jenster

A powerful brand is generally considered an effective way of generating shareholder wealth, but how is it actually measured and controlled? Lars Ohnemus and Per V. Jenster, after examining 2,158 companies within 11 different industries listed in the US and Europe exchanges, found that companies with a balanced corporate



brand thrust, on average bring up to a 3-percentage point higher return to their shareholders. Furthermore, the link between brand thrust and financial return can be described as a W-curve with five distinct strategic phases rather than a linear function.

Can shareholders trust that management decisions in the area of branding will lead to enhanced financial performance, or is this only a smokescreen? Over the past twenty years, expenditures are becoming prodigious, and companies are currently using an average of three to five percent of their turnover on branding. Furthermore, the estimated cost of bringing a new brand to the marketplace is now over US\$100 million with over 50 percent of brands introduced being expected to fail. But, on the other side, a well-positioned and powerful brand provides an effective barrier against competitors, offers customer attraction, and the ability to enhance

pricing and channel negotiation power. Given that the risks associated with branding investments and their potential returns are of great magnitude, a more solid understanding of the branding phenomenon and the economic justification for the enormous amounts of corporate and societal resources used in ensuring the sustainability of brands in the minds of customers and investors becomes an urgent need.

In our view, brand thrust is defined as the total financial resources a company allocates to develop, build and maintain the values and signals of its brand (s) including marketing activities and emotional features with its products or services and its combined efforts in representing and distribut-

ing its bundle of goods and services, over a defined period of time to its constituency.

By introducing a resource based view on branding and by applying the brand thrust concept we were able to postulate a very interesting question addressing the economic importance of branding: “Are companies spending adequate resources on establishing and maintaining the optimal value of their brands, and can it be measured on their financial results?” The answer to this question could have a significant influence not only from a financial perspective, but also as a basis for the development of new branding strategies, co-branding initiatives (where several brands are used in conjunction)

and future investment plans. Kerin and Sethuraman (1998) have already suggested that enhanced branding efforts appear related to higher market-to-book value, but caution that brand value growth at the firm level does not necessarily produce a commensurate growth in shareholder value.

THE EFFECT OF BRANDING ON FINANCIAL PERFORMANCE AND HYPOTHESIS

The original hypothesis of this research was that there was a reversed U curve function between branding and financial performance. The assumption was that there would be an optimum level of branding expenditures or activities for each company compared to its competitors at any one point in time. If this optimum level were to be exceeded, at any given point in time, the company would be faced with the law of diminishing returns and experience value destruction. Based on the findings of Kerin and Sethuraman (1998) showing that “the functional form of the relationship is found to be concave with decreasing returns to scale”, this starting point was of particular interest. Over time, however, the initial hypothesis was modified, and three additional hypotheses were added as follows:

HYPOTHESIS 1

Higher branding intensity causes better financial performance. This hypothesis is based on the assumption that branding reduces inefficiencies caused by asymmetric information between consumers and firms, thereby ultimately leading to higher market transparency. This prediction assumes that more branding will lead to more relevant consumer information, product trials, and repetitive purchase patterns,

enhanced consumer perception, and ultimately will translate into enhanced financial performance.

Management of a particular brand should thereby be able to establish an industry given ratio that their firm can be benchmarked against to know if they are over or under investing in a brand compared to key competitors. If one isolates and eliminates all other key variables, the company with the highest and most consistent branding intensity would enjoy industry dominance over a given time period.

HYPOTHESIS 2

At high levels of branding, additional expenditures decrease financial performance.

This prediction is in line with the law of diminishing marginal returns. Companies expand their branding activities with the objective of pursuing higher returns, but consumers are indifferent or might even react negatively (over-branding) to those additional branding activities. Ultimately it will lead to a reduction of financial performance.

HYPOTHESIS 3

Branding has no effect on financial performance.

The assumption is that management and competitors are expected to make rational decisions with regard to branding and they are operating in a perfect market environment. Any major increases or reductions in branding activities will be matched by competitive moves. Fundamentally, branding might lead to short term competitive and financial gains, but over time these will be eliminated.

THE CORRELATION OF BRANDING AND FINANCIAL PERFORMANCE

Our initial research showed that companies active in the financial sector are achieving the highest return on their assets when investing 5-10 percent or 20-30 percent of their turnover in branding, whereas branding in the 0-5 percent, 10 -20 percent or + 30 percent range is leading to performance destruction. It was interesting to note that companies with an appropriate strategic branding position would achieve a return of up to 3-percentage points higher than other companies in the same interval. The adjusted R^2 was not as high as for the first group, but was still 0.60. Again, a W pattern (function) could be observed between financial performance and branding.

What could be the probable relationship and explanation for the observed patterns? After extensive discussions and research of the literature, five working assumptions have developed around the W pattern and the concept of corporate brand thrust. Briefly explained, the authors believe that the five observed key phases: (a) Aspiration (b) Brand Focus (c) Stuck in the Middle (d) Brand Heaven (e) Over Branding as illustrated in the simplified graph shown in page 21.

The background for each phase and the financial impact could be explained as follows:

Aspiration

The company is rather narrow and restrictive in its branding activities, and in most cases only has a limited number or no foreign subsidiaries. Management has an undefined branding strategy driven by some unclear brand building aspirations and is thereby achieving a below average return on its branding activities since they are too limited (0-5 percent). Thereby no

impact can be measured, ultimately resulting in a negative financial impact. Furthermore, the company has difficulties in achieving scale economies from a branding perspective since the relative investments are too high to achieve an acceptable return. The strategic position is weak and not sustainable in the long run.

Brand Focus

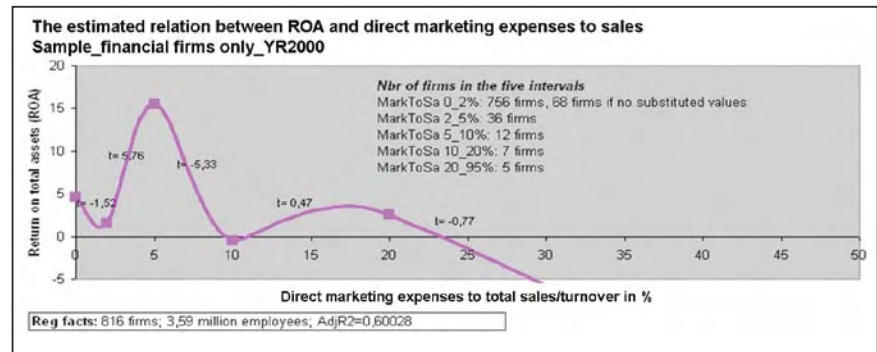
The company starts focusing on branding, and is placing substantial resources (5-10 percent) behind those new activities. Sales are increasing and it is gaining a critical size in the market place. The result is a dramatic increase of its financial performance leading to value creation. Frequently, the company is becoming a segment leader and has a sustainable competitive position.

Stuck in the Middle

The company again has a weak strategic position, frequently due to lack of focus and is stuck in the middle. (Porter, 1990). It is expanding and attacking many new markets or segments. Ultimately, branding expenditure is now approaching 10 – 20 percent of their turnover. This high investment, combined with their weak strategic situation is leading to a decrease in financial performance.

Brand Heaven

As the company is reaching scale economies with its branding activities in the different markets or segments, it is gaining international synergy (as observed in many U.S. multinationals) with its branding activities. The company achieves a stronger strategic position and their return is again increasing. (This was also confirmed by Buzzel and Gale (1987) ... “in stable markets, market leaders on average reap 25 % percentage points more ROI than small businesses”).



Over branding

Once the company has achieved a given size by international standards, it starts spreading out into different and new activities, thereby adding additional branding expenditures and ultimately decreasing its financial performance. Frequently, one can also observe the phenomenon of over branding in this segment.

The branding position of a company should by no means remain static over time. Some companies maintain a status quo over time, but there are also examples in our research database where companies move downwards or upwards. Hence, it is absolutely vital that branding is analyzed in a dynamic perspective, and that academics and practitioners acquire a performance and time driven reference model for branding. The brand thrust concept should be seen as a first step in this direction. The underlying data from other studies also confirmed that a company’s involvement in several or more industries would lower financial performance.

MANAGERIAL IMPLICATIONS

This research indicates that for most companies a correlation between financial performance and branding is present, and can be established. As a minimum, it has five different and unique phases that cannot be perceived to be a linear function. Another important conclusion for management teams and shareholders is that while there can

be a positive correlation between branding and financial performance, in reality this can also lead to value destruction. This implies that the branding position of a company must be regularly and closely monitored and managed from a strategic perspective. To be applied successfully, this would require cross-departmental (Marketing, Finance and Sales) working groups analyzing all relevant internal and external factors, and ultimately reporting back to senior management. Conceptually, this could be achieved by applying the corporate brand thrust concept presented in this article, whereby those findings would ultimately be presented to, and reviewed by, the board of directors of each corporation, and not left to be justified by the marketing team, as is seen in many corporations. The final, and in many ways, the most critical element, is that each company must be aware of its strategic branding position vis-à-vis its competitors, having a conceptual understanding of its current situation and acting accordingly. **TheLINK**

Lars Ohnemus has held senior executive positions in a range of multinational companies and is currently a Visiting Associate Professor at the Copenhagen Business School and Baltic Management Institute.

Per V. Jenster is Professor of Management at the China Europe International Business School.

The article is an adaptation of the original one published in *International Studies of Management and Organization* (October, 2006).



Turn Transformation into Reality

An interview with leading CEO Michael Critelli

By Stuart Crainer

For a man in charge of more than 33,000 people worldwide, operations in more than 130 countries, a turnover in excess of \$4 billion, two million customers, and over 3,500 active patents, Pitney Bowes chairman and CEO Michael Critelli is calmness personified. But, Critelli faces a classic CEO challenge: how to transform an unsung giant in an unfashion-

able industry into a market leader in the hyper-competitive digital age.

Critelli's brand of thoughtful and subtly inspiring leadership in reshaping the company is gaining increasing media attention and plaudits. Yet, neither he nor Pitney Bowes is classic headline material. Critelli joined the company in 1979 and became CEO in 1996. Founded in 1920, Pitney

Bowes has carved out a lucrative low profile niche in mail and document management.

Transformation Critelli-style is intense and planned. And it is working. The spin-off of the company's office systems business, a series of acquisitions and the company's first integrated marketing campaign have raised eyebrows in the corporate world.

Michael Critelli talks to Stuart Crainer about the CEO's job and how to turn transformation into a reality.

You lead a company in a relatively unfashionable industry and in a mature market. What challenges does that provide?

I would take issue with us being in a mature market. We were in a mature market and had we not set out to re-shape the market that would still have been a very accurate characterisation. The communications marketplaces that we participate in, both mail and document management, are very large markets. We believe that the parts we can address with our competencies would be about \$250 billion – and are going through massive change -- regulatory, technological and competitive change. Wherever there is massive change there is an opportunity for growth. Customers want help trying to navigate their way through change.

You are known for emphasising the role of values in your organisation. Most major companies have a list of values. Are they still meaningful and practical, or just another form of PR?

Certain values are extremely critical to our brand and our success in the marketplace. One of our brand attributes is that we rank very highly on being trustworthy and reliable. We handle worldwide well over \$15 billion, probably closer to \$20 billion, of other people's money. We even own a bank in the United States, so having the attribute that we are honest, trustworthy and reliable is not only a nice thing to have from a standpoint of commercial success but it is critical to our value proposition.

The other attribute which has served us well is that we have always valued the opinion of our employees. We have always tried to create a work environment in which employees of different genders, origins, ages and points of view can be successful and can tell senior leadership what it needs to hear.

The third is a sense of mission beyond making money. People need to believe they are doing well by doing good. I think that employees need to feel proud of the quality of their work and the mission to which their work is contributing. We are also known, justifiably I think, as a company which gives value back to the community. Our community activity is integral to the company's brand.

You emphasise R&D and innovation but that is something normally associated with Silicon Valley and high technology.

There are different ways to be inventive. You can invent a physical product which is completely new, but you can also invent a new market, or find innovative ways for technologies to work together which permit activities to be done in new ways.

So our innovation comes from studying problems and figuring out where there are opportunities as opposed to becoming enamored with the technology itself. If you think about Silicon Valley, a lot of those people are inventing tools rather than applications. We are an applications inventor for a specific set of marketplaces.

How long can you be effective as CEO over a sustained period?

Ten to 13 years for our size company is optimal. If I was running

General Electric then 20 years may be optimal. You keep the succession pipeline fresh. One of the risks of staying in the job for 20 years is that talented people who are a little younger and aspire to my job would leave. If they can have a reasonable tenure, I can keep them engaged and have a stronger team behind me. There is a benefit to having an orderly succession process and not staying until the board of directors forces you to leave. Beyond a certain length of time you get to believe that you can't be replaced? so it is best to leave when you are still on top and still fresh.

A friend of mine told me that during the first three years on the job you're basically trying to get acclimatised. During the next 5 or 6 years you are a change agent, you put in place your programs and vision for the company and in the last 4 years you are focused on succession planning ensuring the talent is there for the next generation. It has worked out that way for me. Between 2001 and probably 2005 or 2006 is my sweet spot to be a change agent. Partially overlapping that, even today I am actively working on the succession process.

How do you create a talent pool?

The most important thing to do in any succession process is to figure out what the world might look like in five to ten years. The second thing is what kind of skills and competencies that world will require. From there you use a variety of tools and techniques to make people ready and to test out whether they will have those skills and competencies.

Obviously at this senior level, it

conomic profits. I tend to look at what makes economic sense.

There are two other characteristics which have helped me. One is I have a very good understanding of the value of time and speed. Having charged for my time as an attorney, I intuitively convert time to money and make economic decisions which take into account the money value of time.

The other attribute is that I tend to be very driven by getting results as opposed to worrying which budget or cost centre is affected. Tom Peters talks about a professional services mindset where you assemble a team to get a job done and then they move on. He uses the example of the film industry. I have always thought that way. Some people tend to get too fixated on their status in the organisation and the way the organisation is currently structured.

How do you divide your time?

Probably 5% of my time is spent on board and corporate governance matters. The next 25-30% is spent on meetings -- individually with people who work with me, staff meetings and a lot of one-on-ones. I have around 150 of those a year with people who don't work directly for me from all levels of the organisation. I like to get directly to the source of information. I spend another 5 to 10% of my time meeting with postal officials, politicians and other regulators. The next 10-15% of my time I spend in some form of interaction with customers. Then there are maybe a few days a year talking to shareholders, analysts and the rating agencies -- probably five days a year. The remaining time is spent on a variety of outside activities which somehow relate to my job.

How do you measure your personal performance as CEO?

There are certain things I want to accomplish over time at Pitney Bowes. But my own measure of success is probably whether I have reshaped the culture and direction of the company. There are a handful of ways I would measure that. One is whether I have leveraged the full power of the company behind a single unified brand. When I took over this was a very de-centralised company which didn't really have everyone working together. So my first measure of success is whether we are behaving as one company.

Second, are we behaving with confidence and competence in shaping the world we live in rather than reacting to it? As a person I am highly driven by the desire for security. But the only way you can be secure in the world is to be at the table when the decisions are made about the rules of engagement. If you shape the rules you have a lot more security. You can't be secure by escaping conflict.

The third measure of my success is making us a global company. I am very excited that we are in many markets today where English is not the only language spoken. I want us to be confident and comfortable dealing across the globe.

Fourth, are we being very solutions and customer-driven rather than simply providing tools and assuming customers will know best how to use those tools.

There are a couple of other things obviously. Every leader has to have a financially strong company that is stronger than the one he or she inherited. The other thing is that the company

has the strength in depth of talent.

Implicit across all this are values. We have always been a company that people are proud to work for. Obviously I want to make sure that that doesn't change. In that respect I am not a change agent. I want to preserve the traditions and values we are known for.

You can't be a dictator or, at the other extreme, someone who listens to everyone. You have to balance stakeholders and make independent judgements. People put you in the job to represent the collective will of the organisation not to respond to every fad and fashion of the moment.

People often bemoan the dearth of leaders in the business world. Is this a fair observation?

To an extent, but there are many more leaders of good quality than people realise. But the expectations of what leaders can do are wildly unrealistic. The politicians and regulators keep imposing more and more obligations on leaders without regard to the other things they already have to do. Having been in the job for many years, I have the capacity to absorb some of the additional things the new laws and regulations require, but I think we are slowly creating a situation where it will become impossible for leaders to balance all of the different responsibilities they have. [TheLINK](#)

The articles in this column are kindly provided by EFMD (www.efmd.org) and Suntop Media (www.suntopmedia.com).



Developing in the Chinese Beer Market

- The Perspective of a Global Brewer

By Jesper B. Madsen

Carlsberg has a long history in China. I have a poster hung in my office which is an advertisement from 1902 or 1903 of Carlsberg in China. In the 1980s, the business environment was very small and complicated - people could only find imported Carlsberg beers in five-star hotels.



It was not until China opened its door in 1978 that Carlsberg decided to do more in this interesting market. With its low per capita consumption of beer in the early 1990s, the growth potential for Carlsberg in China was huge. But in the 90s Carlsberg took a cautious approach to the Chinese market and we didn't want to invest too much initially. The best solution for us was to find a qualified partner who was prepared to produce, sell and market our products under a licensing agreement, while we provided our know-how, our brand, etc.

Such co-operation was established in 1991 and went very well. Our appetite started to grow when we realised the beer market in China was actually very strong and the economic development was sound, so in 1994 Carlsberg established a joint venture with Swire Pacific, a Hong Kong-based company with a lot of experience in China. Our first step was the acquisition of our license partner in Huizhou, Guangdong Province, thus enabling us to control our own destiny for the Carlsberg brand in China.

As our business continued to grow, so did our desire for more market share. For the obvious reasons we chose Shanghai as our next destination. Although consumption was still low, we figured with strong economic growth the market for premium beer would increase significantly. At the time the biggest brand in Shanghai was Reeb, a mainstream brand that was strong, but not strong enough to dominate the market. Our analysis of the beer market in Shanghai, and China as a whole appeared to be fantastic. We decided it would be worth our while to take a calculated risk and make a significant investment importing expensive western equipment, etc.



It turns our calculations were wrong. Unfortunately, while we were building our brewery, the market changed. The Japanese brewer, Suntory, entered the mainstream market with a product that was attractive in every way, from packaging, to quality, to price, and it was all backed by an excellent marketing strategy. Suntory wiped out the main competitor, Reeb, and started to dominate the market. As a result the premium sector didn't grow as expected. In fact, it stagnated. Our first important investment in China somehow fell apart.

Our second setback in the Shanghai market was the way in which premium beers were bottled. It turns out big bottles had big problems. Not only did the big bottles not have the same margins as the smaller bottles, but they were not an attractive business, as you had to give a lot of discounts. Suntory was such a strong brand at the time that even the local brand we introduced as part of our investment was not successful. We had to sell 75% of our shares to Tsingtao. I remained the director of the company because we still kept 25% of the shares. Also Tsingtao initially faced a tough time but is now doing better.

Actually throughout China the premium market was not as strong as we had expected. It turns out we had underestimated local brands. They had more brand equity than we'd thought. Because Carlsberg and other premium brands were able to sell despite the high price in the early 1990s, we assumed the local brands were low quality and thus had a low brand loyalty. However, the Chinese brewers caught on very fast and learned from premium beers so that all of a sudden, there were very good local brands selling at 1/3,

1/4, even 1/5 the price of the premium brands.

In 2004, with many lessons learned, we decided to once again invest aggressively. We invested a lot putting a new Carlsberg product on the market. If you want to be a big player in China, you must be in the mainstream segmentation as well. We did a lot of research in the Chinese beer market, and found that Western China was a good place to invest. With a new strategy in place, Carlsberg set forth with a new vision: not only to become the leading brewery group in Western China, but also to become a major brewery group and a leading international premium brand in China. Today, our vision is becoming reality.

Why did we choose to go west? First of all, it is often beneficial to follow the strategy of the government. And the fact is that a government policy also means that the government will provide a lot of support. We assume that a lot of money will continue to move to the west of China, thus helping close the gap in purchasing power that exists between the East and the West. Additionally, the people of Western China are clever and will catch up over time when they get the right support from the government in Beijing.

The second reason for choosing Western China is, relatively speaking, the market in the West is less competitive. If you are operating with a market share of 50%, the competitor has to be pretty brave to move into the market, because they know that you have the muscles, the strong brand, the connections, the distribution network, and that you can respond very aggressively to any competitive threat. But of

course there will be competition, and competition will increase, and we are prepared for that.

Another reason for choosing western China is its current low per capita beer consumption. We think that we can establish and obtain dominance on a provincial and even regional level. Dominance is relevant in a beer market like China, because it is not ONE market but many.

The variance in markets regionally makes it impossible to compare one province with another. Each market has its own spending habits, consumption habits and brand loyalties. For example, in Beijing, the consumption is 93 litres per capita, which is the European standard; in Yunnan, it's only 6 litres per capita. In coastal cities the beer consumption is high due to stronger purchasing power and western influence. Northern China, by far, consumes the most beer with the northern cities of Beijing, Shenyang, Dalian and Harbin, drinking around half of the total beer consumed in China.

Being an active player in the premium sector, Carlsberg is also looking at the size of the premium sectors in the various regions. Market share in the premium beer sector is directly related to purchasing power. In Beijing, premium beer consumption is 2.1 percent, Shanghai 13.2 percent and in Shenzhen it is the highest. But compared with other places in the world, the consumption of premium beer in China is still low. South China is obviously very attractive, having 40 percent of the premium market; East China, 15 percent; North China and West China, both only 6 percent, which is consistent with the purchas-

ing power. So the premium market is East and South China. But by far the biggest part of the market is the mainstream market.

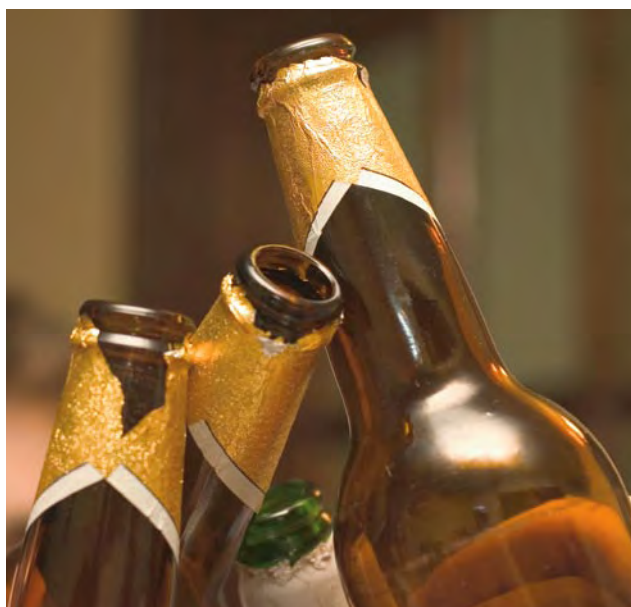
Due to fragmentation amongst the top ten brewery groups and the fact the top brewery only has 30 % of the total market share, there is no clear national brand in China. Even Tsingtao, a widely recognised beer outside of China, is not truly a national brand. It is said that Snow beer from Shenyang, and Yanjing from the north, are also two contenders for the title.

As for a future national brand, will the Chinese beer market be like the US market in ten years, where there is almost only Budweiser and Miller that dominate the whole market? My answer is that we believe local Chinese brands will continue to be strong. These are great brands and the Chinese consumers love them. Carlsberg has three of the six most famous beer brands in China, with which we believe we can maintain a strong position against the local brands, using our experience from Europe as a guide. In Europe, even though there are no trade barriers and beer can freely float across borders, the beer markets are completely local. Fundamentally the beer business is a local business. There is nothing indicating that the Chinese market would be different.

But of course we are paying close attention to our competitors. Snow wants to be national, Kirin wants to be national, and so do Tsingtao and

Yanjing. Carlsberg would also like to expand out of the province level to regional level, but for the time being we are happy with the current situation.

The local companies we have acquired have different working styles from ours. But doing things differently doesn't mean it is wrong; it can actually be better. Not all of our formulas work in China and we've learned a lot about China from our local partners and our local management team. On



the other hand, they have also learned a lot from us because we have a lot of experience in Europe and some of the practices are universally applicable. It creates an interesting dynamic when you are transferring know-how both ways. Of course there is always room for improvement and that is a good thing.

Budweiser is the biggest competitor to Carlsberg in the premium segment. The premium segment is very small and very competitive. We have not yet considered taking the Carlsberg brand into our portfolio in western

China because of the difference in promoting a premium brand and a local brand. We want the local sales teams to be more familiar with our working style before we integrate Carlsberg into local operations. But the combination of premium brand and local brand can surely be a winning strategy.

We came to realise that the Chinese consumers are not yet ready for the full flavoured, more bitter beer like Carlsberg Green Label. The Chinese

consumers want something more like Budweiser, which can partly explain Budweiser's success in China. So we launched Carlsberg Chill. When you have two brands with the same name, how do you position them against each other without confusing the consumer? This is quite a challenge and is partly why many companies are reluctant to do line extensions. They are afraid that consumers will get confused. We solved this problem by positioning them quite differently. Green

Label is a bit more serious, authentic tasting beer. Chill is the smaller brother of Green Label and is more for young, fun loving people. Our advertising reflects this point of view. One interesting fact is that the launch of Chill has actually also increased the sales of Green Label, something we had not predicted. **TheLINK**

Transcribed by Lene M. Holsen, MBA06 exchange student

The author is Senior Vice President, Carlsberg Breweries.

The article is based on Mr. Jesper B. Madsen's speech delivered at CEIBS Executive Forum on Oct. 23, presided by Prof. Per V. Jenster.

The Chinese Automotive Industry: Feasible and Sustainable Development?

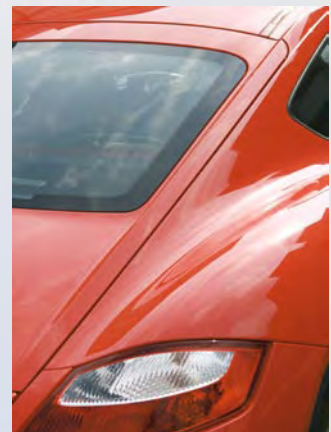
The Fourth Annual China Automotive Industry Forum successfully concluded on Oct. 31, 2006 on the Shanghai campus of the China Europe International Business School (CEIBS). Established as one of the premier events to gain new insights into China's evolving automotive industry, this year's forum was attended by more than 250 government officials, business leaders and senior executives from the automotive industry, and attracted more than 50 members of the local and international media.



中欧国际工商学院

2006第四届 中国汽车产业 高峰论坛

The CEIBS 4th Annual China
Automotive Industry Forum





Opened with a warm welcome speech from the Executive President of CEIBS, Professor Pedro Nueno, this year's forum explored the question, "China's Automotive Industry: Feasible and Sustainable Development?" Automotive industry experts such as Mr. Chen Qingtai, Research Fellow with the Development Research Centre of the State Council of the PRC, Dr. Sergio Marchionne, President of ACEA and CEO of Fiat, Mr. Xu Heyi, Chairman of Beijing Automotive Industry Holding Co., Ltd., and others gathered together to share their views on many important issues, including cooperation and consolidation, expansion of the automotive component industry, and development of environmental regulations.

Speaking on the future of the structure of China's automotive industry Mr. Zhang Xiaoyu, Chairman of the Society of Automotive Engineers of China, disclosed that the production and sales of domestic automobiles in the first part of this year had increased by 28%, and it is expected that this year's production will reach 7 million. He indicated that, although the current Chinese au-

tomobile industry is functioning well, it will be facing difficulties in certain areas. Not surprisingly, over the last decade China's automobile industry has become a backbone industry in the Chinese economy and a very important part in the world market.

The automotive component industry continues to grow and, as Mr. Shen Ningwu, Deputy Secretary General of China Association of Automobile Manufacturers, pointed out, in 2005 the domestic automotive component industry realised a gross value of RMB383.8 billion, accounting for 35% of the automobile industry's total output. In addition, automotive component exports in the past five years have also grown rapidly, with the 2005 gross exports totalling US\$8.5 billion. Referring to the present development of the domestic automotive component industry, Mr. Shen said that while China has basically formed a complete system for the domestic automobile, it still lacks the core technology.

Regarding energy consumption and the environment, Dr. Joachim Leluschko, Head of the Business Unit High Performance Polymers of

Degussa AG, stated that cars being produced today are mostly (50%) made of steel and iron. The additional use of polymers in the future has the potential to greatly reduce the weight of automobiles, thereby reducing the energy used.

CEIBS has successfully conducted the "China Automotive Industry Forum" for four consecutive years, attracting the most outstanding scholars, entrepreneurs and government officials. Professor Zhang Weijiong, Vice President & Co-Dean of CEIBS, stated: "We are delighted to bring together leading policy makers and stakeholders from government and industry for the forum. CEIBS, as a neutral academic institution, will continue to play an important role to help address issues faced by the country's other important growing industries in the future by organising relative industry forums". Based on the success of the annual auto and health care forums hosted by the School in recent years, according to Dr. Snow Zhou, Director of Marketing and Communications, CEIBS will host a "Financial Industry Forum" in the near future, utilizing the School's superior resources in economics and finance. **TheLINK**

Policy: Boundary of Sustainable Development

By Chen Qingtai



China needs to formulate mid- and long-term strategies regarding energy consumption, environmental protection, and policy environment for the sustainable development of the automobile industry. Such strategies should include objectives for energy and environment policies, choice of technology path, and complementary measures and incentives to lead the resident consumption and R&D and investment of the energy sector and automobile manufacturers. Without a systematic policy framework and a coordinated effort by the government, neither manufacturers nor consumers will necessarily follow the line of environmental protection and energy saving.

The production and consumption of automobiles have strong externalities. The voluntary actions of manufacturers and consumers alone can neither ensure the sustainable growth of the industry nor guarantee the formation of a wholesome automotive society for the benefit of social progress. Therefore, it is necessary for the government to regulate and guide the industry through a combination of regulatory means (i.e. legislation), technological means (i.e. obligatory standards), and economic means (i.e. fiscal measures and taxation). However, the government interference in the industry should stay on the level of policy making and focus on externalities and sustainable factors involving public interest and resource environment.

The realization of sustainable development of an automotive society depends on two important aspects: market research and automobile-related policies. The market determines the room for growth, while the policies set the boundary for sustainable development.

During the rapid growth of automobile investment, the government has focused more on the supply side, such as the control and approval of

investment projects, than on the complicated social problems. There lacks in-depth research on strategies for sustainable transportation, energy and environment.

At a last year's meeting Premier Wen Jiabao pointed out that any unreasonable restrictions or limitations placed on low-fuel-consumption, small-engine and low-emission vehicles must be removed. This put the issue of how to guide the automotive consumption on the top of the policy agenda. In fact, manufacturers are sensitive to the consumer propensity and will respond promptly. In this sense, the consumer propensity is like a "cow nose"; it is not difficult for the government to materialize its policy objective as long as it catches the "cow nose" with policy tools.

In March this year, the 11th Five-Year Plan was adopted at the National People's Congress, which defines energy saving as a fundamental national policy, calling for efforts to reduce the pollution at its very sources and to protect the ecological system through the production and use of energy-saving and environment-friendly vehicles. The Outline requires a significant decrease of energy consumption per capita by 20% within the next five years, demonstrating the determination of the Chinese government to promote

the sustainable energy strategy. To this end, the Outline proposes the adoption of new pricing and taxation policies in favor of energy saving. All these ideas of sustainable development can only work through a series of governmental policies. What matters is to formulate mid- and long-term strategies regarding energy consumption, environmental protection, and policy environment for sustainable development, including objectives for energy and environment policies, choice of technology path, complementary measures and incentives, to lead the resident consumption and R&D and investment of the energy sector and automobile manufacturers. Without a systematic policy framework and a coordinated effort by the government, neither manufacturers nor consumers will necessarily follow the line of environmental protection and energy saving.

For example, the government should develop a well-defined energy strategy to encourage energy saving through the use of clean and alternative energy; implement new automobile consumption policies for sustainable development, including policies on fuel cleaning, oil pricing, and fuel taxation to encourage the purchase and use of energy-saving and environment-friendly vehicles; and create an effective regulatory system through more rigorous regulations on pollution emission. Oil



is a non-renewable resource; it will be used up some day. However, it does not necessarily mean the end of energy, or the end of the automotive society. The sharp rise of oil price in the recent years signals the end of the era of cheap oil. Nevertheless, soaring oil price offers an opportunity for development of alternative energies and energy-saving technologies, where major breakthrough has been and will be seen.

As a latecomer of automotive consumption and production, China is facing more challenges than the developed countries. However, if we can leverage our “second mover advantage”, there will be great potential in energy saving and environmental protection technologies, and ample room for the choice of technology path. A variety of alternative energy is available, including hybrid fuel, natural gas, electricity and hydrogen. The same is true with powertrain technology; we have access to a number of energy-saving technologies, including hybrid powertrain, electricity-driven and fuel battery. However, the application of any of these technologies

is a system project, requiring a qualified and stable fuel supply chain, an extensive infrastructure and a set of corresponding policies. The government can adopt an inclusive attitude during the experimental stage to test all possibilities, but needs to make a choice during the application stage to adapt to China’s realities. For example, Europe has adopted different powertrain technology from that of Japan, Brazil, and the United States. Indeed, each government will develop different fuel and economic policies to materialize their policy objective.

If the central theme of China’s automotive industry was the fast expansion of production facilities and the market during the 10th Five-Year Plan, then the focus of the 11th Five-Year Plan will be shifted to such external factors as energy, environment and safety that determine the sustainable growth of the industry. Accordingly, the focus of governmental policies should be shifted from the management of production side to the motivation of consumption side, and from

leading investment and scale growth to promoting the harmony between the development of automotive society and environmental protection. The adjustment of these policies will produce an impact on consumer propensity; however, there are still uncertainties with the timing, force and contents of policies. In this sense, China is still an immature market. In the absence of policies or certainty, the automotive consumption in China shows a random pattern. Manufacturers need to closely follow consumer propensity on one hand and to keep updated with the government’s policy direction on the other hand so that they will have the capability to develop technologies and products necessary for the sustainable growth of the automobile industry. **TheLINK**

The author is the Research Fellow with the Development Research Centre of the State Council of PRC.

The article is based on the speech of Mr. Chen Qingtai on the CEIBS 4th Annual China Automotive Industry Forum, originally in Chinese and translated by Cherry Zhong and Snow Zhou.

China's Role in the Global Automotive Industry

By Sergio Marchionne



No other developing market has China's growth potential. The recent figures from the *Economists* illustrate this quite clearly. China's industrial production is up 15.7% on last year with foreign reserves standing nearly at a trillion US dollars. And no other market offers as many opportunities and challenges to the global automotive industry. This year total light vehicles sales in China are expected to hit the new water mark of 6 million vehicles and within this sales of passenger cars have grown from 1.3 million in 2002 to an expected 3.5 million by the end of 2006, a rise of 25% on last year. Chinese commercial vehicle market is growing quite quickly, with sales of roughly 200,000 heavy trucks in 2005 and a substantial increase expected this year.

And we at Fiat are preparing ourselves for this increase. NAVECO, the commercial vehicle arm of Fiat group recently signed joint venture agreements within our group and SAIC, which will see our presence expand dramatically in the Chinese market for light, medium, and heavy commercial vehicles. Additionally, we have signed a memorandum of understanding with SAIC for the production in China of three ranges of our diesel engines for commercial vehicle installation. But NAVECO's or indeed Fiat's presence here is not of recent origins. NAVECO started activities here in China in the mid 1980's with the local manufacturer of the Daily vehicle through a joint venture company. NAVECO was partnered in Nanjing. Today NAVECO produces 200,000 vehicles a year and the Daily success here shows no signs of slowing. Our group in China now comprises some 18 companies employing 8,000

people generating an annual turnover of roughly a billion US dollars. Virtually every global manufacturer has now established a presence in China via one or more joint ventures.

And Chinese vehicle manufacturers are preparing to become increasingly active in foreign markets including the European Union. In fact at this year's major European car shows, Chinese brands have now made their debut. And what I find especially illustrative for many challenges and opportunities ahead is the strong focus that is now being given to innovative technologies by Chinese vehicle manufacturers and suppliers. This focus seems to be both encouraged and reflected by a growing and demanding Chinese customer base for cars. Fiat's experience in this area is exemplary, and the cars that we initially started producing here in China were soon seen by consumers to be too basic and we have reacted in last month with the launch of the Fiat Perla designed and developed in China for the ever more demanding requirements of the local market. But this is just a first step of our new strategy for the Fiat car brand in China and in a short time we will expand our offering to provide a complete range of models in order to satisfy the changing demands of the market. This of course without diluting the core values of the Fiat brand which are style, practicality and value for money. At the other end of the spectrum, our super car brands Maseratti and Ferrari are experiencing strong demand from Chinese enthusiasts indicating the rapid sophistication of this market.

Just last month the Chinese Ministry of Commerce stated that the country aims to increase exports of automobiles and auto components to 70 billion US dollars by the end of 2010. China's auto industry

currently exports to 207 countries and regions and in just 5 years from 2000 to 2005 averaged 40% export growth year on year. However to put this impressive growth into perspective China's market share in world automobile and auto component exports is less than 1 percent. As the example of the automotive sector shows China is developing comparative industries dealing with high technology products, embracing everything from consumer electronics to biology and chemicals. They are the foundations for increasing and sustaining the prosperity of the country and of its people.

China's key role in the world economy has been recognized through multilateral and bilateral agreements and cooperation with partners all over the world, but more importantly through China's WTO accession five years ago. Indicative of China's seriousness on the world stage is the implementation of most of its WTO accession commitments and some of them have been accomplished earlier than scheduled. However, further cooperation on this issue with the European Union member states, other main trading partners and business representatives remains absolutely essential. While China's WTO accession protocol has been a hugely important first step, it is hoped that this will lead to further steps toward free market reform, a more transparent corporate legislation and a subsequent implementation of these rules is an essential foundation for cementing long term relationships. I must stress though, the membership in the WTO has improved the business climate in China through greater predictability stability and transparency.

At the 9th EU China summit in Helsinki, Chinese and European leaders agreed on the conditions of a new framework partnership agreement. This will replace the Trade and Economic

Cooperation Agreement in place since 1985 and the European car industry welcomes these positive developments. They are to the benefit of Chinese economic growth and exports and to the benefit of the activities for the European car manufacturers. It goes without saying that China is an important market for Europe. Our region is China's third largest trading partner after Japan and the US and we believe we do have a lot to offer too, regarding sustainable mobility, safety, and environmental standards and technology, as in many of these areas Europe is the world leader.

Transformation is equally important where market forces are concerned. The enhancement of competition forces will help to ensure that the establishment of a fully functioning market economy in China does happen. This will foster China's economic model and China's position on the global stage. From our European and international experience we know that enabling sound competition is crucial for economic development. And crucial for achieving these circumstances is the existence of a level playing field, in other words, the full implementation of fair economic and trade rules. We see China having become the global force that it today now faces the challenging responsibility that comes with its prime position on the international stage. China is in our view very much an example for other emerging countries and they expect leadership. I strongly believe that China could further strengthen a multilateral trading system through a strong engagement in the WTO negotiation process and subsequent market liberalisation. China's engagement is key to supporting the further opening of markets and in applying trade and investment rules worldwide.

From the day to day business

operations of companies in a global world, it goes without saying that the regulatory is of essential importance. China has been enormously successful in attracting foreign direct investment but we are convinced there is potential for more within a progressively predictable and open investment regime. And the European automotive industry welcomes China's commitment to effectively enforce the protection of intellectual property rights as confirmed recently by your prime minister at the Helsinki summit. We know that Chinese companies do increasingly express a demand for effective protection of intellectual property as they move up the technology ladder. In my view, industry cannot often enough stress the worldwide need for internationally compatible technical regulation and standards. Internationally compatible standards for safety, for environment, for accounting are key to the automotive industry, an industry which is global and has a clear interest in global standards. Given the huge financial and human resources devoted each year in order to meet the myriad of national and regional requirements, consensus would at the very least reduce the squandering of resources. We are therefore encouraged to see that active cooperation is now underway between ACEA and Chinese lawmakers.

As a result of this explosive growth and rapid change, the Chinese auto industry is accelerating its attempts to catch up with European, American, and Japanese automotive environmental, and safety standards. The benefits of partnership however go far beyond any one country's borders, for example oil consumption and emissions are global concerns. Now that China is becoming a major oil importer, the world oil market faces additional strain and the develop-

ment of vehicle efficiency standards would mean less oil usage for China, thus reducing the strain on the global oil market and obviously an improvement on China's greenhouse gas emissions.

ACEA is an overseas member of the Chinese national automotive standardisation technical committee. This committee recently decided to review and upgrade technical standards for commercial vehicles. Furthermore there is substantial cooperation agreement between the China Automotive Technical and Research Centre in Tianjin and ACEA. Needless to say we likewise support the ongoing efforts by the European Union and China to increase regulatory cooperation both bilateral and within the context of the relevant global reforms. I would also stress the utmost importance of China signing the UNECE agreement in 1958 and taking an active role in the work of the WP29 in Geneva.

So to summarize our views, it is fair to believe that China is very much on the way to ensure the sustainability of economic growth. Essential to the success of this process and in addition to the current export oriented growth is the strengthening of China's domestic market of more than a billion consumers. And within this process European car manufacturers are committed to make the contribution. We advocate an operating environment that is as business friendly as possible for both China and the European Union and we're looking forward to not only seeing it happen, but of being an integral part of it. [TheLINK](#)

The author is President of ACEA and CEO of Fiat S.p.A.

The article is based on the speech of Mr. Sergio Marchionne on the CEIBS 4th Annual China Automotive Industry Forum, transcribed by Mark Reed, CEIBS MBA06 student.

Consolidation in China's Automotive Industry

By Xu Heyi

China's automobile industry is located in the very centre of the world's emerging economic zone. In its ambitious endeavour to become the fourth global centre after the United States, Japan and the Western Europe, it needs to participate actively in the globalization process, and create a few world-class automobile manufacturers with their own competitive edges. Among other possible paths, "consolidation" is a viable option. To realize expansion of industrial scale and to adjust industrial structure, it is important to establish an automobile industrial economic zone and to concentrate the industry.



ADVANTAGES AND CHALLENGES OF CHINA'S AUTO INDUSTRY

China has set an ambitious goal for its automobile industry: it will develop two or three large auto enterprise groups who can compete with the global giants in scale and strength such that the existing layout of 6+3 will be augmented by these Chinese automobile giants. In 20 years, China will be likely to emerge as a new global centre of auto industry after the United States, Japan and the Western Europe. What makes a global automobile industrial centre? There are four qualities involved: the first is the size; the second is the synchronized growth of the auto industry with the development of raw materials and components industries; the third is the capacity to satisfy the global demand for products, technology and services; and the fourth is R&D abilities.

Against these requirements, China has five favourable conditions. The first is a good geographic location - China sits in the East Asia and the centre of a delta area consisting of many developing countries. This area has a population over half of the world, and in the next few decades it will remain the most dynamic region of the world economy. Second, China's economy maintains a great momentum, and its total size will be doubled over 2000 in 2020. By then, the annual vehicle demand in China will exceed 20 million, making China the world's largest emerging auto market. Third, China will maintain its comparative advantage in labour resource for a long period. Fourth, China has a more balanced and comprehensive industrial system than many other developing countries. Last but not the least, China's automobile industry has a solid foundation.

To conclude, China is facing more opportunities than any other developing



economy. However, we need to bear in mind that, despite the huge output, China's auto industry still has structural problems. For example, joint-venture car manufacturers dominated by the multinationals take almost 80% of the domestic market share, yet their export is merely 6% of their sales volume. In most cases, these enterprises still rely on their foreign partners for manufacturing and assembling technologies. In the area of key components and assembling work, there is obviously a higher proportion of foreign-investment. Meanwhile, the growth of China's auto industry is challenged by a whole array of issues like energy and environment. Therefore, it is a must for China's auto industry to be consolidated on the current basis in order to become a new global centre.

STRATEGIES FOR CONSOLIDATION

“Go Global”. Since we aim to become a new global centre of auto industry by cooperating with multinationals, there is no other choice but to “go global” and to cooperate with international capital. Apart from inviting foreign investment into China, we Chinese manufacturers

need to go outside as well. The globalization requires that we create favourable conditions to absorb as much capital, technology and managerial experience as possible from multinationals by means of international cooperation. For China to emerge as a new world centre of auto industry, it is necessary to allow foreign manufacturers to come in. In theory, industrial transfer is a natural law of economic development throughout the world and a must for multinationals. Joint venture is a way to combine the capital and advantages of the partners to create a synergy. The problem with China is that the foreign shareholders are complaining about excessive interference from their Chinese partners, which prevents synergy from arising, while the Chinese partners are concerned that their legal interests are not protected. These complaints and concerns can be solved through communication. It is a crucial understanding that forming joint-ventures is not a transient measure for China; it is a long-term strategic need. Joint-venture should be taken as an important business model for China's auto industry and as a major way to realize industrial globalization. It provides a

guarantee for China to become a new global centre of auto industry.

Create core enterprises. China has over 20 car manufacturers and most of them are joint-ventures. It can be expected that, by the end of the 11th Five-Year Plan or by the year 2010, some will grow and some will disappear as a result of fierce global competition. By then, Chinese giants will emerge with an annual output of 1 million, or 2 million, or even 3 million vehicles. If this comes true, China will have world-class auto enterprises that can compete with multinationals in both output and in scale.

Core enterprises refer to car manufacturers with a variety of product lines and an array of new models each year. Obviously, the R&D of multinationals cannot satisfy all the overseas demand, which provides for local manufacturers an opportunity to develop their own R&D capability. Local companies are not likely to compete with international players in technological competence for fairly a long time, but they better understand the market need and form their own competitive edges. Additionally, core enterprises should have a huge size that allows them to lower the cost and to enhance the quality. They develop brand strength in international markets by building overseas facilities and by large exports. They cannot be any of the existing auto groups, but rather their subordinate manufacturers with independent legal person status. Without core enterprises, Chinese auto groups will find it hard to survive in future global competition. Therefore, the creation of core enterprises is of critical significance for China's auto industry.

Leverage our comparative advantages in an open market. From the perspective of competitive strategies of the auto industry, China enjoys

two comparative advantages: cost and quality. Thanks to the open policy, almost all the international players of whole-vehicle and key components have entered China. Hence, China has become a stage of global competition and also a learning platform, from which China's auto industry will greatly benefit.

THREE PATHS OF CONSOLIDATION

Create core enterprises, develop core competence and establish new alliances between core enterprises and multinationals. A good example is the alliance between Renault and Nissan, which makes Nissan their joint-venture. Such an alliance is called strategic alliance. Although China doesn't have an auto manufacturer as large as Nissan and cannot form an alliance of the same scale, it has a huge potential market, a booming economy, abundant labour resources and an open policy environment. These intangible resources will promote the rapid growth of core enterprises and allow them to establish new types of joint-ventures with multinationals. .

Develop strategic alliance between domestic auto manufacturers.

It is a natural choice for China's auto industry to develop new strategic alliance. First, the multinationals have occupied the Chinese market and formed various strategic alliances through joint-venture and technology transfer, forcing Chinese partners to fight for new models and product variety in partnership, which further weakens and isolates Chinese auto manufacturers. Second, the new national policy encourages the creation of conglomerates and strategic alliances to increase economy of scale and industrial concentration. Third,

the reform of the state-owned assets management system has broken the barriers between different industries. The fundamental framework for strategic alliance should take products as the theme, capitals and contracts as the bond, and economy of scale as the goal, allowing genuine resource sharing in R&D, components procurement, manufacturing technologies and sales network.

Establish an auto industrial economic zone. China has 31 provinces and 27 whole-vehicle auto manufacturers; in contrast, the United States has 51 states but only 20 auto assembling plants. Obviously, the U.S. auto industry has formed a hub while China's auto industry lacks such a centre. If China wants to become a new centre of the world's auto industry, it has to change the existing structure and geographic layout to allow one region to increase its annual auto output to over 10 million vehicles. The establishment of an auto industrial economic has four goals: to become the biggest manufacturing base, the largest export base, the centre of auto financing and trading, and the centre of auto technologies and R&D in a long run.

To conclude, the layout of China's auto industry will look like this: the core enterprises are the points, the strategic alliances are the lines, and the industrial economic zones are the planes; they together constitute a promising picture of a new global centre of auto industry. **TheLINK**

The author is Chairman of Beijing Auto Industry Holding Co., Ltd.

The article is based on the speech of Mr. Xu Heyi on the CEIBS 4th Annual China Automotive Industry Forum, originally in Chinese and translated by Cherry Zhong and Snow Zhou.

The Future of Automotive Industry: Clean Energy Vehicles?

By Wan Gang

Where will be the breakthrough in energy bottleneck for the sustainable development of China's automotive industry? The answer can be hybrid-electric vehicles and new energy vehicles. In the near future, we might be able to drive our cars without refilling the fuel; what we need is just to recharge the power. The question is: where is the environment-friendly and sustainable clean energy from and what is its prospect?



HYBRID-ELECTRIC VEHICLES AND NEW ENERGY VEHICLES IN CHINA

If the traditional mode of energy consumption continues at an annual increase of 5%, China will be facing a serious energy shortage and have to import 250 million tons of petrol by the year 2020. Yet, our goal is to save 100 million tons of petrol by the time, which means we will have only 150 million tons for use before 2020. But how does this relate

to vehicle quantity in China? According to a recent study by China Academy of Engineering, there will be three possibilities for China's automotive sector, given the maximum supply of 150 million tons of petrol in 2020. The first is to retain the traditional gas engine technology with some improvements, and the maximum number of vehicles the petrol can supply is 80 million. But considering the current statistics of 35 million vehicles already in China, this number will fall

short of the actual demand of consumers and manufacturers. The second option is to develop the gasoline substitutes as a supplement to the first option, such as gas and coal-base fuels, which can meet the fuel need of 100 million vehicles. Yet it is still a short-term measure, for the environment will not afford it in the long run. The last choice is to develop energy-saving hybrid vehicles and new energy vehicles, such as hydrogen and electric vehicles, to complement the two measures previously listed. And only by this means can we afford a total of 130 million vehicles demanded by China's annual growth rate of 7%-8%.

It is widely acknowledged that the automotive industry is critical for China's economic development. A pressing issue is what kind of vehicles we should develop to comply with the national energy conservation goal and our expectation for a better environment. To this end, the Ministry of Science and Technology launched two key projects during the 10th Five-Year Plan period. One is electric vehicles and the other is clean energy vehicles. The main issue in developing clean energy vehicles is to find suitable gas substitutes. During the years between 1998 and 2005, much of our R&D work had been focusing on the development

of LPG (Liquefied Petroleum Gas) cars and CNC (Compressed Natural Gas) buses. The project of developing electric vehicles was launched in 2001, which includes the development of pure electric vehicles, hybrid-electric vehicles and fuel-cell vehicles. Testing was organised for final approval at the end of the 10th Five-Year Plan. The result was that a dozen of domestic manufacturers had successfully developed their own products, including FAW, Dong Feng Motor, Chang An and Chery. Now we have a number of products in fuel-cell buses, fuel-cell cars, and hybrid-electric cars and buses. The endeavours to promote LPG vehicles by the government started even earlier. Currently, there are 3,000 LPG buses in Beijing and over 30,000 LPG cars in Shanghai. Throughout China, there are altogether 300,000 urban buses and taxis using alternative fuel in lieu of three million tons of gasoline. At the same time, R&D centres of key components are also established over the country.

A NEW R&D MODEL COMBINING FORCES OF ENTERPRISES, UNIVERSITIES, AND RESEARCH INSTITUTES

Due to the limited size of domestic manufacturers, we choose an R&D model that combines the forces of enterprises, universities and research institutes. Take for instance the fuel-cell vehicles in Shanghai. They were developed by the driving system platform of Shanghai Fuel Cell Vehicle Powertrain System Inc., jointly funded by Tongji University and SAIC Motor in cooperation with a few other R&D teams with expertise in components development. This powertrain platform serves as a support base for developing fuel-cell vehicles by various manufacturers. The best illustration is Shanghai Volkswagen's Santana 3000 and Chery's Oriental Son, both of which were developed simultaneously on this

platform. The new R&D approach that leverages the comparative advantages of enterprises, universities and research institutes can be applied nationwide.

WHERE IS THE NEW ENERGY FROM?

The first practical question is where the new energy is from or where we can get sufficient hydrogen? In fact, hydrogen is only an industrial by-product. When the coal is transformed into coke, coke-oven gas will be released which contains 55% hydrogen. If this part of hydrogen is purified and collected, we will be able to produce energy as many as over 34,000 tons in Shanghai every year. The hydrogen-powered vehicle needs 1-kilogram hydrogen for every 100 kilometres, which costs RMB35 yuan. But the oil-powered vehicle like Santana 3000 would need 11-litre oil for every 100 kilometres, costing RMB55 yuan at the rate of RMB5/litre. The first hydrogen station was started in Shanghai before the National Day and is expect to complete by the end of the year.

The government should promote different vehicles in different cities to accommodate different needs. Hybrid-electric, fuel-cell and pure-electric vehicles are all possible options to replace the traditional gas engine vehicles. The development of China's automotive industry will have to follow the clean energy path for the sake of environmental protection.

In the 11th Five-Year Plan, a new project on energy saving and new energy vehicles was approved, encouraging technology integration and demonstration operation for fuel-cell battery. Breakthrough is expected to be made in the industrialization of hybrid-electric vehicles, and electric-fuel vehicles will be further promoted through the spread of

core technology. To achieve these goals, universities, enterprises and research institutes should join hands in R&D to develop key technologies for various whole-vehicle manufacturers, and at the same time industrial bases and key component production facilities should be created. Different components can be integrated on the powertrain technology platform to support various R&D efforts. The second question that should be asked is the quality of China's proprietary fuel-cell vehicles. It is hard to judge at this stage when they have not been put in the market. However, there is a large international contest for all clean energy vehicles held in Paris this year. All contestants were rigorously tested in 7 items. Under the same operation conditions, the Chinese vehicles proved to have the cleanest energy, but performed less well in braking and acceleration due to the weight of the vehicles. All contestant vehicles were graded by A, B, C, and D. Our vehicles got 4 As, 1 B, and 2Cs, nearly playing even with Benz which got 4As and 3Cs. The rest of the contestants didn't perform as well as we did.

It should not be a dream for every Chinese household to own a car, but clean energy and environmental protection seem to be the only way. Power train is only one facet, yet the most critical one, for the sustainability of China's automobile industry. It is the first important step to solve the energy and environment problems. On this basis, we should continue to promote the industrialization through enhancing manufacturing technology and vehicle design to meet the diversified needs of consumers. **TheLINK**

The author is President of Tongji University. The article is based on the speech of Mr. Wan Gang on the CEIBS 4th Annual China Automotive Industry Forum, originally in Chinese and translated by Cherry Zhong and Snow Zhou.

Together We Succeed: Effective Ways for Making Core Employees Grow with the Company

By Audrey Wu

While the rapid development of China's economy is a blessing for most enterprises, it also leads to war for talents. How to attract, develop and retain the core employees has become headache for many CEOs. Common instruments, such as decent salaries and benefits, promotion, and well-designed training programmes, seem not sufficient for talent retention. Lured by abundant job opportunities in the booming market, talented people seem always ready to jump to the next destination. Is there a way out for nowadays CEOs tortured by endless talent war? A panel comprised of eight business executives from CEIBS EMBA classes shared their experience and insights on the topic on Sep. 15 at a CEIBS EMBA forum.





Topic	How to attract, develop and retain core employees	
Moderator	Gary Liu	Assistant Director of the Case Development Centre, CEIBS

Speakers	Name	Title	Type of company	Topic
	Zhang Banghui	Managing Director of Ningbo Tech-Bank Co., Ltd.	Start-up	Where to find talents?
	Yang Chuanyua	GM of Shanghai Huaihai Commercial (Group) Co., Ltd.	State-owned	Three elements for core employees
	Wang Xingshan	VP of Inspur Group Co., Ltd.	IT	Cross-culture management
	Yu Hua	VP, HR & Admin of Adidas (China) Co., Ltd.	Foreign-owned	How to avoid paving way for others?
	Huang Jiwei	HR Director of Getronics Information Technology (Great China)	IT	“Marriage” depends on effective communication
	Yuan Lingzi	Director, Principle Consultant of Watson Wyatt Consultancy (Shanghai) Co. Ltd.	Consulting	“Using both hard and soft hands”
	Gu Qing	Associate Director of Shun Tak Holdings Ltd.	Foreign-owned	CEO’s role as a bridge
	Deng Hua	VP of Longcheer Technology (Shanghai) Co., Ltd.	IT	Regard talent as comrade-in-arms

TALENT MANAGEMENT: DIFFERENT COMPANY, SAME PROBLEM?

According to a survey on 200 fastest growing companies in the US several years ago, most CEOs were worried about two questions: how to find talents to serve their companies and how to retain them. Leo Tolstoy, the famous Russian writer, once said, “All happy families resemble one another, each unhappy family is unhappy in its own way.” Then, do different types of companies have different problems in people management?

Start-up: Easy to retain, hard to attract

For Zhang Banghui, who started his own company several years ago, the real challenge is not how to retain

talented people, but how to attract them. A set of incentives, such as nice salary, dividends, or even stocks to talents (the company is preparing for an IPO), work very well in retaining core employees. His company is composed of researchers who especially value processes and long-term goals, but such people are rare in today’s job market. So it has been difficult to find more talents who share the same values. With the expansion of the company, it is also facing the bottleneck of management capability. Since the company has already established eight subsidiaries, Mr. Zhang is now hungry for talents experienced in managing large corporations.

State-owned enterprises: problem of communication

Yang Chuanhua, the General Manager of Shanghai Huaihai Commercial, which owns many brands and outlets along the famous Huaihai Road, one of the major commercial streets in Shanghai, shared his three problems: the top management always complain for the lack of talented people, employees always regard themselves as talents without the recognition of the top management, and the company has failed to keep talents despite long-time investment in them. For example, Huaihai once hired a young man with overseas master’s degree, designed a way for him to the top management. Unexpectedly, he decided to resign without knowing that a higher position is waiting for him just two steps ahead, because he felt his growth was too slow and he needed more money to

realize his personal value. According to Mr. Yang, many core employees say goodbye to the company because they can not fully understand the company's strategy, culture and the CEO's thoughts, and purely pursue short-term benefits such as money, cars, apartment and quick promotion.

IT industry: challenge of cross-cultural management

"People are the most precious resource to the company" is best reflected in the talent-intensive software industry. The management of core employee in IT industry is full of challenge because of the strong character of IT people and the fierce competition for IT talents. Wang Xingshan used the phrase "the most uneasy" to describe the feature of talented people in this industry. According to his experience, when the company is small, career growth, benefits and interpersonal relationships are the three most important factors for retaining talented people: With the company's expansion and internationalisation, family feeling weakens while cultural difference emerges as a new challenge. His company's experiences shows that cultural difference exists not only in different countries, but also in different regions in the same country. Headquartered in Jinan city of Shangdong Province, the company benefited from the Shangdongness' preference for stability in its early years. Shangdongness do not change their jobs frequently. This is very important for a software company because the knowledge can be easily accumulated if employee turnover is low. As the company expanded to Shanghai and Guangdong, the characteristics of the local employees changed accordingly. The Shandong culture doesn't work for managing Shanghainess and Guangdongness.

When the company opened a subsidiary in Tokyo, it encountered more difficulties in managing local staff.

According to Mr. Wang, the head of a subsidiary must be a local person while the technical supports can be sent from the headquarters. Since it is so hard to manage cultural difference, it is more appropriate to emphasise developing internal talents than counting on professional managers from outside the company.

Multinationals: How to avoid paving way for others?

Yu Hua from Adidas pointed out that sports product and retailing are among industries most hungry for talents. It is hard to find experienced people who can start working immediately. If recruiting from other industries, the employees will need lots of training. The challenge in China's talent war is to find experienced people who fit into the company, recognise the values and culture of the company and have team working sprit. Another challenge is that the growth of the company is faster than that of core employees. Therefore, companies should find ways to develop its people fast enough to catch up with the growth pace of the company. Many companies may feel that they've employed so many people but capable people seem to be always only a few. Companies must realise that it takes time to train and develop core employees.

Another headache for multinationals is that the talented people they trained will soon become the targets of head hunters in the market. As these people often have high self-expectation, they are more likely to change their jobs if their current employers

could not offer something special to retain them.

BRAINSTORMING ON COUNTERMEASURES

Corporate culture and training & development are effective means for employee retention and the growth of companies, although different companies may face different challenges in retaining talents. The CEOs attending the forum shared their own experiences in addressing the problems mentioned above.

Yang's theory for core employee

Yang Chuanhua elaborated his theory for core employee management. In his opinion, core employees should have three elements: loyalty, value to the company, and high potential. Three elements will be useful for making core employees grow with the company: common incentives such as stocks, bonus and welfares, career opportunities including skill improvement and promotion, and necessary competition to keep core employees with a sense of crisis to make progress.

In addition, Mr. Yang also suggested three stages of the growth of core employees. In the first stage, a core employee will be gradually promoted to the top management. In the second stage, a core employee will leave the company for other opportunities if they feel unsatisfied with their current employers. A core employee will have to retire in the third stage which means the end of his/her career life cycle.

The "marriage" between the company and talents

Huang Jiwei from Getronics mentioned that though there are a variety of management tools available, few companies could use them effectively

due to the inappropriateness. Many implementers don't fully understand the function, performance, and usage of these tools, and use inappropriate tools in inappropriate time. Therefore, companies should not blindly believe in the effectiveness of various tools.

As to the case mentioned by Mr. Yang in failing to retain a talent, Ms. Huang described the relationship between the company and the young man as "marriage". Failure of a "marriage" could be caused by the lack of enough understanding before getting married, other after-marriage problems that make employees change their minds, or the appearance of a third party who lures the employees for another job. The HR structure of Huaihai seems to be pretty sound and mature. But why are there still conflicts between the top management and core employees? And why did the master change his mind? Ms. Huang suggested that it is true that environmental changes could be part of the reason, but the key lies in whether the company keeps emphasising and instilling corporate culture, and whether it has the right measures to test that the corporate culture has been effectively accepted by all employees. Lack of effective communication will often lead to "having different dreams in the same bed". There would be a different ending, should the company have told the leaving master earlier about his career plan.

According to Ms. Huang, HR should act as the "wife at work" or working partner for the CEO. However, many CEOs are usually too busy to communicate their thoughts with HR department effectively. It is not good for creating a culture of effective communication in the company.

Use both hard and soft hands

Yuan Lingzi from Watson Wyatt Consulting gave a prescription for companies troubled in "HR illness", i.e. "well aware of the reality and use both hard and soft hands".

One feature of the current Chinese talent market is the frequent flow of talented people. According to Watson Wyatt's survey, China's employee turnover rate has been the highest in Asia-Pacific region during the past three to four years. China's economic development has brought lots of opportunities not only for companies but for talents. Under such circumstance, it is no surprise that talents seem disloyal to their employers, which may be the major reason for all the problems in talent management.

Another feature is that demand for talents exceeds supply. China's current education system and environment are still unable to produce a large number of talents who meet the needs of corporations, not to mention experienced people who can start working without training. In general, the capabilities of Chinese talents are lower than those of the Indian, including language ability, working skills, etc. On the other hand, lack of transparency in talent market and asymmetric information make it harder for employers and employees to find the right target for "marriage".

When it comes to "people oriented", we should be aware of the gap between slogans and realities. Owing to the lack of clear messages from CEOs, HR department often find it difficult to set criteria for selection, retention and incentive of talents. Many CEOs are talking about the importance of people, but would spend millions of dollars in advertisements while refuse

to invest one million in HR project. For many Chinese companies, in fact, there is still a long way to go to reach the stage of being really "people oriented".

In the light of the reality of China's talent market, Ms. Yuan assumes that the right solution is to use "both hard and soft hands".

First, a company should establish a clear "employer brand". It is difficult for companies, especially small and medium-sized companies, to attract talents. Capital strength alone is not enough, since talents often consider multiple factors when they decide which company to join. Companies should establish "employer brand" and a good image in the job market just as what they do with their product brand.

Second, a clear talents identification system is indispensable. Some companies can't find the right talents because they don't have a clear definition of what kind of people they are looking for.

Third, use both hard and soft hands to maximise the value of talents. Hard hands include proper incentive system and favourable working environment. A well-designed incentive system will be very helpful for motivating and retaining talents. A healthy working environment includes not only sound benefits, but also well-established working procedures, which allow employees work more smoothly and flexibly and then obtain more sense of achievement. On the other hand, negative environmental factors such as bureaucracy and corporate politics, should be driven away. Soft hands refer to managerial abilities. Companies should invest more in training manag-



ers because many employees resigned due to the incompetence of their superiors. To sum up, a company should pay attention to hard hands--incentives and environment--and soft hands--managerial abilities.

Fourth, companies should, in the final sense, retain people with corporate values. In order to retain talents, most companies keep optimising their salary system again and again. However, according to Ms. Yuan's experience, what keeps people stay in the long run is corporate values. Given the fierce competition for talents in China, companies should not place a high expectation on talents retaining. A survey from Watson Wyatt shows that it is good enough for an employee to work for a company for three years. People who choose to stay may not be the best in terms of capacity but they recognise the corporate values and will grow with the company.

Last but not the least, developing people inside the company is more important than smart recruitments, given the shortage of experienced talents. After all, god helps those who help themselves. In fact, large corporations such as Motorola and HP all have long-term training programmes. Training means investment, which

might not bring revenues in short term but will surely benefit the company itself in the long run. Therefore, CEOs, who control resources, should pay more attention to the investment in HR, which is of great significance for breaking through the bottleneck of talent shortage.

CEO's role as a bridge

Gu Qing, leader of Shun Tak's China business, described the role of CEO in talent retaining in three phrases: serving as a link between the upper and the lower levels, horizontal integration and "pulling up seedlings to assist their growth".

The first phrase means that a CEO should convey and implement the decision from shareholder meeting and board of directors to subordinates, and "fight" against the shareholder meeting and board of directors on behalf of staff when necessary. Mr. Gu defines himself as a coach whose responsibility is to train his managers and establish a favourable environment for them. "Horizontal integration" refers to the coordination with headquarters and other departments/divisions and integrating various resources to facilitate employees' work. "Pulling up seedlings to assist their growth" means to think in others' shoes. Asking core employees to make decisions from the perspective of top management level will not only serve as a good oppor-

tunity to assess the core employees' potential but give them more psychological satisfaction and sense of being recognised.

Regard talent as comrade-in-arms

Deng Hua shared his experience from Longcheer, a high-tech company. The mission of the company is to become a respected company in the industry through ten to twenty years' efforts. In line with this mission, Longcheer regards core employees as comrades-in-arms fighting together and thus establishes strong cohesion in the company. Its staff work hard when the company is in good situation, and will not change their minds in difficult days. Mr. Deng agreed that corporate values are very important to retain talented people. When a person wants to start his own business, he should think over the mission of the company; when a person joins a company, he should find out the exact values of that company. Though there are many methods for talent management, it is the CEO who makes difference in HRM, because HR department is only an instrument. When recruiting, Longcheer puts great emphasis on the match of values between the company and the candidate. The company sends senior executives to EMBA programmes and has established comprehensive training system. **TheLINK**

The article, originally in Chinese, is translated by Wang Jiahui, Audrey Wu and Gary Liu.



Prof. Kwaku Atuahene-Gima: How I Get to Manage My Time for Research

By Audrey Wu

Prof. Kwaku Atuahene-Gima was recently appointed to the editorial board of the *Journal of Marketing*, the leading scholarly publication in the marketing field. He's been ranked among prolific researchers worldwide, while sitting on the editorial boards of four prestigious scholarly journals. How does he manage to use the limited time efficiently? Here, Prof. Atuahene-Gima shares his "secret" with *The Link* editor. "Interest", as he said, is what lies behind his research achievements, which sounds quite simple logic. And let's see how he turns this "interest" into research productivity.

Could you give a brief introduction of the *Journal of Marketing* and its editorial board?

The *Journal of Marketing* is the leading academic journal in marketing in the world. Articles qualified to be published in the journal need to have both theoretical and empirical contributions. The acceptance rate is

only about 10%. Most authoritative journals have the same acceptance rate. Members of the editorial board are sort of the gatekeepers for quality. They are the people required to look at the work of other academics to help the editor decide whether such work is something that makes a new and important contribution to knowledge in marketing, and thus worth publishing. The board is composed of academics from top universities with good theoretical and empirical knowledge and contributions in the field. To be the member of the board, you must firstly show your competence by publishing in the *Journal* consistently; and also publishing in other top tier academic journals. I have over the years published several articles reporting results of my research on innovation and new product development in China in this *Journal*, and in several top tier journals like the *Academy of Management Journal*, the *Strategic Management Journal*, the *Management Science and Organization Science*. Second, you have to review articles for the journal for a long time so that editors

can judge your quality as a reviewer. Before becoming a member of the board, I had been an ad hoc reviewer for the *Journal of Marketing* for may be five years.

You are a productive researcher. What is the drive behind this?

Smart and hard work; and an ability to ask creative theoretical and practical questions. However, the most important thing is interest. Everybody has some aim in his or her life. I don't want to get tons of money. What I want to do in my life is to make a significant contribution to marketing knowledge. If, after I am dead, people continue cite and use my work, ideas and research results for their own research – that to me is more satisfying. I will be dead but my tongue will never be rotten. That is what pushes me on. I like to ask interesting and important questions in the field and be recognized by my academic peers as making significant contributions to knowledge in the field. For example, I have won the best paper awards at the American Marketing Association Educators' Conference. I have been

invited by many universities and by the Academy of Management to present my ideas on “How to Publish in Top Tier Journals” to other academics. In a paper I published in the October 2005 issue of the *Journal of Marketing*, I used the data from Chinese companies to resolve a paradox in the management of product innovation that has been baffling marketing scholars for many years. A summary of this article was featured in the American Marketing Association “Marketing Thought Leaders Newsletter” April 2006. This newsletter publishes only *Insights from Leading Experts in Marketing Today* and features only “the cutting-edge issues and concepts in marketing today-and tomorrow.” When you think of important questions, theoretical or practical, you have the urge to solve them. When I have an interesting idea, I don’t want to lay it down. I have to work on it.

How long do you work every day?

Usually about 12 or so hours. I tend to start work early in the morning, because few people are around and it’s quiet. I can think very clearly during the time. Research demands significant concentration. Of course, I also have time to play, to enjoy my life and with my family. But it’s still hard and long work. Sometimes, when I go home, I still work, particularly when I have articles to review for journals like these on my table now.

Are you always such a hard-worker?

I’ve always been a hard-worker but perhaps more like a smart worker. Most of us have to work hard to get where we are. I just like to do things that I am interested in. I like to study, so I went to school and came here. I like academic work, so I do it. I like research and ask very interesting ques-



tions, so I enjoy it. China is an interesting environment to explore new theoretical and practical questions and to resolve some vexing issue in the marketing literature.

Time is limited. But you’ve already been on the editorial boards of 4 scholarly journals. What is your “secret” to use your time so efficiently?

People talk about time management. But I don’t think I have a schedule to manage my time. What I do is plan my works with deadlines. To me, one of the important things is that if you are able to meet deadlines, you get a lot of things done. When I get a research project, for example, I set a deadline for myself. Within this period of time, I try as much as possible to finish it.

I also have multiple projects going on at the same time. For example, for

this moment, I have some 12 research articles and projects underway. It’s very risky if you don’t have multiple projects, because some of the papers are going to be rejected. Maybe you are good at what you are doing, but that doesn’t mean that every one of them will be successful. So I try as much as possible to have co-authors, students and research assistants. That’s why I am able to be productive. To have multiple projects, you are also able to ask very creative and interesting questions that are important for academics and managers. Different projects have different questions, and different questions help and feed on each other – and with the interactions with my co-authors, students and assistants - I am able to always come up with very interesting and important contributions. But of course, you must manage this complexity. And I think I am pretty good at that. **TheLINK**



Professor Xu Xiaonian



Professor Lydia Price



Professor Arthur Yeung

2006 Teaching Excellence Award

The CEIBS 2006 Teaching Excellence Award was announced at the EMBA 2004 Graduation Ceremony on September 23. This year's three winners are Xu Xiaonian, Professor of Economics and Finance, Arthur Yeung, Professor of Management and Lydia Price, Professor of Marketing.

On behalf of the award winners, Prof. Yeung gave a short speech to the graduates to express his pride of being the teacher to the excellent group of students. He said: "To receive the degree of EMBA from CEIBS through two years' arduous study is worth boasting

about...It is known that teaching is a weighty task here. But your (students') diligent learning encourages me to be more diligent and earnest in preparing and teaching the course."

The announcement of the annual CEIBS Teaching Excellence Award is one of the most important occasions of the school. Since its launch in 2001, ten professors have received the award, including Prof. Wu Jinglian, Prof. Keith Goodall, Prof. Jiang Ping, Prof. Kalun Tse, Prof. Katherine Xin, Prof. Xu Dingbo, Prof. Ding Yuan, Prof. Xu Xiaonian, Prof. Lydia Price and Prof. Arthur Yeung. Among them, Prof. Wu Jinglian, Prof. Keith Goodall,

Prof. Kalun Tse, Prof. Xu Dingbo and Prof. Xu Xiaonian have all received the award for two consecutive years.

Since its establishment in 1994, CEIBS has been investing heavily in faculty development and has built a strong faculty team. Starting from a very small group of full time faculty, the number of full-time professors has now exceeded 30. CEIBS not only focuses on teaching, but also lays great importance on research and knowledge creation. Currently the school has 9 chairs and 9 research centres. The annual Teaching Excellence Award signals the school's efforts in providing the best management knowledge. [TheLINK](#)

SPOTLIGHTS

CEIBS LAUNCHES WEEK-LONG ONLINE PROGRAMME ON FT.COM

In partnership with the FT.com, CEIBS has recently developed an innovative online programme "Growing Business in China - New Opportunities". The week-long online programme was launched on the FT.com website on Monday Nov. 20th.

Throughout the week, CEIBS distinguished professors shared their knowledge with a worldwide online audience:

- * Professor Willem Burgers: "Market Development and Marketing in China"
- * Professor Arthur Yeung: "Talent Management in China - Challenges and Opportunities"
- * Professor Henri Claude de Bettignies: "Cross Cultural Awareness and Dilemmas for Doing Business in China"
- * Professor Juan Antonio Fernandez: "Leadership for Success in China"
- * Professor Xu Xiaonian: "Success and Risks of China's Economy" (online Q&A with FT.com audience)

Commenting on the launch of the programme, Dean and Vice President of CEIBS, Professor Rolf D. Cremer said, "CEIBS is one of just three business schools in the world and is the only business school in Asia to be invited by *FT* to develop this type of programme (the others are Columbia and LBS). It is a great honour for CEIBS."

To view the programme click:
www.ft.com/businesseducation/ceibs.

CEIBS EMBA RANKED GLOBAL TOP 50 FOR SIX CONSECUTIVE YEARS

The China Europe International Business School was listed No. 17 in the 2006 Global EMBA ranking by the London-

based *Financial Times*, released on October 23, 2006. The school's EMBA has been successfully ranked among global top 50 for six consecutive years, which certifies its consistent quality in providing the best management education in China and worldwide.

The rapid development of China's economy was clearly reflected in this year's *FT*EMBA ranking, with four out of the top 20 listed programmes located in the emerging country. "This is a clear indication that the overall quality of management education in China has risen to a new height", according to Prof. Pedro Nueno, Executive President of CEIBS.

According to this year's *FT* survey, CEIBS was listed No. 2 in Asia in Aims Achieved Rank, No. 1 in Asia in Salary Increase Rank. Among the four leagues of B-schools divided by the *FT*, CEIBS EMBA is in the second league which includes schools listed from No. 7 to No. 18.

CEIBS EMBA programme is the largest EMBA programme in the world with an annual admission of 630 students. Over the past 12 years, it has produced numerous business leaders, senior executives, senior government officials, entrepreneurs, etc., who have been playing important roles in boosting China's economic development.

CEIBS ALUMNUS SONG WENMING WINS THE CHAMPIONSHIP ON CCTV PROGRAM - "WIN IN CHINA"

The famous business program on CCTV economic channel "Win in China" closed its curtain on December 9, 2006. CEIBS

EMBA alumnus Mr. Song Wenming won the championship for the first season. As a result, he also won RMB10 million from venture capital to start up his own business.

In the last round of the game, the competition between Song and Mr. Zhou Yu who won the 2nd prize was very fierce. Mr. Liu Chuanzhi and Zhang Ruimin, assigned as the judges of the competition, both voted for Song without any hesitation due to his excellent performance. During the live show, Song talked about CEIBS and expressed his gratitude to the school for many times. CEIBS is also proud of Song.

Song Wenming comes from Hefei, Anhui province. He joined CEIBS EMBA program in 2003 and received his master degree in 2005. Presently he is a senior manager in a private company.

2007 "CEIBS EVENING" NEW YEAR CONCERT HELD IN BEIJING

The cheerful rhythm of "Fagor's Wedding Sinfonia" unveiled the curtain of the 2007 "CEIBS Evening" New Year Concert in the Music Hall of Zhongshan Park, Beijing, on December 9th, 2006.

Together with its alumni, customers, and other stakeholders, the school took the opportunity to welcome the arrival of the New Year and to celebrate the 20th Anniversary of the First CEMI (China-EC Management Institute, the predecessor of

NEWS BRIEFING

CEIBS) MBA Graduation. Renowned conductor Mr. Tan Lihua, famous pianist Mr. Kong Xiangdong, and the musicians from the Beijing Symphony Orchestra jointly presented a marvellous night of music to the audience.

Founded in 1984, CEMI was a pioneer in the business education in China and the cradle of the early MBAs of the country. The first batch of 35 MBA students of CEMI was graduated in 1986; since then they had been actively involved in the economic development of China.

As a leading international business school, CEIBS has successfully sponsored high-level concerts in the capital for consecutive 5 years since 2002, which displays the school's efforts to build a cultural environment. Such events also serve as an excellent platform for reunion and networking.

FORUMS

NYSE CEO VISITS CEIBS



On November 28, 2006, Mr. John A. Thain, Chief Executive Officer of NYSE Group Inc. visited the China Europe International Business School, where he delivered a speech to an audience of over 300 on the growth of the Chinese capital markets and the NYSE's leadership in the

consolidation and globalisation of stock exchanges. The speech was chaired by Professor Pedro Nueno, Executive President of CEIBS, followed by a Q&A session with the audience.

Mr. Thain's visit to China underlines China's growing importance in the global capital markets and as the source of stock exchange listings. The NYSE trades the shares of 31 companies from Greater China currently. Chinese private companies have been among the NYSE's hottest IPOs this year.

Professor Zhang Weijiong, Vice-President and Co-Dean of CEIBS said: "in addition to the SOEs already listed there, the private companies are starting to target the NYSE." Mindray Medical International Limited, a private company founded by CEIBS alumnus Mr. Xu Hang, was just listed on the NYSE a few weeks ago.

5TH ANNUAL MEETING OF THE ASIA-PACIFIC BUSINESS SCHOOL LIBRARIANS' GROUP HELD AT CEIBS

China Europe International Business School (CEIBS) held the 5th annual meeting of the Asia-Pacific Business School Librarians' Group (APBSLG) on the Shanghai Campus from September 19th to 22nd.

Fifteen library directors and business librarians from business schools or universities in Asia-Pacific attended the meeting. These schools included Nanyang Technological University, Singapore Management University, Singapore Institute of Management, National University of Singapore, Sasin Graduate School of Business Administration, Melbourne Business School, Macquarie University, Australian Graduate School of Management, Indian School of Business, INSEAD, KDI School of Public Policy and Management,

Copenhagen Business School of Business, Cheung Kong Graduate School of Business and China Europe International Business School.

The theme of this year's meeting was "Information Literacy and Lifelong Learning: Identifying and Meeting Needs in the Digital Environment". During the four-day meeting, members introduced the information literacy programs in their schools. They shared experiences for success as well as problems and challenges were faced. Information Literacy has become a very important concept especially in the business environment. In the ocean of information, getting the needed information in a timely manner required sophisticated, but not basic, search skills. In order to let the business students be aware of this, librarians should take a proactive route. It is librarians' responsibility to guide the students to be information literate and eliminate their information barrier for success.

PROGRAMMES

THE FOURTH AMP CLASS OPENS

On the afternoon of November 2, 2006, the Opening Ceremony of the fourth Advanced Management Programme (AMP) class was held on CEIBS Shanghai campus. Over 50 participants from more than 10 industries throughout China attended the ceremony. Most of them are senior executives from fast growing enterprises like those of the previous three AMP classes.

Based on CEIBS' meticulous scholarship, advantages in the combination of Chinese and Western style of teaching, and internationalized schooling concept, the AMP Programme has become one of the best choices for executives of China's fast growing enterprises to improve their general management capabilities. The pro-

gramme has very good reputation among its participants, which is reflected by the fact that most applicants choose CEIBS at the recommendation of previous participants. As the seats available for the programme is limited, some applicants who have passed interviews have to be scheduled for the fifth AMP Class in 2007. In addition, CEIBS rose to 35th from last year's 37th in the world-wide Executive Education open programme ranking released in this May by *Financial Times*. Up to now, CEIBS EDP programme (open programme) has been listed among global top 50 for 5 consecutive years.

The new open programmes launched this year have also been widely recognised by the business community and applicants have to wait for vacancies for almost all the open programmes.

Link of list of open programmes:

http://www.ceibs.edu/execed_c/programmes/open/index.shtml

EMBA CELEBRATES "THE 2ND EMBA FAMILY DAY"

The 2nd EMBA Family Day was held on the afternoon of November 18th, 2006 on CEIBS campus.

Allured by the rich and colorful activities sponsored by the school, more than 300 alumni and their family members came to celebrate the Family Day. Children were deeply indulged in various activities on campus, while the lecture on "How to Appreciate



Red Wine" aroused keen interest among some alumni. Atmosphere of merriness and peacefulness filled up every corner of the school, and everybody enjoyed the heart-felt pleasure of getting reunited at CEIBS.

Climax of the whole-day activity came when all families gave their artistic talent performance and participated in the childishly delightful "Joyful Jumping". Gradually the curtain of "Family Day" dropped, ending with a "Happy Birthday" song sang together by all the kids and adults for those little friends who happened to celebrate their birthdays. When bidding reluctant farewell to each other, both the classmates and their families expressed a high expectation on the reunion at the next 3rd Family Day.

CEIBS EMBA96 BEIJING CLASS HOLDS "OVER THE PAST DECADE" CLASS MEETING



On Oct. 14, 2006, CEIBS EMBA96 Beijing Class enjoyed an exciting reunion to celebrate their 10th anniversary of admission. The attendance rate at near 90% ensured the meeting an enthusiastic atmosphere.

Vice President and Co-dean Prof. Zhang Weijiong, attended the meeting on behalf of the school. Prof. Zhang introduced CEIBS' recent development and the construction of the Beijing campus, and affirmed the achievements made by the alumni. Mr. Jan Borjonjon, CEIBS Board Director, also deliv-

ered a warm speech. Beginning from Mr. Liu Deshu, President of Sinochem and the chairman of the Class Committee, the EMBA'96 participants in turn talked about their careers and lives over the past 10 years. The two-year spent at CEIBS is the most unforgettable, where they built up friendship, linking everyone closely from then.

A short meeting witnessed long-lasting and profound friendship. In the song of "Unforgettable Tonight", the classmates reluctantly bid farewell to one another and looked forward to another happy reunion in the future.

CEIBS ESTABLISHES NEW PARTNERSHIP WITH US UNIVERSITY

At end November, CEIBS MBA established a new exchange partnership with the Fletcher School of Law and Diplomacy at Tufts University, USA. From year 2007, two students from each institution may spend the fall semester/term of their second year at the other institution as full-time MBA/MALD students.

Founded in 1933, the Fletcher School has been committed to nurturing business leaders who can steer their firms in the constantly changing global market. As the oldest graduate school for international relations in the US, the Fletcher School ranked 4th by the Princeton Review in 2005 in Masters in International Affairs Programme.

Fletcher School's strengths in law and diplomacy combined with CEIBS MBA programme with China focus will supplement each other and undoubtedly enrich the international experience sharing and broaden the global view for students from both sides.

The university has been ranked 27th among all America's Best Colleges 2007 by U.S. News and World Report.

“You Are Never Too Old to Go Back to School”

Interview with Mr. Kuno Kohler, Regional President, North Asia, Ciba Specialty Chemicals

By Seáníe Comerford



Name: Kuno Kohler

Nationality: Swiss

Education: Certified Accountant (Switzerland), Masters Degree, University of Leeds, (UK)

Current Position: Regional President, Asia North, Ciba Specialty Chemicals

With its presence in China dating back to 1886, Ciba Specialty Chemicals established its first representative office in Shanghai in 1935. It has now developed a network composed of a holding company, 3 trading companies, 3 branch offices, as well as 12 Production Sites across China. In 2005 Ciba also launched a global R&D centre in Shanghai. In this interview, Mr. Kuno Kohler, regional President, North Asia of Ciba Specialty Chemicals, reflects on their challenges, achievements and what lies ahead for Ciba in China; he also shares his 21 years experience of working and living in Asia Pacific.

Ciba has a long history in China (dating back to 1886) currently operating 12 production sites, 3 trading companies and an R&D Centre. What is your ownership structure in China and what is your strategy behind this?

We are open to different possible ownership structures in China; fully owned WOFE's, majority JV's, 50/50 JV's and minority JV's. Generally, the preference is to have control ownership but we are also prepared to enter into joint-ventures if we find a dynamic but reliable local entrepreneur. So far we have had good experiences with partners from state-owned enterprises; new joint-ventures are also always considered as an alternative to fully owned companies on a case-by-case basis.

What are the main challenges emerging from the Ciba production sites? Any surprises?

We know that many local competitors in China are able to produce similar products for a fraction of the costs of our plants in Europe or North America. Over the years we have gained a lot of experience to reduce our capital investment in our plants in China through sourcing equipment locally and using local engineering services. However, we are not prepared to take any risks of bringing our investment costs to a level we often see with local private entrepreneurs outside of the major chemical industry parks, nor to jeopardize our stringent global safety and environmental standards.

In 2005, Ciba established an R&D site in Shanghai. What was the strategy behind this and how is it working?

The objective is to really bring R&D closer to the China market and in ef-

fect, allow us to develop products suitable for the domestic market with the ultimate intention of marketing them globally thereafter. We also realized that the need for technical services given by Mandarin-speaking technicians and scientists is becoming more important for our many local customers. Furthermore, the number of qualified chemists and chemical engineers in China is on the rise although we do need to further train them to operate in an international network of scientists. I believe we are seeing a new trend in R&D investments in China; even more so once the perception of inadequate IPR protection is altered.

What is your best advice for managing a JV in Asia and in China specifically?

Get to know the partner quite well before entering into a partnership, that's the first step. More often than not, it is helpful to first enter into a sourcing or tolling beforehand. Also, the strategic intention for both parties must be clear and very openly discussed before signing an agreement. This sounds obvious but in reality many joint-ventures are set-up all too prematurely and more driven by short-term business considerations. For a chemical company, it is in the interest of the partnership to clarify what (operational) standards need to be followed.

How is Ciba positioned to compete with local Chinese players in the specialty chemicals industry?

The key is innovation with a constant drive for new products, improvement of processes, the offering of competent technical services and the maintenance of a global brand. To differentiate purely on costs will be tough for a global company like us and we must therefore have a convincing value

proposition to our customers. Local companies, particularly the private enterprises, are growing rapidly every year, their flexibility and agility to adapt to changes are certainly impressive, their production costs are low, their expectations for profitability are more modest and often cash rather than EBIT-related. On the other hand, these companies still find it difficult to expand into regional or global markets because their business model is often opportunistic rather than sustainable, their brands are weak and their international distribution network insufficiently established.

How does Ciba attract management talent to an arguably "unsexy" industry?

In China, the chemical industry is still seen as a growth industry and an industry that will develop further, particularly the so called "downstream sector" which is closer to the end-users in the value chain. This segment of the chemical industry depends a lot on innovation and good marketing; all these disciplines attract young talents.

One of Ciba's HR values is to give your people "the chance to show initiative and take responsibility". How does this work in China compared with other countries in the region?

The workforce in China is on the average much younger than in most other Asian countries. These young people who have grown up during boom years of China are much more confident in their own abilities than elsewhere. They are used to competing in a competitive environment, be it in their formative years in school or in a tough market once they enter the workforce. They are eager to impress and advance in their careers even though they still

have relatively little experience. One thing I noticed which could be due to cultural reasons is that the responsibility part is still “delegated” upwards to their superior.

What was the driving force behind Ciba’s investment in developing a joint management development programme with CEIBS and INSEAD? Where was the biggest skill gap?

We need to groom more senior managers coming from Asia as our business exposure in this continent increases continuously. Close to 30% of our global business is now generated from Asia but Asian managers are still underrepresented in the senior management. We therefore decided on an initiative to accelerate the development of our Asian talent and set out to do this programme with the two of the most famous business schools in Asia, INSEAD in Singapore and CEIBS in Shanghai – the reason being to have a balanced exposure to the Northern and Southern hemispheres of the region. The biggest gap with our talent pool is the leadership skills to operate in a difficult cross-cultural environment in Asia-Pacific. We realize that their technical skills, result orientation and communication are excellent but that there is still room for improvement in strategic thinking and the all important management skill to develop people.

You have held Senior Executive positions in Asia since 1984. What motivated you to leave your native Switzerland back then?

I always wanted to live abroad and with my finance background, I had the opportunity to work in all sorts of industries (banking, trading, hotel,

light industry). I had been looking for a company with an international presence which would give me the opportunity to pursue a career outside of Switzerland. This is one of the main reasons why I joined Ciba-Geigy. I have never regretted this decision as the company gave me the opportunity to move around the continent for the last 20 years.



In your 21 years’ experience in Asia, where was the most challenging country for you to work and why?

The most challenging assignment is always the first one because no matter where this is, this is when you have to first integrate with the whole family into a new society and adjust to a new culture. Once one has successfully mastered this transition it becomes much easier each time. Now that our kids have left for college, I could imagine living and working in almost any country in Asia.

What or who influenced you most to go from a career in finance to a general management leadership role?

A financial education is always a very good base for a general management role because it teaches you the essentials to make sound economic decisions. I was never too keen to fur-

ther specialize in the finance field as I wanted to broaden my scope and when I was given relatively early in my career the opportunity to run a Group Company in Taiwan, I started to find it fulfilling to work with people from different backgrounds. As a non-chemist in a chemical company it is always a challenge to understand how the industry operates, life-long learning is therefore the only way to keep up with the ever changing business world.

What motivates you most about living and working in China now?

No doubt, China is presently the most dynamic market in the world. Despite the growth rates and the many challenges the country faces, I believe the opportunities still outweigh the challenges and that it is just a matter of who can best take advantage of the opportunities. I see it as my most important task to influence our HQ decision-makers to give us the resources to further expand and strengthen our position in China over the coming years. In addition, I do like to contribute to our efforts to develop our workforce in China and to groom home-grown talents as future leaders for our company.

What is the best advice you would give to an MBA student in China today?

My advice would be to always remain open, tolerant and adaptable. An MBA is an important milestone in one’s career but not a substitute for work experience. Experiment and try out different fields when you are still young but once you have found your preferred discipline or industry; building up a logical track record is more important. And finally never give up the quest to learn more, you are never too old to go back to school. **TheLINK**



Dr. Joerg Ostertag, President of Lilly China

LILLY CONTINUES STRONG PARTNERSHIP WITH CEIBS

Eli Lilly has been a corporate sponsor partner and executive development programme (EDP) client of CEIBS since 2000. In addition to co-developing what is now one of the most successful executive programmes at CEIBS, the Diploma in Hospital Management Programme (DIHMP), Lilly is one of the school's most active company specific programme (CSP) clients having already developed over 600 of their executives through programmes at the school. Lilly was also a premium partner of the 2nd Annual CEIBS Health Care Forum on Sept 15, 2006 during which Dr. Ostertag, President of Lilly China delivered an engaging speech on the subject of "Pharmaceutical Industry-Innovation & build-up of R&D Capability". Commenting on the relationship with CEIBS, Dr. Ostertag said: "The most important assets of Eli Lilly & Co. are its people. Therefore we are very pleased and proud to be closely associated with CEIBS, as this school is an excellent source of highly qualified and very talented individuals, who have and always will, play important roles in our organisation."

Answers That Matter.

TELEFÓNICA JOINS CEIBS CORPORATE SPONSOR PARTNERSHIP NETWORK



Telefónica, one of the world's leading providers of telecommunications, has confirmed its support to assist funding the activities of the CEIBS Centre for Global Management, for a three year period to 2009.

As part of collaboration with the Centre, Telefónica will assist bridging relations and greater understanding between business interests in China, Europe and in Latin America where it is the number one investor in the region.

In China, Telefónica is currently the strategic partner of China Netcom with a 5% investment. Telefónica and China Netcom are working together to develop business alliances.

Commenting on the new corporate sponsor partnership with CEIBS, Mr. Sartorius, Chief Representative of Telefónica in Asia said, "Telefónica has a very good relationship with the best business schools in all the countries we operate. We see CEIBS as a platform which will allow us, among other things, to get the best trained human resources, to reach out to our partners and suppliers in the sector. We are looking forward to this collaboration."

BANCO SABADELL SUPPORTS CEIBS CENTRE FOR GLOBAL MANAGEMENT



Banco Sabadell, the fourth largest bank in Spain, has enjoyed a close association with CEIBS since 1999. In 2002, the Banco Sabadell Scholarship was awarded to CEIBS MBA students and from 2003-2006 the bank has contributed to the CEIBS Development Fund. Under the new partnership from 2007-2010, Banco Sabadell will support the activities of the new CEIBS Centre for Global Management. Activities in the pipeline include an international seminar in Brazil scheduled to take place in early 2007. Mr. Guillermo Diaz Sevilla, Chief Representative of Banco Sabadell in Shanghai said: "Banco Sabadell and CEIBS share the same spirit and views in China; a long standing project based on talent and innovation."

For further information on CEIBS Corporate Sponsorship Projects and Programmes, please contact Ms. Seanie Comerford, Development Director :

Tel: +86-21-28905120

Email: development@ceibs.edu

Fax: +86-21-28905126

NEWS BRIEFING



Corporate Advisory Board Meeting at CEIBS, Oct 12 2006

CEIBS CORPORATE ADVISORY BOARD MEETING

On Oct 12th, the CEIBS Corporate Advisory Board (CAB) met on campus for the third time this year. The focus of the meeting was to review the development of CEIBS global perspective and China focus in the MBA programme and to discuss CEIBS international and domestic visibility. The CAB is a platform for Senior Executives of CEIBS corporate sponsor partners to meet regularly with the Dean and some faculty and directors to discuss topics relevant to their talent management needs and expectations, as well as to discuss the activities and developments at the school.



Mr. Linus Goh, Executive Vice President, OCBC (L) and Professor Rolf D. Cremer, Dean and Vice President, CEIBS (R) at the OCBC Sponsor Signing Ceremony on CEIBS campus, Nov 9th, 2006, at which OCBC pledged two MBA scholarships per year 2007-1010.



Delegation of Government of Cantabria visit to CEIBS on Nov 17, 2006

CEIBS EMBA1995

The First EMBA in China

By Ding Wei

In May, 1995, forty-two people began their EMBA study, then a novelty in China, at the newly established China Europe International Business School ("CEIBS"). Since then, their careers and lives have been re-routed. Within ten years of their graduation, each of them has made great achievements. Among them are government leaders, business executives, and entrepreneurs. The CEIBS EMBA'95 class is of great significance and symbolizes the beginning of China's modern business education. The following stories of the 42 alumni are not simply about themselves, but more the reflection of a new generation of business leaders in the booming Chinese economy and how these people have driven the prosperity of this country.

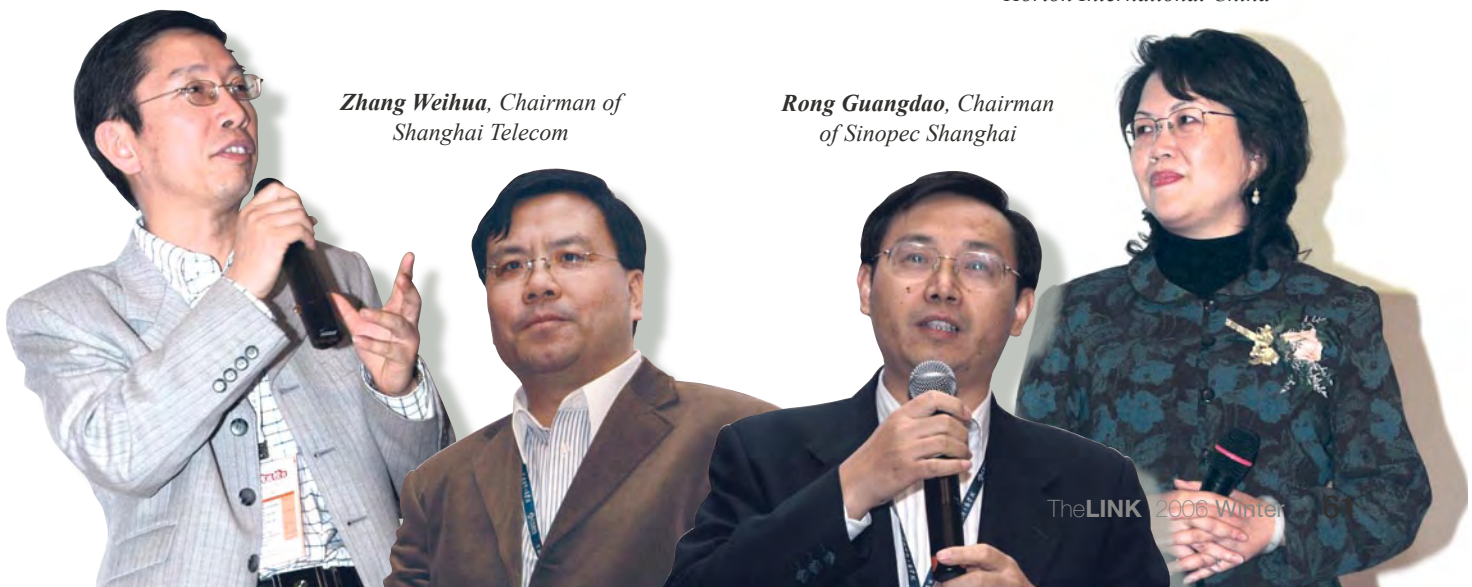
THE FIRST TO TRY TOMATO

F1, tennis, and golf. These aren't the typical hobbies of 50 year-old Chinese like Rong Guangdao, who is, however, a frequent visitor to F1 China and the Tennis Master Cup. As the chairman of Sinopec Shanghai, the premium sponsor of these events, Rong must appear to show support for the events and the company. On the afternoon of November 11, there was another event for him to support. This time it was a much more personally important one. He hurried to Hongfeng Road, Pudong, where CEIBS is located, right after the closing ceremony of the Master Cup. There, the 10th Anniversary of CEIBS EMBA95 graduation was being held and Rong is one of those first 42 EMBA participants.

When Rong walked into the Pei Cobb Freed & Partners designed campus, the celebration was at its climax. People were laughing and applauding for the presentation of all kinds of different humorous awards: Li Jianping, Chairman of Unsiky received the Most Warm-Hearted Award. The Best Blend of Chinese and Western Award went to Zhang Weihua, the first man to be appointed overseas in China's telecom industry. Han Shenyao got the Most Flexible Award because he successfully turned himself from a government official into an IT entrepreneur. Rong was presented the Most Royal Award because since he joined Sinopec Shanghai, he'd been committing himself to the company, going up from team leader to general manager. With or without an award, every body was exhilarated.

Han Shenyao, President & CEO of Shanghai Huateng Software Systems Co., Ltd.

Chai Meng, Managing Director of Horton International China



Zhang Weihua, Chairman of Shanghai Telecom

Rong Guangdao, Chairman of Sinopec Shanghai

CEIBS EMBA '95 students with Professor Willem Burgers, 1995



CEIBS EMBA '95 graduation ceremony, 1996

Since May 8, 1995, 42 young people with different working backgrounds, but the same dream to be more actively involved in the country's development, came to CEIBS. Their fateful decision was commented on by Zhang Weijiong, Vice President and Co-Dean of CEIBS, "The first group of EMBA and MBA students are the first to try tomato. They have driven China's economic development over the past 10 years". These people have made a more critical impact on the development of the Chinese economy than any other B-school's EMBA class. It is not only the glory of one class or one school, but highlights the achievements and innovation of one country.

The year 1995 was not only a breakthrough for these people, but also for China. The city and the country were also experiencing significant changes. From 1995, the reform and opening-up were intensified and China accelerated its economic development, and along with that, so was business education.

In Lu Xiaoming's memory, the first staff of L'Oreal China, the headline in Shanghai that year was the construction of the Yan'an highway, a symbol of the municipality's decision to reconstruct and expand its transportation infrastructure in preparation for a new round of economic expansion.

Established on November 11, 1994, CEIBS began its daily operation in a corner leased from Shanghai Jiaotong University on its Minhang campus. In 1991 to 1993, the Chinese government gave permission to 26 universities to start pilot MBA programs. CEIBS, the 27th, was exceptional because it was named as the "special zone of China's business education," presenting its own certificates and adopting the teaching methods in line with international standards, which were very different from what was going on at state-owned universities. CEIBS offered MBA and EMBA programs at the same time. It wasn't until seven years later that other busi-



ness schools began to provide EMBA program.

All the EMBA95 students can clearly recall the old days - entering the campus gate, turning right, passing the office building and post office, and then there was the “home” of CEIBS in the academic exchange centre. The classrooms were two rooms in the fifth floor of the library. Initially, it was a period of hard times. The campus was far away from downtown and transportation was inconvenient. Everything was built from scratch. Zhang Guohua, then the Vice President in charge of daily operations, had to look into things like desks and chairs while think of the developing strategies for the school.

For Lu Xiaoming personally, 1995 was also a year full of dramatic changes. Lu was Director of the Foreign Investment Centre in the Suzhou New District. Feeling the shortage of management knowledge and hungry for improvement, he applied to the CEIBS EMBA program. Like all his class-

mates, an admission advertisement of CEIBS placed in one of the most influential local newspapers, Liberation Daily, aroused his attention. What he didn't know was that at the same time, CEIBS advertisements were also appearing in influential foreign newspapers and even on TV. His plan was declined by his supervisor. This changed, however, when Lu's client, the president of Maybelline® Asia-Pacific heard about this. The multinational was battling for a firm foothold in the Chinese market and eager for local talent. Lu, young and aggressive, became the target of the cosmetics manufacturer. He was invited to join the company, which promised him tuition (US\$15,000) and time (4 days per month) to attend the EMBA. Rarely a visitor to department stores before, Lu Xiaoming took the offer and joined the international cosmetics company.

“NO ONE IS UNSUCCESSFUL”

When the Most Influential Award was presented to Ma Yusheng, the Assistant President of CEIBS in charge of the Beijing office and who chose to com-

mit himself to his alma mater said, “Actually I got the award ten years ago, because I was the only one from Beijing in my class and was nicknamed by my classmates the ‘Northern Master.’ I say, the next graduation anniversary celebration will be held on the Beijing campus. If any one disagrees, I'll tell them I am from the first group of EMBA's.”

“No one is unsuccessful in our class,” said Qi Xiaofeng, HR Director of Michelin China, proudly.

However, the EMBA95 class is only a small part of the 5,300 MBA and EMBA graduates since the school's establishment 12 years ago. Like all CEIBS members, they not only bear the gene of China's reform and opening up but also the brand of the school.

“Few people knew about EMBA programs at the time, not to mention the understanding of modern corporate management. We only wanted to thoroughly learn about business. Every one was hard working and no one came just to kill time. If they wanted to kill time, they would not have come,” Lu Xiaoming said. The pressure of assignments turned out to be their motivation.

In their memory, everything was still as fresh as it is today: Prof. Wu Jinglian's Chinese Economics, Prof. Willem Burgers' Corporate Strategy, Prof. Keith Goodall's Leadership, and the European study tour. “After training at CEIBS, we made our roles in business as a course, not just a job. We also began to understand the importance of people-oriented management,” said Xiao Yongji, CEO of Shanghai Belling Co., Ltd.

It is said that over the past 10 years, 1/3 of the top management in SOEs and nearly half of the senior executives in foreign companies are graduates of CEIBS. From this, CEIBS can be regarded as the foundation of China's modern management culture. However, the school has also paid heavy costs. Two presidents, Prof. Li Jiahao and Prof. Zhang Guohua passed away while working for their dreams at CEIBS. To realize their dream, boosting business education in this country, they spared no effort in the development of CEIBS.

Professor Wu Jinglian, the famous Chinese economist and the Baosteel Chair Professor of CEIBS said, "The success of China's economic development and the improvement of the country's management level can be partly contributed to the China Europe International Business School."

With the increasing demand for management talent in China, the CEIBS EMBA intake has been enlarged more than 10-fold from the initial small group of 50 participants. It is the largest EMBA program globally with an annual intake of 630 professionals, double the size of the second runner, Columbia Business School. In the 2006 *Financial Times* Global EMBA ranking, the school is ranked No. 17 (MBA No. 21) and has been among the global top 50 for 6 consecutive years. It has 68% international faculty, ranked No. 7 globally. The salary of its graduates is ranked No. 7, exceeding Columbia Business School, Chicago Business School, and London Business School. After 10 years of arduous effort, CEIBS has grown to be one of the leading international business schools in the world.

LIFE HAS BEEN CHANGED BY EMBA

The graduates of EMBA95 have changed a great deal.

Over the past years, CEIBS has produced many alumni that are the pride of the country. There are important government officials, like Xu Kaicheng, Chairman of Nam Kwong Group, and Zhou Bo, Director of the Shanghai Foreign Economic Relations & Trade Commission; business leaders, like Rong Daoguang, Chairman of Sinopec Shanghai, Zhang Weihua, Chairman of Shanghai Telecom, and Li Jianping, Chairman of Unisky; senior executives, like Fei Ming, CEO of Saint-Gobain China and Lu Xiaoming, VP of L'oreal China; entrepreneurs, like Chen Yu, in the home improvement industry, and Guo Yiting, the designer.

"The CEIBS EMBA is a boost to one's career. It teaches modern business knowledge. Almost as important, the EMBA program provides a valuable platform for networking, helping you grow faster and avoid mistakes," Qi Xiaofeng said. She changed her job from Saint-Gobain to Delphi and later became HR director at CEIBS. The CEIBS community seems to be an attractive workplace. There are altogether four EMBA95 graduates that have worked or are working for the school.

Han Shengyao has left the impression of being a warm-hearted, vigorous, and quick thinking man to his classmates. He was a government official before taking his EMBA. The attraction of the CEIBS EMBA is that "The government is the rule maker. Studying for an EMBA helps you understand the rules and how these rules affect the development of companies." EMBA study broadened his

mind. Now, he runs his own computer company.

The biggest benefit from the EMBA program, according to Lu Xiaoming, is the change of mindset. "I now have the proper knowledge. The perspectives of the international faculty make them like good doctors who diagnose your problems and give you prescriptions to help solve them." Lu has learned greatly through business experience and knowledge from the school. The man who rarely visited department stores before now feels free and easy in the cosmetics industry.

In Chen Yu's memory, the most impressive words on the opening day of EMBA study came from President Frohn: "You come to CEIBS barehanded. When you leave the school, your pocket will be filled with various tools and solutions offered by the school. You will become another one." He understands this personally. He made CEIBS his very first client. The school's water-proof roof cover was constructed by his company.

As to Shen Fuqiang, the former Deputy General Manager of Shanghai Machinery Company, the CEIBS Alumni Association is the only organization in which he participates, not including the communist party. He started as an entry level worker, working his way to middle level and finally top management. Each phase took him 10 years. Then after doing a SWOT analysis, he felt the necessity of change and hopped to Siemens as a vice president. Several years later, he encountered career bottleneck again. The problem was resolved after he took the CEIBS alumni program "Self-Management." Now, he is a consultant to private companies.

No other is as keen on studying as Zhang Weihua. After graduation from the CEIBS EMBA program, he pursued his Ph. D. in management at Fudan University. During the time, he received an award, which offered him the opportunity to study information technology and communication in the US for half a year. When the Chinese telecom industry began to go global in 2002, Zhang, with a strong background in management education and overseas study was naturally selected as the first general manager of China Telecom's US subsidiary. "It is CEIBS who led me to management knowledge and skills. Here I was enlightened. Without CEIBS, I would not have made these steps," Zhang said.

Every EMBA95 alumni is instilled with the CEIBS spirit. The class donated

a copper bull wearing a pair of glasses, the symbol of knowledge, hard-work, progress, and commitment in China to the Alma Mater after graduation.

Four years ago, Lu Xiaoming came across his classmate Fei Ming and Presidents Liu Ji and Zhang Guohua, who were heading to an EU conference on the same plane in the first class cabinet. Lu was flying to Paris for his vacation and never had his vacations started so surprisingly and happily. "The two presidents were proud. That occasion was really memorable."

On the same day of November 11, 2006, when the EMBA95 graduation anniversary celebration was held, CEIBS began a new round of entrance examinations for the EMBA2007 class.

The country tends to plan its development in a 5 year phases. What is CEIBS' next 5 year plan? According to Zhang Weijiong, the Shanghai campus would be enlarged to double its current size and the construction of the Beijing campus will be completed within 5 years. Within the next 10 years, the faculty team would grow to be 80 to 100 professors and the school will make critical innovations in modern management theories.

Dr. Zhu Xiaoming, the current president, said: "The CEIBS brand will be a lifelong benefit to the graduates." [TheLINK](#)

The article was published in Chinese in *Chinese Entrepreneurs*, December 5, 2006 and adapted and translated by Audrey Wu.



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Hold on to Your Dream

Cai Dabiao's Kungfu Food

By Qin Yanling

The image of the Kung Fu movie star Bruce Lee represents the Chinese fast food chain's determination to provide the best and genuine steamed foods originated from South China.

When talking about fast food, what's the first thing that comes to mind?

McDonald's® or KFC®? Perhaps your mental picture right now also includes their logos which are ever-present in nearly every corner of the city. Kungfu Food might be a strange name for all of you. If I were not in the same class with Cai Dabiao, the founder of the rapidly growing Chinese fast food chain, I wouldn't have known anything about it unless I was overwhelmed one day by the fresh and dynamic Kungfu logo with its special offer of steamed rice. Yet, now having learned about it, I am confident to predict that it will not be very long before Kungfu Food becomes another prominent logo in the Chinese fast food market.

Not long ago, the China Cuisine Association and the China Fast Food Network released "The Top 20 Fast Food Companies in China," among which Kungfu was ranked the 6th, thus ranking as the No.1 Chinese Fast Food.

People might describe the rapid growth of Kungfu as "emerging out of the blue". But those who know the story behind Kungfu's success understand quite well that Cai has been laboring in his enterprise for as long as twelve years. It is this kind of persistence that sets the stage for Kungfu's steady pace today.

In 1994, Cai Dabiao opened the first "168 Steamed Food Restaurant" in the small town of Chang'an in Dongguan, Guangdong province. It was located along a national highway, with a small location and a meager

team of only four members, including Cai himself. The four worked during the daytime and self-trained at night.

Then, they grew. In 1999, they stepped out of Dongguan and into other places like Guangzhou, Shenzhen, and then Beijing and Shanghai. Before 2005, their chain stores had spread over the whole country and climbed up to 40 locations. Now, this number has soared to 142. Their ambitious plan is to have 400 chain stores in 2008.

What has Kungfu done in these twelve years to grow from an obscure rest-stop restaurant to China's No. 1 Chinese fast food chain?

A GOOD CUISINE STARTS FROM THE BEGINNING.

Good cuisine can't be created without quality ingredients. Kungfu has strict requirements in selecting its suppliers and builds a close strategic partnership with them. The result is a whole supply chain that is smooth and stable.

Kungfu owns the land where the vegetables are grown. There, pesticide use is tightly controlled to guarantee the safety, nutrition, and health of the plants. The taste of all products is also overseen from the very origin of the supply chain. For instance, in order to develop steamed chicken in a particular market, Kungfu applied rigorous control to the selection of the species, feeding days, type of feed, light, etc., so that the taste achieved the quality level expected.

These procedures inevitably increase the cost, but Kungfu insists on the corporate value of making products with leading quality. In contrast, most Chinese restaurants purchase their materials from the local markets. As a

result, Kungfu's practices help establish its unique competitive edge.

Over the past decade, Kungfu has built a powerful R&D team and a group of national-level nutrition experts. They have embraced innovation from day one.

Steaming methods at Kungfu originally adopted the traditional steaming method, which demands a good control of temperature. This made the kitchen in those days was quite hot and made it physically uncomfortable for the workers. Hence, Cai Dabiao explored various ways to improve and finally developed Kungfu's unique steaming facilities. Even now, Kungfu is still making efforts to further improve those facilities.

Concerning product quality, Kungfu positions itself as the "nutritious and healthy" Chinese fast food. Having inherited the essence of traditional Ling Nan (the Guangdong and Guangxi area) steamed cuisine and combined it with modern ideas and technologies; Kungfu now produces unique products like steamed rice, steamed dishes and steamed soup. It has a great variety of over 30 kinds of products, made from exclusive recipes, careful processing, rigorous quality control, and specialized R&D.

That is how Kungfu maintains its first-class quality.

STANDARDIZATION SECURES THE CONSISTENCE OF TASTES.

Standardization is the key to success in the fast food industry. Yet Chinese food is different from its Western counterparts in that every chef has his own style. It follows then the most



difficult problem facing the Chinese fast food industry is the inconsistency of tastes. To solve the problem, the working procedures of the staff and the operation of the facilities have to be standardized. Kungfu has taken a series of standardizing measures that lay a firm foundation for future growth in the fast food industry.

For many years, Kungfu has been doing in-depth research into the domestic catering industry. At the same time it borrows from rich experience from abroad of advanced management. As its products and services get more mature, Kungfu has steadily established a set of easy-to-copy models in industrialized and standardized Chinese food production. It has also set up three large distribution centers in south China, north China, and east China.

In these distribution centers, i.e. the central kitchens, food processing is completed and from there the products are distributed to every restaurant through a smooth logistics system. How the food is prepared it gets to those restaurants is nothing more than defrosting, distributing, steaming, and selling. Hence, the taste is kept consistent among different restaurants.

There are ten thick operation

manuals in Kungfu to regulate the management of every step within the whole procedure, ranging from selecting materials and producing recipes in the distribution centers, to the quality control of the products in restaurants. Not a single detail is ever missed from the operation standards. Every staff member is required to comply with the manuals. The standardization has permeated into all levels of management, service, and processing.

INNOVATION BEGINS FROM THE FIRST DAY OF BUSINESS.

Due to its insistence on producing quality products, Kungfu keeps growing. On the basis of offering quality products, Kungfu goes further by constantly adjusting its operation system. For example, before a new product is introduced into the market, during R&D it will go through careful market testing, thorough discussions, and moreover, extensive evaluations of the impact it might make on existing procedures. For instance, which equipment or procedures might need to be revised and to what extent the revision has to be done. The new product won't be finally launched until all these aspects are fully considered.

Kungfu has been persistent on maintaining innovation. Continuous learning is the very basis of genuine

innovation. Ever since the first day when Kungfu was started, the learning process started despite the fact that it had as few as four staff members. When asked, "What did you learn when you had only four people working in the restaurant?" Cai Dabiao answered, "We were learning everything we could, from studying the individual product and analyzing customers to improving the service. Learning has helped us to enhance our personal intellectual abilities and presentation skills. By learning to communicate, we set up our common goals and can develop common ideas – these laid the foundation of our sustainable growth."

This devotion to learning has marked the development of Kungfu and has been instilled in every staff member. On this foundation, Kungfu developed great vision which keeps driving all staff to make strenuous efforts in innovation and improvement in each staff's individual position.

A CLOSER LOOK AT CAI

When opening the first restaurant, did you have a clear vision of the future growth? Or rather you just tried to survive in the market?

Cai: Yes, we did have a vision, to create a Chinese fast food restaurant with a similar scale to that of McDonald's®. The first restaurant was our first attempt and we never gave up driving our company towards that goal.

What do you think are the strength and weakness of Kungfu, compared with the over fifty year-old McDonald's® or KFC®?

Cai: Our strength lies in the values, to make products of leading quality. Also, the persistent pursuit of nutri-

tious and healthy food is where we find our core competence.

Compared with Western-style fast food, Chinese fast food is sure to be more promising, given its current market share, which is as high as 80%. This is closely related to social development and industrial growth. When people's living standard increases and the pace of life accelerates, their demand for fast food goes up. Additionally, the resources required by the industry are becoming more abundant, which provides a firm foundation for the growth of the Chinese fast food industry. Take, for example, advanced IT technologies that facilitate our business with communication platforms that offer instant and exact information; or the industrialization of sales strategies that helps us to make better decisions; or improved financial services that provide us with a more powerful support base. Such a friendly business environment means that the Chinese fast food industry will emerge and mature quickly. But what our enterprises need to learn is the proper way of integrating and optimizing all the resources available and using them to our advantage within our unique core competence.

With regards to our weakness, we have been learning and making efforts to improve our management and operation skills, whereas McDonald's® can rely on having more mature systems and rich experience that they have accumulated during its long history.

Many people might regard us as a rival against McDonald's®, which is true but only in some senses. In fact, we are positioned in two distinctively different areas, i.e., Western-style vs.

Chinese fast food. We focus on different market segments. While we can learn a lot from McDonald's®, we pay more attention to developing our own growth pattern.

Having been in the business for so many years, you must have gone through many experiences. What do you think is the most vital personal qualities or characteristics that keep you going?

Cai: Perseverance. Catering services is a laborious industry and you've got to hold onto your dream. I have many friends who once joined in this industry but later had to withdraw. We also underwent tough times but perseverance has taken us through those times successfully.

Is studying at CEIBS of any help to your business? In what ways?

Cai: In many ways indeed. I once told my classmates that right after the completion of the first course – Quantitative Methods for Management, what I had invested in the CEIBS EMBA program has already paid for itself. After this course, I went back to lecture to the top and mid-level executives in my company for three days. We found many practical ways to address the problems of our company from my experience at CEIBS. In reality, we often face the challenges of effective decision-making in various situations, like site selection of a new restaurant or R&D of a new product. We actually have received much more than we have spent for the tuition fee, if you realize how much cost we have saved and how much benefit we have earned through making better informed decisions.

When I did the foundation course on management theory, we took ac-

tions to change the company's previous functional organization structure to the current matrix structure tailored for our company. It is operating quite smoothly now.

Recently, I did Production Management, which taught us many new things, as well. For example, we are constantly troubled by order problems. Originally, we did orders in each restaurant; every order was confirmed two day in advance, based on various factors like historical data, weather, and other contingent elements. Then, the orders were sent to the three distribution centers for processing. But what happened was that minor data mistakes in each restaurant would cause major problems in the central data processing at the distribution centers, which is exactly what the professor called the Bullwhip Effect. Now, we are going to transfer all ordering work to the distribution centers so that all data can be shared in our central information system and the extra work of making revision can be saved. What it finally brings to us is this: by avoiding the Bullwhip Effect we reduce human resource and storage costs in each restaurant and also cut the training costs incurred by personnel transfer and position changes.

The study of Operation Process and Value Stream Mapping also benefits us by enhancing our process management, which is something we have long been striving for. It makes us aware that by saving 5 seconds in one working position, we can save as much as RMB250,000. From there, we set up an Excellence Committee in charge of straightening up and formulating a process and then optimizing it.

Apart from the curriculum itself, the



teaching method of CEIBS proves very inspiring as well. One of my fellow students once commented, “Test before you teach – that is the CEIBS success formula”. Indeed, the three parts of study at CEIBS are very demanding: first, one has to do a “pre-course warm-up” (in order to produce the maximum effect within the class, we are required to read a great deal of reading material to get fully prepared). Then, there are in-class discussions (it provides an opportunity for intellectual confrontations so as to help us develop an in-depth understanding of the subject and, additionally, the communication between different people teaches us a lot). Last, we can’t miss after-class homework, which is designed to review the lessons learned. Personally, sharing with colleagues is another vital link in the

learning process. Almost every time when I finished a course, I would share what I had learned with my colleagues, telling them what I thought I could apply to our company and also listening to their ideas. This last step helps to produce for us a great number of applicable action plans which all have been effectively implemented. As far as I know, many others in my class did the same. **TheLINK**

The author is CEIBS EMBA06 participant, now working as Sales Director of Shenzhen SDG Information Co., Ltd. She graduated from Electronic Engineering Department of Harbin Shipbuilding Engineering Institute and has been working in various industries including Electricity and Information.

The article, originally in Chinese, is translated by Cherry Zhong.

BRIEFINGS

CLUBS

AUTO INDUSTRY CLUB: EXPLORING THE DEVELOPMENT PATH OF THE NATIONAL AUTO INDUSTRY - SOUTHWESTERN TRIP



On September 20th, the CEIBS Alumni Auto Industry Club set out on their three-day trip to the southwest, visiting important automobile manufacturers including Chongqing Hongyan Motor Co., Ltd., Chang’an Auto (Group) Co., Ltd, Chongqin Lifan Co., Ltd, and Qinglin Auto (Group) Co., Ltd.

The activity was strongly supported by the leaders of the auto makers and research centers in the area, who discussed with the club members topics such as the current business environment, corporate methods, current problems and uncertainties, the outlook for the industry, and how to build up a proprietary brand.

Later, the Chongqing Chapter members shared their ideas with the club members at a welcome banquet.

ENTREPRENEUR CLUB: TRIP TO SOUTHERN JIANGSU PROVINCE

On November 17th and 18th, 30 members from the Entrepreneur Club visited the southern Jiangsu Province, including Zhao Nin, vice president of Carlyle Group, Mao Xun, vice president of Haitong-Fortis Private Equity Fund Management Co. Ltd., Liu Zehui, in-



vestment manager of Legend Capital, Ma Zhaohui, senior manager of Zhangjiang Investment Co., and Hu Xiaoling, producer of the TV program "Brainstorm" on CBN.

During this trip, members visited Suntech Power Holdings Co. Ltd., Changzhou Xingyu Automotive Lighting Systems Limited, a company established by alumna Zhou Xiaoping, and Wiscom System co., Ltd. founded by alumnus Ge Ning.

Mr. Zhang, Vice President of Suntech Power Holding Co. Ltd. said that listing in the US is a double-edged sword. This would help the improvement of the Chinese companies' management, while on the other hand, costs caused by the different kinds of strict inspections by the US's SEC are also very high. He suggested entrepreneurs look for suitable investing destinations. At Xinyu, they found another "double-edged sword," the introduction of foreign investment, which usually leads to management conflicts between the different owners, and sometimes, even to the failure of the company. As to the high turnover rate in high-tech enterprises, Ge Ning advised that the companies should be innovative and keep ahead in the industry in order to retain talented employees. He laid special importance on an effective management team to maintain the governance structure of the company, especially after the company's listing.

HEALTH CLUB: AMASSING WEALTH OR DISEASE?

On the evening of October 20th, at the

invitation of the Health Club, Dr. Chen Bing from the well known Renji Hospital gave a speech titled "Amassing Wealth or Disease?" Dr. Chen is an expert on male diseases and experienced both in practice and research.

During the speech, Dr. Chen utilized illustrations and used humorous language to simplify difficult medical terminology and help foster audience understanding of the topic. The speech was especially tailored for the business elite, who are usually preoccupied by work and typically ignore their health.

The speech covered five major aspects: how to care for one's health, the prevention of common diseases in young and middle-aged men (i.e. prostatitis), BPH, and the symptoms and treatment of male menopause, etc.

CHAPTERS

TAIWAN CHAPTER: FORMER GM OF INTEL, GREATER CHINA TALKS ABOUT INDIVIDUAL CAREER DEVELOPMENT



On the evening of September 22th, Mr. Chen Chaoyi, former General Manager of Intel, Greater China, at the invitation of the Taiwan Chapter of CEIBS Alumni Association, delivered a speech on campus to share his career development experiences.

During his tenure as GM of Intel,

Greater China, Mr. Chen Chaoyi was in charge of business expansion in Taiwan, Hong Kong, and the Mainland and succeeded in setting up new business platforms and methods. Familiar with the electronics and telecommunications market, he had a wide range of connections as well as valuable local resources. When referring to the challenges China is facing, he advised the audience to clarify their career direction and hone their competitive edge so that their personal values can be achieved. He also touched upon the 6C concepts on individual career development.

ANHUI CHAPTER ESTABLISHED



The CEIBS Anhui Chapter was officially launched on October 10th. The establishment of the chapter is the result of the joint efforts of alumni in the Anhui Province and the surrounding area, the preparatory committee members, and the CEIBS alumni relationship department. After the Anhui Chapter establishment, the total number of CEIBS alumni chapters is 21.

More than 40 CEIBS alumni and students gathered in Hefei, the provincial capital of Anhui. Prof. Wu Jinglian, famous economist and CEIBS Baosteel Chair Professor attended on behalf of CEIBS and Mr. Wu Cunrong, Mayor of Hefei attended on behalf of the municipality, showed their support for the chapter at the founding ceremony. At the event, members from the Nanjing, Wuxi, and Guangzhou chapters also expressed their congratulations.

BRIEFINGS

Members of the chapter committee were proposed by the preparatory committee. Yu Nenghong was selected as chairman. Liaoyuan and Huang Jianfeng (also secretary general) were selected as vice chairmen.

ALUMNI FROM WUXI AND CHANGZHOU CHAPTERS GET TOGETHER



On October 22th, a total of 33 alumni from the Wuxi and Changzhou chapters held a get-together on the beach of Taihu Lake. Prof. Zhu Xiaoming, President of CEIBS, made it all the way there to exchange opinions with alumni.

President Zhu made a brief introduction on the current and future development and the progress of the school. Alumni put forth their suggestions regarding the teaching methods and growth model of the alma mater in the future.

Alumni Zhang Tianfu and Fan Yanqing carried out a discussion titled "The Current International Military Environment and China's Position" and "Macroeconomics and Development for Enterprise," respectively.

FORUMS

FAMOUS CCTV ANCHORWOMAN'S VIEW ON HOW TO COOPERATE WITH THE MEDIA

Ms. Jing Yidan, the famous anchorwoman on the national TV network CCTV, gave a speech at the CEIBS Alumni Culture Forum on the evening of October 26th. Ms. Jing



shared her views and experiences on how companies should cooperate with the media with over 300 CEIBS alumni and students.

In the two-hour speech, Ms. Jing provided her suggestions on several aspects, among them that the relationship between companies and the media is not as close relatives or enemies, but should be as co-operators. Through better connections, a win-win relationship can be formed together with effective communication and mutual understanding. Yidan was asked, how best to present oneself before the camera? Relax as in daily life, but inject some excitement and be expressive. She was also asked how to speak appropriately before the camera? The language should be accurate and lively. Non-verbal communications and body language, such as eye contact, posture, dress, environment, etc., are also important in creating the best impression.

THE "CHINESE WARREN BUFFETT" TALKS ABOUT APPLICATION OF THE BUFFETT THEORY IN CHINA

On the evening of September 21st, Mr. Bingxian Zhao, alumnus of the Global CEO Programme delivered a speech on the topic "Warren Buffett's Investment Theory and How to Apply it in China," during which he shared his two decades of investment experience with 300 CEIBS alumni and students.

Mr. Zhao Bingxian, who has conducted

in-depth research into Buffett's Investment Theory for nearly twenty years, has elevated the investment concept to the level of investment study. Following the footsteps of the master's investment concept, he carried out research and practice in China's unique capital markets.



In his speech, Mr. Zhao Bingxian, in a penetrating fashion, categorized the investment approaches into four theories. Before the end of the speech, he recommended two practical reference books to the CEIBS alumni and students, *The Essays of Warren Buffett: Lessons for Corporate America* and *Warren Buffett Wealth: Principles and Practical Methods Used by the World's greatest Investor*.

Pranayama is an important, yet little known part of Yoga. Its techniques have been practiced for centuries by ardent students of Yoga in remote ashrams (secluded places for meditation), and have been preserved for us through many generations both in practice and in handwritten books. Until recently, this art and science of Yogic breathing was almost completely unknown to the common man like many other ancient Indian arts. Those who knew it used to be very reluctant to share their knowledge and experience with anyone, unless a student proved by tests that he was ready to receive it. During the last three decades, however, this situation has changed; and subjects such as Yoga, pranayama and meditation are being discussed all over the world, not only by Yoga teachers, but also by the general public and by scientists. More recently, various techniques of Yoga have begun to attract the attention of physicians, therapists, and medical consultants. It is common to find both patients and doctors who can narrate their own experiences about the cure of various diseases by using Yoga techniques. It has been proved beyond doubt that Pranayama is a very important means for preventing and curing many ailments.

In simple terms pranayama may be called the control of the breath. The word Pranayama consists of two parts: Prana and Ayama. Prana means universal life force and Ayama means stretch, extension and control. Thus Pranayama can be described as stretching, extending and controlling this universal life force within the body. By practicing the techniques of Pranayama, mastery over breath can

be achieved. Its essence lies in the modification of our normal process of breathing. Breathing is an act in which we take air from the atmosphere into our lungs, absorb the oxygen from it into our blood, and expel the air again into the atmosphere together with carbon-dioxide and water vapour. This act of inhalation and exhalation is repeated every four to five seconds. Thus normally we breathe about fifteen times every minute, each time taking about 500 ml. of air into the lungs. So we inhale and exhale approximately seven litres of air per minute. Every modification of this normal breathing process would not count as pranayama. The normal breathing pattern shows marked changes under various conditions. For instance, while we are lifting or carrying loads, walking uphill, running, or doing any physical exercise we breathe more rapidly and more forcefully. At high altitudes, in a rarefied atmosphere our breathing becomes heavy. Its pattern changes with emotional excitement and in the case of disorders such as asthma, tuberculosis, bronchitis and other lung affections. Modification of breathing under these conditions is brought about involuntarily and perhaps without awareness of it unless there is difficulty in breathing. In fact we are hardly ever aware of the fact that we are breathing.

Lot depends on the otherwise seemingly simple breath. Do a small experiment: When you are angry, tensed or anxious, consciously watch your breathing pattern. You will notice that your breaths are shallow and fast. Once you realize that your breathing is fast, make an effort and slow it down. Inhale slowly and exhale gently. Instantly you will cool down.

The ideal breath rate suggested is three to four breaths in a minute as against 15 or more breaths we take in a minute. When you are angry or anxious, your breath rate increases to 50 - 60. This directly affects the heart and so the result.





Pranayama consists of modifications of the breathing process which we bring about deliberately and consciously. We can modify breathing in three different ways:

1. By inhaling and exhaling rapidly, taking shallow breaths.
2. By inhaling and exhaling slowly, taking long or deep breaths.
3. By stopping the act of breathing altogether.

The first way of modifying breathing is not usually included in pranayama proper, although it is sometimes closely associated with it. The second and third ways mentioned above do belong to the domain of pranayama. In fact, pranayama practice may very well be summarized in these two ways.

Pranayama is usually practiced in a sitting posture. There are about half a dozen postures available for this purpose. They are called meditation postures, because they are very suitable for meditation. The most renowned among them is Siddhasana. The simplest and most comfortable and less strenuous is Vajrasana. Padmasana is the one which is most recommended traditionally for pranayama. Thus pranayama is a complex act in which after assuming a suitable posture the person inhales and exhales slowly, fully and completely, and also stops breathing. Inhalation in pranayama is called *puraka*, which literally means 'act of filling'; Exhalation is called *rechaka*, meaning 'the act of emptying'. Retention of breath is called *kumbhaka*. *Kumbha* means a water pot. Just as a water pot holds water when it is filled with it, so in *kumbhaka* the breath is held after fill-

ing the lungs. Actually, *kumbhaka* can be practiced in two ways. We can hold the breath in after a *puraka*, or we can hold the breath out after a *rechaka*.

Our ancients first came to see that for the preservation of life we must preserve breath, and preserving breath entails two things, i.e., breathing slowly, and then not breathing (for a short time) at all. This idea was further strengthened by the belief that the length of one's life is to be measured not in terms of days or years, but in terms of how many times one is destined to breathe. From the fact that the stoppage of breath and the end of one's life coincide, our ancients probably conceived the idea that when the number of breaths one was destined to take was exhausted, one could not live any longer. This idea is conveyed even today in phrases like 'breathing one's last,' for indicating death.

The idea that the breaths of every one of us are numbered, that our life-span is dependent on how many times we shall breathe in a given life, and that, as a consequence of this fact, we must reduce the number of breaths so as to live longer— this idea was responsible for the origin of pranayama.

Pranayama also finds application in today's corporate life where we need to exercise emotional control in many tricky situations. By practicing Pranayama, we can bring a sense of calm in our everyday life and I think we can even reduce the number of sleeping hours as this helps to sleep more effectively and peacefully. **TheLINK**

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www.pranayama.org

The author is CEIBS MBA06 student.

Don't Fire Them, Fire Them Up

By Echo Lau

COOPERATION IS NOT MISSION IMPOSSIBLE IN THE PRISONERS' DILEMMA

The recent merger of Gome and Yongle, the two largest Chinese local electronic appliance retailers, reminds me of the Prisoners' Dilemma and the book *Don't Fire Them, Fire Them Up*.

In order to become the flagship brand in the Chinese home appliance market, Gome, after acquisition of Yongle, ushered in a new era of dual branding with its new partner. All of a sudden, the two companies changed their role from rivals to allies within just a few days. What is the driver behind this surprising cooperation: attracting capital, the demands of the marketplace, or simply survival pressures from foreign retailers closing in?

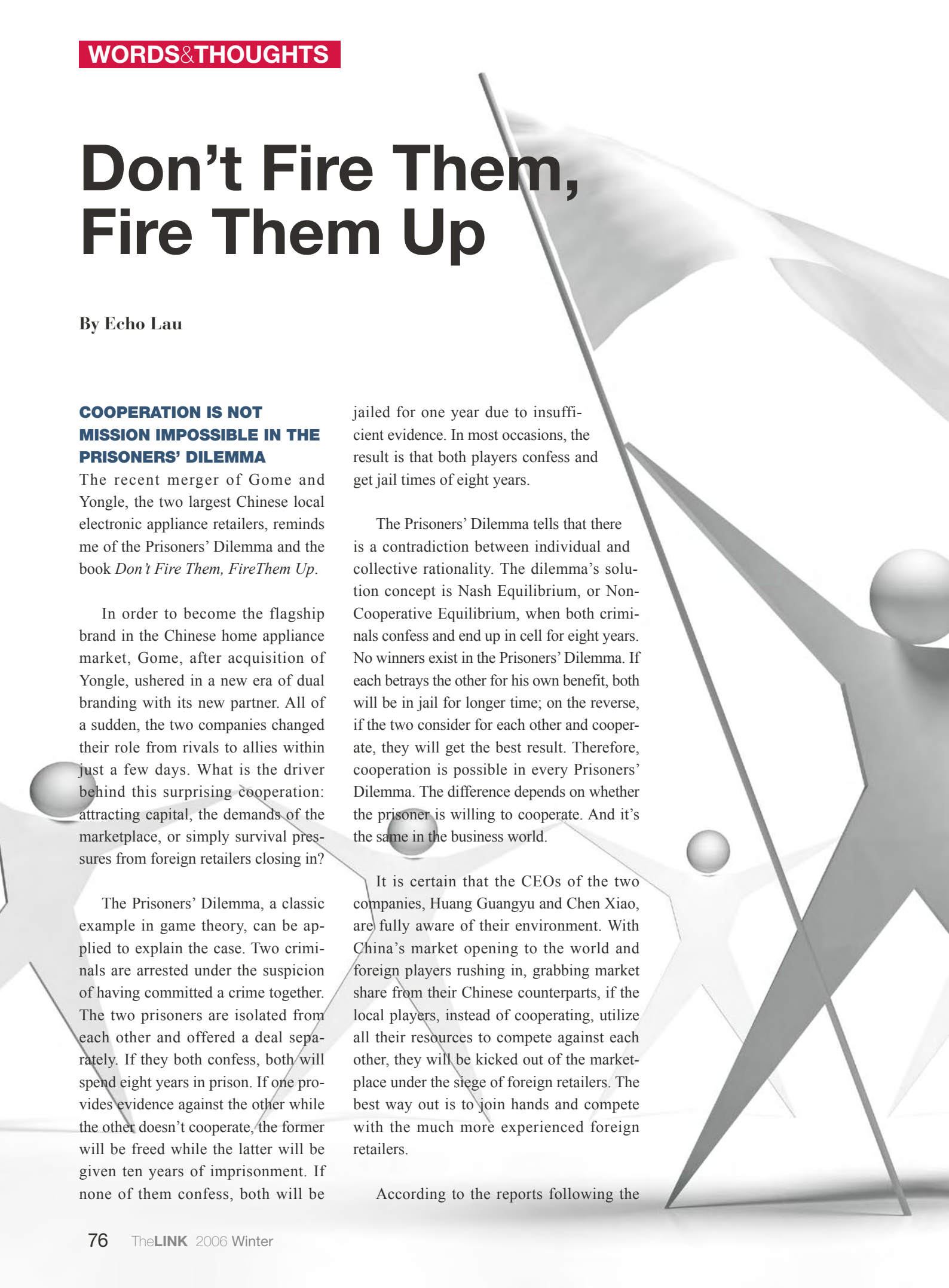
The Prisoners' Dilemma, a classic example in game theory, can be applied to explain the case. Two criminals are arrested under the suspicion of having committed a crime together. The two prisoners are isolated from each other and offered a deal separately. If they both confess, both will spend eight years in prison. If one provides evidence against the other while the other doesn't cooperate, the former will be freed while the latter will be given ten years of imprisonment. If none of them confess, both will be

jailed for one year due to insufficient evidence. In most occasions, the result is that both players confess and get jail times of eight years.

The Prisoners' Dilemma tells that there is a contradiction between individual and collective rationality. The dilemma's solution concept is Nash Equilibrium, or Non-Cooperative Equilibrium, when both criminals confess and end up in cell for eight years. No winners exist in the Prisoners' Dilemma. If each betrays the other for his own benefit, both will be in jail for longer time; on the reverse, if the two consider for each other and cooperate, they will get the best result. Therefore, cooperation is possible in every Prisoners' Dilemma. The difference depends on whether the prisoner is willing to cooperate. And it's the same in the business world.

It is certain that the CEOs of the two companies, Huang Guangyu and Chen Xiao, are fully aware of their environment. With China's market opening to the world and foreign players rushing in, grabbing market share from their Chinese counterparts, if the local players, instead of cooperating, utilize all their resources to compete against each other, they will be kicked out of the marketplace under the siege of foreign retailers. The best way out is to join hands and compete with the much more experienced foreign retailers.

According to the reports following the



merger, Huang Guangyu will hold a 51.2% of the stake in the new company, while Chen Xiao will hold 12.5%. In Chen's words, the merger will benefit the whole home appliance retailing industry, and help to build core competencies in Chinese companies. Chen, undoubtedly, deserves applause for his compromise, for it is not easy to break with the traditional mindset that it is shameful to play second fiddle.

After the merger, the annual revenue of the combined company will exceed RMB70 billion, much more than the combined China revenue of the other two big players in the market, Sunning and Best Buy.

The "survive of the fittest" law in business can be cruel. Yongle has specialized in sub-optimization, while Gome has controlled the best channels. What will Huang's next move be? We are highly anxious to find out.

I will, hereby, give my blessing to all those who cherish cooperation and make compromises!

FIRE THEM UP AND TURN IT AROUND

A friend of mine gave me the book *Don't Fire Them, Fire Them Up* as encouragement in 1997. The book has indeed become a valuable source of inspiration for me. Under its guidance, I took the task of building up and leading a sales team at a difficult time. Today, while we are exploring new frontiers in the market, I still refer to it from time to time.

The book tells the story of the turnaround at

American-based Xerox®. As the largest copier manufacturer in the world, Xerox dominated the market for dozens of years but began to decline in the mid-1970s, with its market share sliding from 80% to 13%. Then the author, the legendary Frank Pacetta, led his sales team to re-dominate the market with a united team work approach, bringing Xerox back to its feet.

At that time, I was in a technical firm specializing in developing and producing large electromechanical equipment. Although hailed as a national pillar of the industry and an innovative pioneer, the company failed to make the "marvelous jump;" industrialization of its research results due to the shortage of capital (the company made the mistake of investing short-term loans into a long-term project) and the fact that newly-developed products proved unmarketable. Inside the company, rumors flew around and people were uneasy that the company was having difficulty selling its products, repaying loans, paying employees' salaries and retaining the management team. The sales department, the hope of hundreds of employees, failed to make sales for several months and naturally became the target of finger-pointing. The vice president in charge of the sales department came and left one by one. It was said that whoever took over the sales department would soon get sacked.

When I was transferred to be the new sales manager from doing administration work, I had never believed I could make it because I never thought that I was a born sales person. My task was to breathe fresh air into the sales department and turn it around by leading a team no more experienced than

myself in sales. I was burdened with the task of helping revive the company. A mission, indeed! Blind yet bold, ignorant yet innocent, I began to find my way across the river.

The book taught me how to boost the morale of a frustrated team. I followed its guidance and almost copied the author to lead my team, a group of people who were as inspired as I was by the same mission. We built up confidence gradually while learning everything step by step. I learned to care about the team members' feelings and battled with them side by side. Three months later, we made a great break-through, which would normally take 18 months. We laughed with tears when we got a contract worth RMB12 million for selling our very first set of equipment. Later, we celebrated when we sold our products with values of RMB100 million per set many times over. I, joined by my team, lived out what had been told to me in the book and I came to realize one is as big as one feels. Before that hard period, none of us had ever taken so many flights, made so many visits, held so many meetings, and never been so excited. We had never realized that we could be so STRONG.

From then on, experiencing the happiness of a break-through has become a frequent part of my life. Even today, I am still very grateful to my friend for the vital encouragement and particularly to this book for the inspiration along my way. **TheLINK**

The author is CEIBS EMBA05 student, Vice President of GammaStar Medical Group, Great China & General Manager of Ocean International Finance Leasing Co., Ltd.

The article, originally in Chinese, is translated by Audrey Wu.



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