

TheLINK

CEIBS Alumni Magazine

2007 Spring

CEIBS MBA Program Ranked 11th in the World

Song Wenming

What You Can Make with Social
Responsibility and Persistence

Media and Marketing

It's Post-tradition Time?

Private vs. State Ownership and Earnings Management

Evidence from Chinese Listed
Companies

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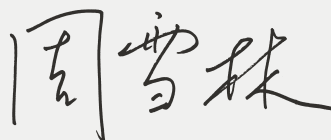
MESSAGE FROM THE EDITOR

January 29th, 2007 is a day of pride and celebration for the Chinese management education providers. On this day, the London-based Financial Times released the results of its 2007 global MBA survey, ranking the CEIBS MBA as 11th in the world and No. 1 in Asia-Pacific. This is the first time that a business school from Asia has ever broken into the first-tier league that comprises the most renowned business schools from North America and Western Europe, headed by such big names as Wharton, Harvard, and Columbia. The success of CEIBS is more like a magic story given the relatively short history of the school. Consequently, it gives rise to a mixed response in the market: some admire, some wonder, and some doubt. But for someone like me who has been with the organization almost from the very beginning, it is only a natural result of a right timing, a right effort and a right condition. The rapid growth of Chinese economy provides a rare opportunity for the sustained development of management education, while the strong support of the Chinese and European governments allows the school to operate independently and to offer programmes up to international standards. A winning culture, a continual pursuit of excellence, and a profound love for innovation are the most important genes that help the school excel in the strong competition. CEIBS is running a common road in an uncommon way.

In a similar way, a business organization needs to go beyond the traditional mindset, and to create the new demand and the new market through value innovation. Such a blue sea strategy will help the business avoid strong competition and discover the new sources of profit growth. A good example is Ampex who was a leader in imaging technology in the 1950s; however, it was JVC and Sony who achieved a huge success in the market as a value creator. Companies like Starbucks, Ikea and Southwest Airlines in the traditional industries are difficult to make a technological breakthrough, but they are able to grow by providing new value for their customers with new ideas and new knowledge. At a recent marketing forum on CEIBS campus, the same consensus was reached between Mr. Jiang Nanchun, Chairman and CEO of Focus Media, Mr. Sun Jun, champion of the most successful entertainment programme “Super Girls”, and Mr. Su Xianze, Chairman of Supor, who agreed that a business organization can not survive or succeed unless it continues to discover a new blue sea.

The last two years have seen a considerable increase in the interest shown by Chinese companies to acquire Western companies. This trend stems from the need to acquire new markets, new technology, brand recognition and other capabilities from abroad faster than they can be developed domestically. However, the fact is that very few of these mergers and acquisitions are successful. The CNOOC's unsuccessful bid for US Unocal, and the predicament of TCL after its alliance with French Thomson make us more prudent with the increasing enthusiasm of Chinese companies going overseas. Ambition and capital alone are inadequate for successful mergers and acquisitions. In this issue, Professor William Reinfeld will share with us his practical advice for Chinese companies going internationally.

The “People” of this issue is about Mr. Song Wenming, an alumnus of the school and the winner of CCTV's “Win in China” business plan competition. What makes him decide to participate in the competition, and what allows him to win the heart of the panel of judges and a seed capital of 10 million yuan? The answer to these questions is probably illuminating to people who have the same dream.



Dr. Snow Zhou
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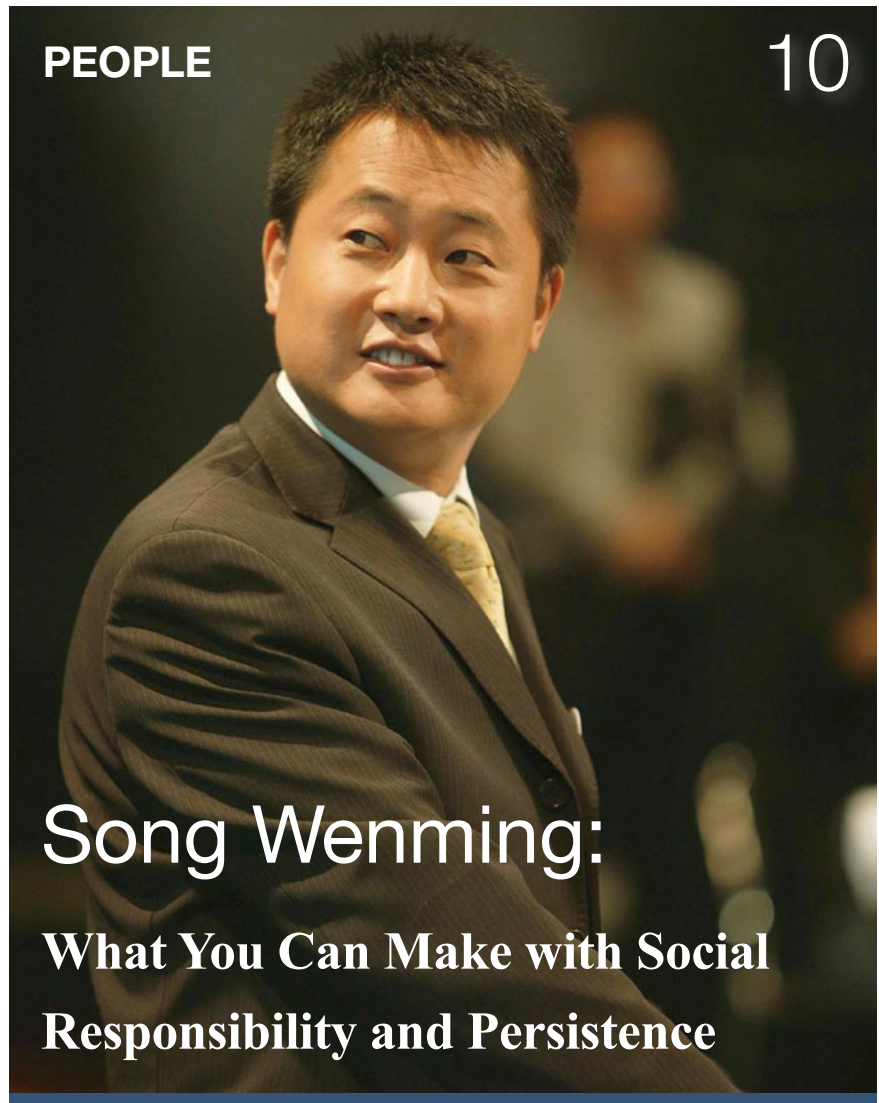
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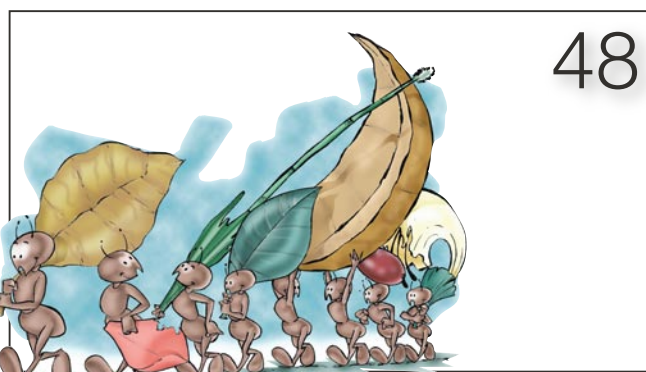
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Dear Alumni-

In the first three months of 2007, three important things happened in terms of the international recognition and reputation of CEIBS. In January, the *Financial Times* ranked CEIBS' MBA programme 11th in the world. This followed the 17th rank of the EMBA programme in late 2006. A month later, a Peer Review Team of the European Quality Improvement System (EQUIS) visited CEIBS, to prepare the re-accreditation of the school for another five years. In late March, the Initial Accreditation Committee of the AACSB will meet to decide on the school's application to proceed with the appointment of AACSB's Peer Review Team. I expect this decision to be positive, and therefore AACSB accreditation for CEIBS in 2008.

The *Financial Times* is the oldest and perhaps most important international ranking of business schools. The other important ones are published by *The Economist*, *Business Week*, *Forbes*, and the *Wall Street Journal*. Our 11th rank places CEIBS between such outstanding and old schools like New York Stern (#8), Dartmouth Tuck College (#9), Yale School of management (#10), Instituto de Empresa (also #11), IMD (#13), and MIT Sloan (#14). Also, CEIBS and Cambridge University's Judge Business School have risen faster in the rankings. No other business school in Asia Pacific has a higher ranked MBA than CEIBS, unless one counts France's INSEAD with their excellent operation in Singapore. The next highest one is, in fact Nanyang Business School (#67). Other business schools in Mainland China are not internationally ranked at all.

The *Financial Times* ranking uses the success of the graduates at graduation and three years after graduation as their most important indicators. This is important, and of great interest to prospective students, to graduates and to employers, because this is the objective, impartial evaluation of the market. In other words, the *Financial Times* ranking tells you, whether the performances of the graduates of a school are really successful and valued by their employers. CEIBS does exceptionally well in this ranking, because our graduates add value to companies.

International accreditation is equally important. Different from rankings, accreditation systems do not measure performance in a particular year. They focus on processes and continuous improvement. The best business schools in the world have in common that they never stand still. They are constantly looking for ways to improve, to learn from others, to experiment, and to invest. CEIBS is already accredited by EQUIS, again as the only business school in Mainland China. And we are well on our way towards AACSB accreditation, also leading the way.

Rankings and accreditations are important, because employers and prospective students find it very hard to distinguish between the quality of different MBA and EMBA programmes. Remember that there are now more than 200 programmes of this kind on offer in China. They vary widely in quality, reputation and value. Of course, many schools can publish expensive advertisements, and claim to be the best, have the best faculty, have the best students, and have the best facilities. A high international ranking and accreditation by impartial international organizations like EQUIS and AACSB, on the basis of the in-depth visits, thorough investigations and diligent reports of highly experienced Deans of leading business schools are excellent signals of the quality and the standards of a business school.



Rankings and accreditation are also a big challenge for the school. High rankings and successful accreditation raise expectations of stakeholders. I witnessed this recently again at the EFMD's Annual Meeting of Deans and Directors in Barcelona, Spain. There is now, internationally, great interest in CEIBS. Everybody knows CEIBS, and wants to know more about us. With this, CEIBS is moving almost inevitably from an international follower position, from which we started in 1994, into a position of international leadership. Together with other world-leading business schools in the Top 25, CEIBS has begun in earnest to contribute to shaping the development of business education not only in China, but also beyond. Just like China as a whole, which is changing the balance in the world, CEIBS and leading universities in China like Tsinghua and Peking universities, are changing the future of education.

I do not want to close without taking this opportunity to thank our outstanding faculty, our dedicated staff, our corporate sponsors and partners, the European Union and the Chinese Government, and last but not least you, our students and graduates. The high and indisputable international reputation of CEIBS is your success.

Prof. Dr. Rolf D. Cremer
Dean and Vice President



Song Wenming:

What You Can Make with Social
Responsibility and Persistence

Song Wenming in "Win in China"

By Audrey Wu

With the closing of “Win in China”, the recent big hit real show presented by the authoritative CCTV, a young entrepreneur, Song Wenming catches the nation’s attention. Song is from Anhui Province, a place well known for producing successful businessmen in the Ming and Qin dynasties. During the fierce competition, Song won the panel members, especially the two chairmen, Liu Chuanzhi, Chairman of Lenovo Holding and Zhang Ruimin, Chairman of Haier, with his rich management experience and mature business plan. More impressive were his strong social responsibility and self-confidence. The 33 year aged winner of RMB10 million seed capital from VC is with a gentle manner and persistent personality, who is, however a veteran with 10 years’ experience in running starting-ups. His business plan is staffing outsourcing, recruiting and training workers for companies eager for hands in the Yangtze River Delta. For him, this means not just a money making project, but more a dream to realize his social value and personal achievement. Compared with large VC investments worth millions of US dollars, the amount of RMB10 million looks small. But this is not what Song really cares about, nor the halo of being a champion. His motivation is to help boost entrepreneurship in the society by participating in the programme, which embodies his strong social responsibility.

WHEN THERE WAS ONLY FOUR HUNDRED YUAN PER MONTH

Song was graduated in 1995, when China’s economic development was accelerated and heading to a historic height. Like all his peers, Song was filled with passion at the beginning of his career. Unlike others feeling puzzled confronting the complicated society, however, Song was clear of his goal and had made a “crazy” decision in the eyes of many people – giving up the opportunity to join a famous multi-national but following an entrepreneur back in Anhui to begin a new business. No one actually believed that their project, wholesale fair would ever succeed. Song, however, felt this was a good opportunity and a coming trend, and was confident of its success. Another push came from his boss, whose charisma and vision convinced him that he would learn much more and grow much quicker under his guidance. Song didn’t want to be a small screw in a large company. He

wanted a bigger world.

Belief is belief, the reality is, however, much harder than expected. In the following 3 years, Song had to live on a petty monthly salary of 400 yuan, which sometimes, couldn’t even be fully paid. All the company members ate and lived under one shelter. Song was in charge of sales. Frequent business trips meant a simple package and a small capital of several thousand yuan. The biggest payment he got in the whole year was before the Spring Festival. He was then reluctant to apply for several thousand, taking the money back to his parents. Lack of capital and poor facilities were more easily dealt with than lack of the understanding from the local government and society. Sometimes when it seemed impossible to see the light of being successful Song felt puzzled as well.

But when he was once asked by his boss if he was afraid, Song answered

no. He knew they were moving on the right track. What’s more, deep in his heart, he had a strong feeling “I must make it! I must live up to my decision!”

Lucky for them, their boss fully empowered them and allowed them to try things from fundamental to top management, which is unimaginable in big companies. This was just as Song expected – it’s no wrong to follow his boss.

His insistence and belief were paid. The wholesale fair opened in 1999 and made big profit in less than 2 years. Today, their company (group) New Yangtze is one of the biggest private companies in Anhui.

DOING BY LEARNING

During the same year of 1999, New Yangtze made a critical decision to acquire the Hualian Department Store in Qinhuangdao, Shandong Province, which presented a much

bigger challenge for Song Wenming. Song was assigned to Qinhuangdao together with his 5 colleagues to turn around the money-losing listed SOE. At the time, the biggest department store in Qinhuangdao owed millions to its suppliers with an ineffective staff team of several thousand people. Turning around Hualian was a real huge challenge. In addition to confronting the pressure and resistance inside the department store, New Yangtze also faced the suspicion from the local government – whether they really came to help revive the store or just make quick money. The first priority is to set up a short-term goal, making profit as soon as possible and turning around the unfavourable situation.

Song had accumulated much management experience during the previous 5 years, but listed company was still a new concept for him, not mentioning merging and integrating such a big company. But big challenge usually means big opportunity. He then took the hard task, doing by learning.

First of all, they must have the staggering department store back on its feet. They divided the debts into three types, and solved the problems respectively. Their sincere attitude won back the understanding and support from the suppliers. One important step they took was rent the counters to the suppliers, and the company only charged rent fee. This encouraged the suppliers a great deal. What's more, the suppliers would then take care of the staff working in their counters and this saved Hualian millions of salary expenditure. Three months after New Yangtze's taking over, Hualian looked totally different with sales

revenue soared. The staff's confidence was built up and the local government began to change their attitude. Such a method is no first creation by New Yangtze, but it was after their big success, the experience was adopted widely in the country.

After achieving the initial success, Song and his colleagues began to deepen the reform in the company. By adopting a double salary system (keep the original salary, or keep the 50% of the original unchanged and the rest part floating with staff's performance), the reform was well implemented from top to the frontline. The effect was obvious. Staff was motivated and those lazy ones found hard to survive anymore. The company was soon activated. The salary reform then drove the reform in supply, sales, etc. Hualian was no more the old one in just half a year.

The successful acquisition of Hualian department store is listed among the 10 best acquisitions in China's capital market. Later, the Management School of Peking University produced a case based on the successful story. This is one of the proudest things in Song's life. "Without this experience, CEIBS would not consider taking me in." Song joked with a smile.

“CEIBS EMBA TURNS ME TO ANOTHER MAN”

Song is a man keen in studying, so in 2003, he took the CEIBS EMBA programme. With the expansion of the company and the development of his career, the BS gradually felt hard to catch up with his knowledge. Actually before the CEIBS study, his company had sent him to a well-known local joint programme. But Song always

wants the best. He had learned about the school from the business magazines he read and he felt CEIBS was the right place.

The two years' study at CEIBS is described by him as a journey turning him to another man. The systematic and comprehensive knowledge taught by world class faculty helped him better understand his wrongs and rights before and offered him new methods. Many bottlenecks in management were solved when the theory beneath was understood. Take for example, with the expansion of the company, management becomes an increasing serious headache. Song said at that time he was like a fire fighter, dispatched to wherever problem arose. But putting down fire in subsidiary here, there caught fire again. In the CEIBS class, he then knew this was actually a very simple theory – to build the right structure and adjust it according to the changing environment and strategy. Management will be easy and effective based on scientific and proper structure and system.

Upon back to his company, Song could not wait to test what he had learned the day before (the class is taught once each month). "The effect was so obvious. Seeing my working performance after finishing the EMBA study, my boss applied the CEO class at CEIBS right afterwards."

THE STAFFING OUTSOURCING PROJECT

The study at CEIBS means more than this, where another important turnover in Song's career life happened.

Every year before and after the



Right: Studying hard in high school

Left: Graduating from CEIBS

Spring Festival, there are many relatives, friends and folks coming to Song Wenming, with the hope that he could introduce a job for them through his wide network. Some of them are even college graduates, who dared not go home failing finding a job. In order to afford a child to college, most of these families would use up their savings and lay the hope of the whole family upon the child's shoulder. This agonized Song: why these smart and diligent young people cannot find a job, while companies in the more developed areas are short of hands? At the beginning, he could only help them with his personal network. After coming to CEIBS, he found many of his classmates' companies were looking for suitable workers.

Chances came when Song's classmate Li Dong, Vice President of Shanghai Foreign Service Company mentioned the model of

staffing outsourcing to him. Li told Song that it was a very big and promising industry, and there were several companies in the area listed in the World Top 500. Li presented a new horizon to him. A plan was conceived in Song's mind. Later he picked this as the topic of his thesis project and made deep research into the sector. The result, however, was disappointing. The sector was underdeveloped, with the form of simple job agencies or low-level professional training programmes in small size. Many of them can hardly provide useful help and lack credibility. Real good performers are just few.

On the other hand, taking the opportunity of the Europe Study Tour of the CEIBS EMBA programme, Song Wenming visited Manpower and Adecco, learning their business models and experiences. Back CEIBS, Song improved his business plan accordingly, and his project began.

“WIN IN CHINA”, WIN IN INNOVATION

Song seems to be destined with CEIBS. In addition to forming his business plan at the place, it was also CEIBS that made his being the “Win in China” champion possible. When the programme kicked off, a CEIBS alumnus informed Song about it and encouraged him to participate. Without a second thought, Song made the application. It was just something he had sought, for he feels innovation is a shortfall of China currently. And now there was the opportunity provided by the authoritative CCTV, which means the recognition, support and encouragement from the government.

Participating in “Win in China” is like taking an express train of fast learning. Everything was accelerated. In a very short period, the management elite went through brainstorming, learned from each other, keep thinking and improving. Song said, to achieve

such a result, it would take an average person much longer in a usual environment.

During the 6 months, Song and the other candidates experienced a triple test of intelligence, physical and mental strength. And eventually, it was Song that stood out from thousands of candidates. But actually, he wasn't the most aggressive participant, for example, he failed to achieve the best sales result in several rounds of business simulations. He rarely elaborated about business model or profit-making model unlike some other candidates trying to impress the panel. In the last round of simulation, collecting donation for a Women's Fund, Song impressed the panel and the nationwide audience with his sincerity to promote the charity cause instead of the final sales result. In his proposal, he emphasized that "You will light up their life -- with even a mere yuan!!!"

Song said: "I didn't spend too much time on talking about business model in the competition... what matters is how you handle the problems, your broad mind and your insights. It is clear that what I do is not for my own benefit." In the fierce PK with the second runner Zhou Yu, an assertive candidate, Song kept his usual modesty and prudence and won the heart of the two chairmen. "I think he is quite generous" commented Liu Chuanzhi. According to Zhang Ruimin, "Song acts like a general, which impresses us a lot... it is an important quality for leaders whether you can fully exploit the staff's potential (and Song can)."

As the champion of "Win in China", Song reaped social influence, which is boosting his career

and has gained better credibility for his company. Now he often gets calls from companies asking for cooperation. Of course, what makes him happier is not these calls, but the increasing recognition of entrepreneurship by the society.

SONG'S PERSISTENCE

Song seems to be a very different person. Twelve years ago, he gave up high salary and started from scratch. In 2006, when he was quite successful, he gave up and chose to start from nothing again. People don't understand why he always makes "crazy" decisions and why he keeps so confident?

Song was born in the 1970s. His hometown Caohu has a tradition of hard studying. Parents there will save every penny to afford their children a good education. Under such an environment, the local people form a remarkable tenacity to get through hardship. Song is no exception.

He is also lucky to attend Wuxi Light Industry College. The college is small, but has a very open atmosphere and encourages students to develop personal abilities and social contact rather than merely getting high scores. Song has accumulated some social experience and insights during his internship under the guidance of his tutor. At the time, his tutor brought them to do some projects in the township enterprises in Jiangsu Province. It was there, Song witnessed the fast development of the wholesale market in Wuxi and Changshu. He was convinced it was a good opportunity. This is also the important reason why he decided to follow his boss back to Anhui to start their own business. His confidence didn't build on no ground.

THE DON QUIXOTE ENTHUSIASM AND RESPONSIBILITY

Song Wenming was dubbed as "the genteel and intelligent modern Anhui businessman" in the competition. His modesty and generosity were highly impressive, beneath which, was actually his sense of social responsibility.

Such characteristic was the result of the education of the era and his father. His father was the only educated person in his brothers. His uncles sacrificed their education opportunity, saving the money to afford his father, giving him the hope for a better life. He planted the creed in Song's heart that he should spare no efforts in helping his families and others.

As the Chinese old saying goes, "Many hands make light work", Song found two partners after forming the idea of staffing outsourcing: Gao Xiangjun from Suzhou Industrial Park and Chen Weirong from New Castle Institute of Technology. The former is familiar with the companies in the area and the latter is veteran in professional training. All born in the 1970s, the three share the spirit of Don Quixote. "Our generation is now in the thirties, the golden time in life. We hold important positions in companies and will soon become the backbone of the society. I think we should and could do something, or set sound social values... in the transition period of our motherland, we are bound to shoulder the historical responsibility and make contributions to the renaissance of our nation," said Song Wenming.

GENEROSITY MAKES EASY

Song's company is on the way now. It is named "Yi De" with the connotation that "Life becomes easy

if you help others generously” (Yi means easy and De means generosity). Because of “Win in China”, many companies have got in touch with them. Song hopes that with their help, more people could receive training and land a job. Enterprises could also be relieved from labour shortage on the other hand. Thus, a benign circle will be formed. Song hopes that the human resource industry in China will be more soundly developed and a social problem will thus be properly resolved.

Staffing outsourcing is something easier said than done. Operation, relative regulation and establishment of credibility are all difficult issues. Yi De already has a good start. Currently it aims at enterprises in the Yangtze River Delta, where Song and his partners have a solid basis. When asked whether they welcome competitors, Song gave a positive answer. They are more than happy to see the sound development of the industry.

“If I succeed, the sense of achievement it will bring is gorgeous, much more than making money. If this model works, it will provide a solution to a social problem. Such a sense of achievement is worth my efforts.”

His “rewards” have already come. In 2006, Song Wenming was elected among the “Top 10 Economic Personages in Hefei (provincial capital of Anhui)”, and “Personages Impressing Anhui”. These are only regional awards, but undoubtedly it is the recognition of Song and his social responsibility. **TheLINK**

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



Top: The Europe study tour, 2001

Middle: Visiting Adecco, 2005

Bottom: With Ma Yun, founder of Alibaba.com

Private vs. State Ownership and Earnings Management: Evidence from Chinese Listed Companies

By Ding Yuan, Zhang Hua, Zhang Junxi

With major scandals around the world shaking investors' faith in published company financial information, the problem of earnings management has recently come under the spotlight. Top executives have been found to manage their earnings aggressively, through accounting sleight-of-hand and corporate policies to improve their companies' announced performance.



In a recent study, Ding Yuan, Associate Professor of CEIBS, Zhang Hua, Research Fellow of CEIBS and Zhang Junxi investigate the role played by a firm's ownership structure (both ownership concentration and different ownership types) in earnings management.

By analyzing 273 private-owned and state-owned Chinese companies listed in 2002, this study is the first one compares earnings management practices between Chinese private-owned and state-owned listed firms. Ding and his co-authors reveal that an inverted U-shape relationship exists between ownership concentration and earnings management practices. It is clear that private-owned listed companies tend to maximize their accounting earnings more. However, the entrenchment effect of ownership concentration on earnings management is weaker in private-owned listed firms than in state-owned listed firms.

Earnings management is always a means to an end, and uncovering the motives for earnings management is the key to explaining the issue. In a developed capital market, with separation between ownership and management, and broad shareholder bases, earnings management is driven by the desire to prop up the company's stock price, as stock price is often the key basis for managerial compensation, which may include stock options or other incentive plans. However, in some less developed capital markets these motives may no longer be relevant. In such markets, even listed companies have a highly-concentrated ownership structure and top managers are (or directly represent the interests of) controlling shareholders. The Chinese stock market is a good

example of such a context: the floating shares typically accounts for only a small proportion of listed firms' total shares, and until mid-2005, stock options were prohibited.

Nevertheless, earnings management is found to be prevalent in Chinese listed companies. Previous studies provide strong evidence that Chinese listed companies boost their earnings dramatically in order to gain authorization for an IPO, to issue new shares or to avoid being delisted. The implicit assumption is that meeting the regulatory requirements is the companies' incentive to manage their earnings.

The present study adds to the literature by addressing the same issue from a different perspective, namely, an agency perspective, i.e. looking at earnings management structure as a sign of the agency problem in modern corporations. We argue that the conflict of interests between controlling shareholders and minority shareholders is the root cause of earnings management in China. Since ownership structure is the primary determinant of agency cost, this study attempts to link companies' ownership structure with their earnings management behavior. The current transitional nature of the Chinese economy provides a valuable opportunity for examining the behavior of companies with different ownership types, i.e. state blockholders or private blockholders.

As stated by the Chinese government, the original purpose of the stock market was to help state-owned enterprises (SOEs) raise funds and improve their operating performance. For this historical reason, the majority of current listed Chinese companies originate from restructured SOEs and are still

controlled by the State and/or other non-listed SOEs. Yet despite this background, a distinctive group of listed companies, accounting for slightly more than 10% of all such firms, has emerged in the Chinese market: listed firms controlled by private owners. Selecting a sample consisting of both private-owned listed companies and state-owned listed companies for the purpose of comparison, we are able to examine whether and how ownership concentration and ownership type affect firms' earnings management practices.

We put forward three hypotheses regarding the relationship between ownership structure and earnings management. The first relates to the negative effect of ownership concentration on the agency problem. Building on research by Morck, Shleifer and Vishny (1988), we argue that increased shareholding by controlling owners makes those insiders entrenched from outside monitoring. In situations where expropriation of controlling owners would result in lower actual earnings, they will manage earnings upward, to avoid any leakage of information on their misbehavior.

Our second hypothesis is based on the theory that ownership concentration also reduces agency costs, by aligning the interests of controlling owners with those of the company. Gomes (2000) suggests that high ownership concentration is a signal of the controlling owner's commitment to build a reputation for not expropriating minority shareholders. Therefore, the alignment effect suggests that increasing ownership concentration beyond the minimum level for effective control will reduce opportunistic behavior by controlling owners, and hence their incentive for managing earnings upward.

The third theory concerns the inefficiency of state ownership. Extant literature suggests that state ownership entails inferior governance quality compared to private ownership, due to the contracting ability problem (Alchian, 1977; Shleifer, 1998). Companies with private ownership will thus have a less serious agency problem, and hence a lower incentive for managing earnings upward. More specifically, we predict that ownership concentration will give

This paper provides evidence that the earnings management practices of Chinese listed firms are influenced by ownership concentration as measured by the total percentage interest in the hands of the largest shareholder. Specifically, our study shows that the relationship between shareholding concentration and earnings management follows an inverted U-shape pattern: when the ownership concentration level is low, the agency cost is high. Initially, large shareholders tend to maximize ac-

Our analysis also shows that private-owned listed firms favor earnings boosting methods more than their state-owned counterparts. This result reflects the specificity of the Chinese capital market, where private-owned firms are still in a weaker position because of specific political and historical factors. They are thus under pressure to report a better-than-real financial performance to reassure the market. Meanwhile, the effect of ownership concentration as a factor increasing earnings maximization is less marked in private-owned firms, because their large shareholders are inclined to act as the actual owners, which means their incentives to expropriate the firm are comparatively low.



rise to a weaker entrenchment effect in private-owned companies than in state-owned companies.

We use two measures of earnings management for the purposes of this study. The first is the conventional “discretionary accruals”, which measures earnings management practices through non-cash operating transactions. The second is the “Non-operating income / sales” ratio, which captures the earnings management effects of non-operating transactions with related parties. The relationship between earnings management and ownership is then examined.

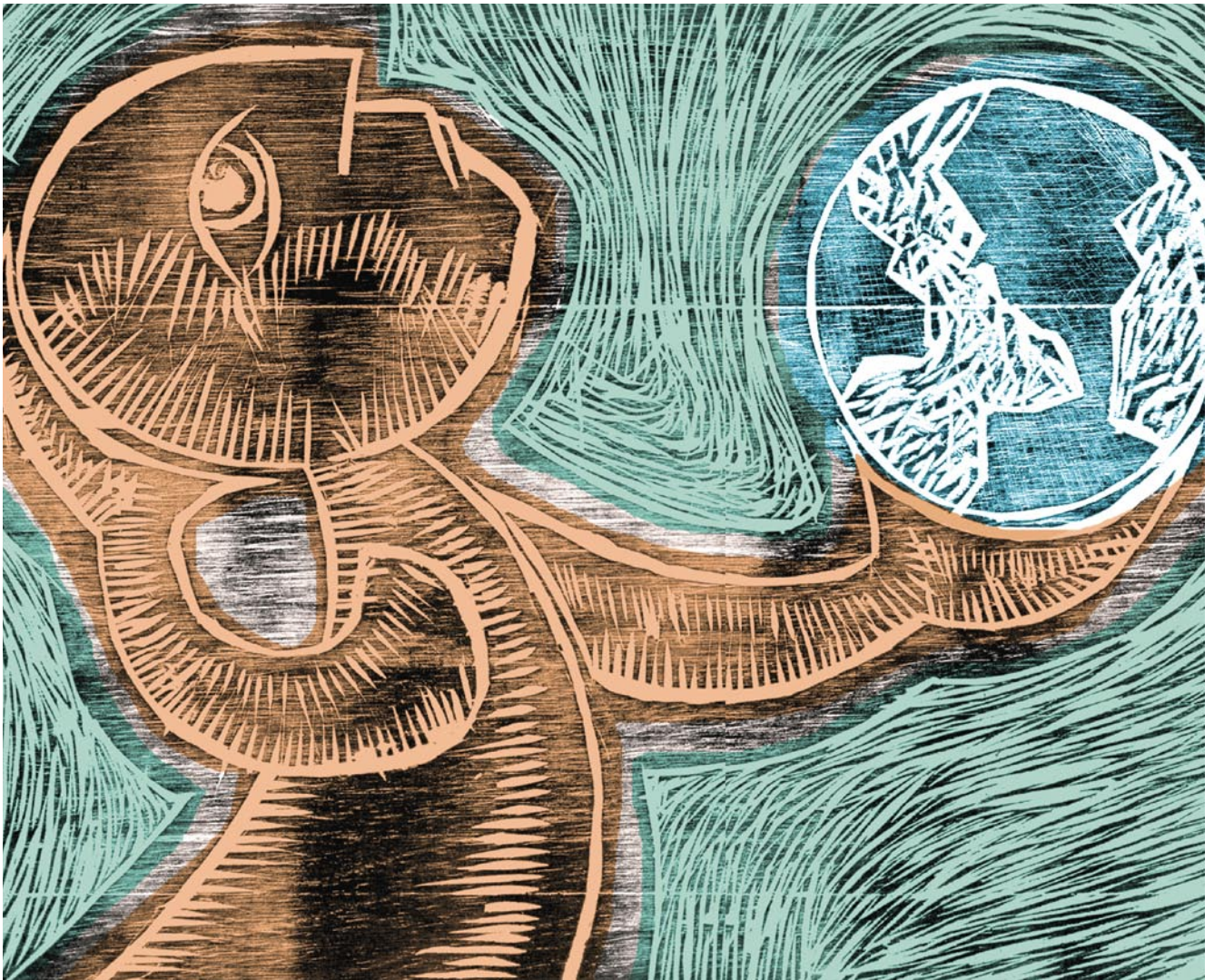
counting earnings in order to reap benefits in the future (entrenchment effect). However, when the ownership concentration reaches a high level, large shareholders become the true owners of the firm, and are thus more likely to seek to preserve its future growth potential by minimizing accounting earnings (alignment effect). Our results show that in our sample of Chinese listed firms, until the top-shareholder concentration reaches the vicinity of 55%, the correlation between ownership concentration and earnings management is positive, while beyond that ownership concentration level the relationship becomes negative.

All our ownership concentration and type measures hold significant coefficients of the same sign in the regressions for both earnings management measures (discretionary accruals and non-operating income over sales). This suggests Chinese listed firms tend to use both non-cash accrual items at operating level, and non-operating transactions with related parties, to maximize (or minimize) their accounting earnings.

One major limitation of our paper is that our “non-operating income over sales” measure makes no distinction between normal gains and losses and abnormal transactions with related parties. In future research, it would be very interesting to examine the relationship between discretionary accruals and certain directly-related party transaction measures. [TheLINK](#)

The article is a summary of “Private vs. State Ownership and Earnings Management: Evidence from Chinese Listed Companies” published in *Corporate Governance* (March, 2007).

Opportunities and Challenges Related to Chinese Companies Acquiring Western Companies



By William Reinfeld

Over the last two years there has been a considerable increase in the interest shown by Chinese companies to acquire Western businesses. This trend stems from the need to acquire new markets, technology, know how, brand recognition and other capabilities from abroad faster than they can be developed domestically. It is also being encouraged by steps the Chinese Government is taking in recognition that failure to acquire these missing elements could slow down China's rapid economic pace. However, acquisition of foreign businesses presents many new challenges for Chinese companies. The biggest challenge is finding the right target for the right price and overcoming the reluctance of target companies to make deals with a culture they do not understand. Other significant challenges include, integrating acquired products, technology and systems into existing operations; finding appropriate and experienced human resources to manage and staff the ventures; shifting to new business models; fitting the cultures and strategies of the two companies; turning around unprofitable business units; etc. Likewise, Western companies that might be for sale and that could offer Chinese firms what they are seeking are often not well prepared to do what is required for making the transaction executable and successful. A lot of new territory is being explored, here, especially for mid-sized businesses not used to participating in cross-border transactions of this kind. The present article identifies some of the challenges faced by Chinese and Western companies in

these transactions and suggests steps that may help ensure greater success.

BACKGROUND

Although China is now the fourth largest economy in the world, it still lacks some of the characteristics of a leading global economy. Only 16 of its companies are listed in the Fortune 500 and its outbound direct investments have been exceedingly small in comparison to the investments flowing into China (approximately \$12-18 billion, depending on what is included, vs. \$100 billion, in 2006). However, no one expects these shortfalls to last and, indeed, China has begun pursuing a more aggressive search for foreign acquisitions and investments -- following the models of Japan and Korea, whose strategy for building world-class industries involved heavy overseas investments and acquisitions. With FX reserves of \$1 trillion, and increasing pressure to put these assets to productive use, the Government has acknowledged that using these funds to invest in foreign enterprises with desired capabilities is in China's best economic interest.

The capabilities Chinese businesses need to acquire in order to move to the next phase of economic growth and development can be obtained in a number of ways such as investing in JVs, establishing partnerships, developing the capabilities internally, or buying businesses that already possess these capabilities. The most appropriate approach requires consideration of many factors such as urgency, need for control, openness, risk aversion, available assets and resources, and of course available options. While most approaches to date have been through joint ventures, Chinese firms are beginning to realize that JVs can be cum-

bersome, as the interest of the partners tends to develop in different and often competitive directions. They are beginning to realize that their true goals may be better realized through acquisitions and, therefore, a growing number of Chinese companies are beginning to consider acquiring the desired capabilities from abroad. Indeed, the outlook for outbound direct investment is quite bullish. Experts following these trends expect outbound M&A activity will grow at a rate of 20% a year over the next five years.

The environment for Chinese companies to acquire businesses abroad has improved considerably

- *The Government is encouraging such investments* – In an attempt to focus economic development on more strategically important objectives, the Government is taking steps to encourage both inbound and outbound investments toward addressing the high priority goals of China. Consequently, foreign exchange controls for overseas investments have been loosened, overseas investment approvals are being streamlined, and banks are being encouraged to provide capital for such transactions. Within larger and more important sectors, where companies are likely to still be largely owned but not run by government, approximately, 50 firms have been earmarked as “Global Champions”. These companies are considered potentially, if not already, competitive on a global basis. Accordingly, highly favorable incentives have been designated to pursue strategies that will allow these companies to achieve the distinction of “Global Champions”. Appropriate acquisitions are an important element of that strategy.

- **Western private equity firms and investment banks are pursuing this market** – Overseas financial institutions recognize the potential of this market and are providing access to additional capital and proposing investment opportunities to Chinese businesses. In 2003, Chinese companies made 40 M&A's, valued at around \$2 billion. In 2004, the number of M&As abroad rose to 55 and the transaction value doubled. By the third quarter of 2005, 23 M&As had been approved at a total value of \$23 billion. These figures are believed to understate total investments by 50 – 65%, as they do not include investments originating from Chinese subsidiaries listed in Hong Kong or overseas exchanges.

- **Chinese business leaders are becoming more proactive in considering overseas acquisitions** – As they become more sophisticated in dealing with their global counterparts, Chinese businessmen are beginning to think more explicitly about global expansion as a vital component of their strategies. In fact, the trend is likely to grow exponentially as businesses become increasingly more successful in finding and absorbing overseas acquisitions and their competitors are drawn into pursuing this strategy as well.

- **Western acquisition targets are becoming increasingly appropriate and available** – As the specifications of what Chinese companies are seeking shifts and the economies of the United States and Europe also adjust to changing global markets, an increasing number of small and mid-sized Western firms may be available and appropriate for Chinese companies to consider acquiring. This is particularly true in several sectors of growing importance to China such as high tech,

auto parts, consumer goods, environmental and industrial controls, etc.

- **Chinese companies often have advantages over Western bidders in pursuing acquisitions** – Chinese companies generally have access to cheaper capital, through state-owned banks and regional/local economic development initiatives. Furthermore, in the right situations they can transfer parts of the acquired business to China and capitalize on other highly competitive factors such as cheaper labor, less regulation and access to large markets.

To date, the bulk of outbound direct investment activity has been among larger Chinese companies. However, a growing number of smaller firms are pursuing acquisitions. Depending on how one measures success, some of the acquisitions have achieved success, some less so. Included among the better-publicized relevant examples of firms that have made acquisitions of Western firms or are actively seeking such acquisitions are the following:

- Lenovo's acquisition of IBM's PC business in 2004 for \$1.7 billion. This deal was largely driven by Lenovo's desire to become a globally recognized player in the computer hardware business. While many argued that the price paid was too high, Lenovo has been turning operations around and expect to soon turn a profit on the operation. More importantly, they have gained the global brand recognition and the management capabilities needed to be a major global player in this market.

- TCL, a major Chinese manufacturer of electric appliances and consumer electronics acquired the TV

business of Thomson Electronics and 55% of Alcatel's mobile handset business, in 2003. While the acquisitions were not thought to be financially favorable for Thomson, they did transform the company into a global player and appear to have provided a great deal of tacit learning.

- Nanjing Automotive purchased the bankrupt British carmaker MG Rover, for an estimated \$150 million, in 2004. Also in 2004, Shanghai Automotive, China's biggest automaker, acquired South Korea's Ssangyong Motors for \$523m last year. (Shanghai Automotive also makes passenger cars in joint ventures with General Motors and Volkswagen AG in China.)

- Asimco, a small Chinese auto-parts maker, bought NVH Concepts in the US, in 2005, to enhance its capabilities in noise-, vibration- and harshness-reduction technologies for autos. Two years earlier, Asimco had paid \$28m to buy the camshaft division of Federal Mogul, an auto-parts manufacturer in the US that was founded in 1899. The Federal Mogul unit opened up the US market to Asimco, who aim to redefine themselves as a multinational rather than as Chinese. According to their CEO, "To our US or European customers we want to appear as an American or European company with substantial operations in China. To our Chinese customers, we want to appear as a Chinese company with access to global technology, management, and quality standards."

- Haier, China's top manufacturer of household appliances, bid \$1.25 billion for Maytag, the well known US manufacturer of washers, dryers, ovens, refrigerators and other household appliances. Although Haier was well

regarded in China it would be nearly impossible for an unknown brand to penetrate the US market. Seeking to improve its flat financial performance and shrinking margins, Haier went after Maytag – its brands and its markets. But Maytag would have presented extraordinary challenges for Haier, including: the cultural nuances of a century-old company based in the heartland of the US, with a portfolio of iconic brands, including Hoover vacuum cleaners and Jenn-Air appliances; overcoming Maytag’s severe decline in the highly competitive consumer’s products market; and managing global brands and global distribution – in neither of which Haier had experience. On-the-job learning would have been costly. In any case, the deal fell through, as a Western company outbid Haier.

- Huawei, China’s leading telecommunications infrastructure provider, has undertaken several strategic alliances in pursuit of its leadership role in China and is also engaging in an acquisition strategy. Since 2002, Huawei has acquired two optical-transmission equipment companies. Last year, Huawei spent \$2 million for a small stake in LightPointe Technologies, a manufacturer of wireless optical devices based in California. Recently, they have been discussing acquisition of the British firm, Marconi.

- ZTE, the largest listed (on the HK exchange) telcom manufacturer and wireless solution provider, is pursuing an aggressive strategy to become a world player. It already has strategic alliances with TI, Motorola and Alcatel, plows back 10% of its revenues into R&D, has set up 13 R&D centers in China and is actively looking to acquire new capabilities and markets.

- Finally, D’Long, a Chinese conglomerate, with a range of products stretching from Chinese noodles to cement, set out to buy troubled companies with recognizable brands in the lines of products D’Long was producing, such as Murray Lawn Mowers. However, the strategy has not worked as they find it too difficult to do the turn-around.

STRATEGIC OBJECTIVES FOR INTERNATIONAL EXPANSION

While the strategic objectives behind the trend toward international expansion vary by industry and company, the basic motives are the same, namely, to address growing competitiveness in China and worldwide and to gain global leadership in designated sectors. Finding “turn-around businesses” is not yet a goal being sought by Chinese investors. While the temptation may be there, as Chinese businessmen like bargains and do have the ability to cut costs dramatically and achieve other economies, they recognize the major managerial and cultural difficulties these types of acquisitions present them. Thus, Chinese commercial companies prefer to buy assets and customers that can be plugged into their own operations, minimizing the need for painful adjustments and cultural clashes.

Addressing the challenges of rapidly changing markets and growing competitiveness has necessitated a leapfrog strategy, bypassing the traditional path of growth and development and seeking to acquire markets, technology, supply sources, capabilities, and knowledge as rapidly as possible. The principal capabilities being sought in acquisitions, therefore, are the following:

- *Access to raw materials and sources of supply* – For many industries in China, securing raw materials and inputs to production are the major constraint. Historically, access to mining, minerals, oil and gas, and other raw materials have accounted for a major share of China’s outbound investments. These targets will continue to be a dominant objective of international expansion.

- *Access to overseas markets* – In many cases, the domestic markets for Chinese companies are limited to the region in which they are located. Inter-regional commerce is not yet typically practiced in China, where the regional governments tend to protect their industries from losing markets to competitors from other regions in the country. This results in companies having no room to expand other than abroad once they have saturated their regional market. Even the exceptional companies, such as Glanz Microwave Ovens, that do cover the entire China market, look for growth overseas as they improve their products and seek greater economies of scale and profitability. Thus, as Chinese companies grow more successful and improve their products their interest in expanding their markets abroad is becoming more important. Examples of this trend are most evident in the automotive industry, consumer products (particularly consumer electronics), and white goods.

- *New products and services for China* – The China market is becoming a more significant target for businesses as disposable income expands and as manufacturers seek to develop domestic supply sources. These trends translate into the need for new products and services, higher quality and

a broader competitive base to compete with imported goods and services. Even in industries whose inter-regional markets are limited, one way to bypass the protective measures is to offer products and services not available from the local supplier. Examples of this can be seen in all kinds of consumer goods and services, all manufacturing sectors, healthcare and any industry or service aimed at improving quality of life.

- **New technology** -- New intellectual property is one of the leading competitive factors in many of the industries in which China is trying to compete. It is also a capability that China needs to develop more rapidly. Technology is needed not only in products but in processes as well. Among the industries where the need to acquire new product and process technology is most critical are IT, biotech and pharmaceuticals, consumer electronics, and automotive.

- **HR skills and talent** – A shortage of skilled and trained human resources is one of China’s greatest constraints. This is particularly true in management areas such as senior leadership, marketing, operations, and R&D. What is missing is not only experience, but also training programs, strategic planning capabilities, global perspectives, etc. Shortages are also found in highly specialized and technical areas across many of the industries that China is trying to develop. While aggressive education programs are helping to relieve these shortages they cannot close the gaps fast enough.

- **Brand recognition** – In order for China’s industrial economy to advance to the next stage of development Chinese companies have to own brands that are recognizable and well thought of outside of China. At this

time, China’s manufactured exports are almost entirely of brands other than its own. The products are manufactured either by OEMs or by factories belonging to non-Chinese companies. If Chinese companies wish to sell their own products outside of China (and in some cases even within China) they will have to develop brands that are well known and well regarded. At present there are less than a handful of Chinese brands that meet these criteria.

- **Improved manufacturing productivity and quality** -- One of the most critical challenges facing Chinese manufacturers today is how to raise productivity, lower costs and improve quality of their manufacturing facilities. As wages increase, both in absolute terms and relative to other low wage regions of the world, cost cutting measures depend more on technology, techniques and processes that increase overall productivity and reduce costs. Other competitive factors such as quality, speed, reliability, inventory control and supply chain management also depend on new manufacturing capabilities, which both traditional and newer industries in China are seeking.

CHALLENGES ENCOUNTERED BY CHINESE COMPANIES WHEN ACQUIRING WESTERN COMPANIES

M&As are difficult anytime and anywhere, but additional challenges are often encountered when a Chinese company tries to merge an acquired Western company into its operations. Among these challenges are the following:

- **Finding the Right Target at the Right Price** – Due to lack of exposure and experience, it is often difficult

for Chinese companies to find the “Right Target” for the “Right Price”. This is particularly true in the case of smaller acquisitions, where candidate companies may be ones that are “on the block” to be sold. An appropriate company to acquire could, in fact, be one that has not been announced for sale and may have to be privately approached in order to structure the right deal. Many of these smaller companies are privately held and it may be difficult to get good information about them without some level of voluntary disclosure.

- **Integrating acquisitions into existing business** – Cultural differences are most likely the greatest source of difficulty Chinese companies face in merging with Western companies. These differences create problems in the integration and management of personnel, as well as operational procedures. Differences in basic business and operations practices also present major challenges. These may include approaches to accounting, bookkeeping, HR practices, marketing and sales, operations, supply chain management, overall strategy, organization design and governance. Technical differences and standards also can present major complications in the initial integration of Chinese and Western businesses. The most successful mergers are those that recognize which of the competing options are the most effective and best support the overall objective of the acquisition and adopt that. For example, when Lenovo thought about buying IBM’s PC division in order to acquire the products, markets and technology they recognized that managing Western staff with Chinese managers would pose a serious challenge. Consequently, they viewed the acquisition as buying management

expertise as well. The IBM staff was subsequently welcomed into the fold.

• **Turning around losing businesses** – While turning around a losing business may not be the primary motive of Chinese investors buying Western businesses, the need to do so quite often is an important part of the deal, as in the case of the Thomson acquisition, for example. For Chinese businesses, at this time, such challenges can exceed their management abilities, cultural understandings, and resources. Unless outside consultants are brought in or major changes are quickly introduced, these challenges can result in the heavy losses.

• **Elevating second-tier brands** – Finding tier-one recognizable brands to acquire may be very difficult. However, elevating second-tier brands may pose major challenges to Chinese companies, who at this time generally lack the ability to do branding in

Western markets.

Experience has shown that the following steps may be helpful in minimizing the impact these challenges may have on the Chinese acquirer:

Have a well thought out objective as to why the acquisition is being sought

The first step in finding the “Right Target” at the “Right Price” is to have a clear picture of the objective or strategic intent of the acquisition. The more sharply focused this picture is, the more likely the right target will be found and the right price will be paid. For example, the goal may be: to expand output so as to achieve economies of scale; to establish a foothold in a particular overseas market; to acquire knowledge of running a global company; to acquire or develop a recognized brand; or to obtain particular technology. Of course, there can be and usually are multiple objectives.

But they must be clearly defined and prioritized before beginning the search.

Prepare a realistic set of specifications for what is being sought

After setting an objective, the next step is to specify the capabilities and other important features that will have to be considered in selecting an option. It is also important to indicate, in advance, whether each of these qualifications is “essential” or merely “desirable”. As mentioned earlier, there are a number of approaches to acquiring the needed capabilities. They can be developed internally (e.g., doing the R&D, hiring new staff, etc.), through JV with other companies, through collaboration with a partner, or through acquiring an existing company that has the capabilities being sought. The decision as to which approach to take may require careful analysis of options, strategy, predispositions, etc. Regardless of

EXHIBIT 1 SPECIFICATION of CAPABILITIES BEING SOUGHT BY BUYER

WHAT YOU ARE LOOKING FOR:	LEVEL OF IMPORTANCE			
	Essential (must have)	Very Important	Important	Desirable
Products (Products or product areas of interest)				
Technology (Technology or technical capabilities of interest)				
Markets (Customers, products, or geographic markets of interest)				
Management (Operations, R&D, marketing, etc)				
Financial (Financial information that is of interest)				
Other (e.g., brand, location, facilities, relationships, etc.)				

which approach is taken, however, it is important to specify what the desired capabilities and other features are and how important (or potentially valuable) they are. This will indicate not only which option to select but also help in determining the value it brings and, consequently, the price the acquirer should be willing to pay.

Exhibit 1 provides an indication of how the desired capabilities may be specified. Capabilities may refer to specific products, markets, technology, skills, management capabilities, financial performance, etc. Exhibit 2 provides an indication of how important considerations affecting compatibility may be specified. Compatibility considerations may include such features as strategic fit, corporate culture, timing, registrations, patents, flexibility, size, age, etc. Specifying and evaluating these critical elements is not a trivial task. Many companies may not have thought through, beforehand, all of the subjects that need to be considered in determining what is needed to achieve the desired objectives successfully.

Have a good grasp of the market and a fair price for the right company

Having a strategic objective in mind and knowing what new capabilities are needed allows the buyer to assign a value to the capabilities he is seeking (i.e., value of the capabilities may be determined as a function of what it would cost to develop those capabilities internally, if at all possible, and the returns expected from achieving the expected objective). Urgency, risk, uncertainties and other factors need to be included in this evaluation as well. Determination of this “expected” value of the capabilities allows the buyer

to set an upper limit on the price he is willing to pay.

Next, the buyer should have a good appreciation of the market for what he is seeking. What businesses of the kind he is seeking are, or have recently been, for sale? What do they offer? What prices are being asked?

Conduct a careful appraisal and due diligence

Once potential seller(s) have been identified a careful screening has to be conducted. Using the predetermined specifications, such as the examples shown in Exhibits 1 and 2, the candidate(s) can be appraised. Do they have the capabilities and compatibilities being sought? At the level being sought? If more than one potential seller is being considered, which one scores highest using the specification matrixes?

The process of obtaining satisfactory answers to these questions should not be done hastily and ideally should involve people on many levels of both organizations, as appropriate. New criteria may emerge in the process of conducting the evaluation. Assigning values to the criteria used in the evaluation will allow the buyer to gain a better feel for a price he is willing to pay. The due diligence that ultimately is performed should be done with full cooperation of the seller, exploring technical, financial, legal, and other components of the firm.

Be well prepared for the negotiation

Most businessmen are experienced in negotiating with suppliers and customers, but negotiating for the acquisition of a business from another part of the world may introduce new challenges

that need to be considered. These may include cultural differences that influence how the negotiations are conducted and what lies beneath what is said. Procedural and legal requirements that need to be covered on the seller’s side may also be quite different from those required in China. It is also important in these cases to have a good appreciation of who the decision makers are in the seller’s organization -- their motivations, preferences, flexibility and negotiating style. These considerations require the buyer to do his homework before entering the negotiations.

Prepare a plan for addressing the challenges of integration

The process of finding an appropriate acquisition, negotiating the deal and then executing the integration can be accomplished with greater success if a comprehensive integration plan is prepared in advance. The plan should begin evolving at the time the initial idea of making an acquisition is conceived. At that time the potential challenges should be identified and senior management should decide whether or not the firm is prepared to do what it has to do to meet these challenges. Then, as the search for an acquisition proceeds and as discussions with specific candidates progress, the integration plan should be developed in more detail. If and where appropriate the seller can be asked to become a part of this plan, as for example in turning around weak business units within the acquired organization or integrating the staff.

Seek assistance from an appropriate consultant

Many of the challenging tasks identified above can be addressed effectively with the use of appropriate consultants who have world-class credentials in strategic planning,

organization management, industry analysis and M&A transactions. These consultants can serve not only in assisting the company think through their strategic intent, needs and game plan, but also serve as agents in identifying potential acquisitions, facilitating the exploratory process, assisting in the evaluation of options and negotiating the deal. A knowledgeable consultant should be able to provide information and insights into the general market, i.e., what's available, as well as specifics about target companies such as their general capabilities, urgency, motives, asking price, and other background information that will support a more effective evaluation and negotiation. They can also assist in mapping out the plan for integration

and help in execution of that plan, particularly in handling the cultural differences.

KEY SUCCESS FACTORS FOR THE SELLER TO CONSIDER

These trends suggest a number of steps Western companies, interested in selling part or all of their assets, should consider taking in preparation of capitalizing on such opportunities. If the seller is not experienced with the Chinese market outside consultants could be of great value. Among the key success factors are the following:

Identify how the seller's assets/ capabilities can meet the potential buyer's needs

Owners of businesses that may be up for sale and who believe a Chinese

buyer could be interested in acquiring them should consider preparing a profile of themselves that reflects, to the best of their ability, what the Chinese buyer may be seeking. This can be done either in anticipation of receiving an expression of interest from a potential buyer or as part of a more proactive campaign in which an agent, working on the seller's behalf, approaches potential buyers. In either case, this suggests having an appreciation of the buyer's motives, namely what he is looking for and the value he may place on the assets, capabilities and compatibilities of the potential seller.

In the case of potential Chinese buyers we have suggested, above, some of their major areas of interest. These include new market outlets for

EXHIBIT 2 SPECIFICATION of COMPATIBILITIES BEING SOUGHT BY BUYER

WHAT YOU ARE LOOKING FOR:	LEVEL OF IMPORTANCE			
	Essential (must have)	Very Important	Important	Desirable
Strategic fit (Strategic compatibility requirements)				
Value creating expectations (E.g., competitive positioning, economies of scale, learning, ROI)				
Urgency (By when deal should close)				
Due Diligence (E.g., legal, financial, technical, etc)				
Flexibility regarding arrangement (Extent of ownership)				
Size (if relevant)				
Age (if relevant)				
Corporate culture				
Other (e.g., references, registrations, copyrights, etc.)				

achieving growth, new products or services for their existing markets, technology that they would have difficulty developing within a reasonable timeframe, human resource talents that are difficult to obtain in China (particularly in management), recognizable brands, processes and techniques for increasing manufacturing productivity, facilities and equipment that are appropriate for China and can be acquired at bargain prices. We have also discussed some of the challenges the potential buyers face and how they may minimize these. The points identified suggest how the potential seller might prepare a profile of himself to present to a potential buyer. If a specific potential buyer can be identified the profile can be more specific. If the potential buyer cannot yet be identified a more general profile along these lines of concern can be prepared. The profile can then be used by an agent to look for potential buyers.

Identify the valuable elements that lie beneath the value of these assets and capabilities

As is often the case, the buyer can think only of the capabilities and compatibilities that satisfy his immediate concerns. A seller that can identify additional potentially valuable elements that lie beneath the capabilities he offers may be able to enhance his overall value to the buyer. This may be quite likely in situations involving experienced Western companies. For instance, the buyer may be seeking a particular product line or geographic market, but of even greater value may be in the capability to develop these and tacit knowledge that accompanies those capabilities. Whereas corporate cultures need to be compatible, the underlying influence that a company's culture may have on

driving the business may not be fully appreciated, at first, by a potential buyer and needs to be stressed by the seller when presenting himself to the buyer.

Identify any specifications the buyer may be required to satisfy

The seller will likely have requirements to specify about the buyer, such as appropriate strategic fit, ability to fulfill the seller's existing commitments, compatibilities concerning staff, culture, operations, etc. The more explicitly these requirements can be spelled out in advance the more effectively they can be addressed together with the buyer.

Show willingness to cooperate

Appreciating some of the challenges facing the Chinese buyer, as identified above, and showing some willingness to minimize these challenges through cooperation in both the negotiation phase and afterwards can greatly increase the success of the deal for both sides. In addition to being as thorough as possible in describing the relevant capabilities and elements of compatibility, the seller should be as open as possible and sensitive to the cultural differences of the buyer. If possible, he should show a willingness to help in the integration of his assets into the buyer's operations. This could include training before and after the transaction takes place, time-phased withdrawal of personnel, agreement to act as consultants, etc.

Be well prepared for the negotiation

Just as discussed above, the seller must be prepared, in advance, for challenges that may be unique to negotiating cross-border company acquisitions. These include the sig-

nificant cultural differences that influence how negotiations are conducted, procedural and legal differences, decision-making differences, etc. Thus, the seller must also do his homework before entering the negotiations. Again, having an agent or consultant who can coach the seller on how to handle the cultural differences and can also assist in collecting the background information that will support a more effective negotiation can be of great value.

CONCLUSION

Outbound M&As have become an increasingly important option for Chinese businesses to consider as the needs of these companies for staying competitive shift toward more sophisticated requirements and as the opportunities to find appropriate acquisitions among Western companies grow. Furthermore, the strong Chinese currency and various Government encouragements have strengthened the negotiating power of the Chinese acquirer. Yet, as important and desirable that outbound M&As are, they are also much more difficult to execute successfully than domestic M&As. Nevertheless, by taking a careful and well-thought out approach to planning and executing the strategy for an outbound M&A and focusing on the longer-term objectives, this potentially powerful approach to acquiring the missing elements of a longer-term strategy can have a highly positive result. [TheLINK](#)

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Opportunities in Doing Business with China

– Insights from CEIBS-LED Research for the EU commission

Professor Per V. Jenster of CEIBS has led a team of senior experts in a recent research project for the EU Commission, entitled: “Future Opportunities and Challenges in EU-China Trade and Investment Relations 2006-2010,” presented on February 27, 2007 by Trade Commissioner Peter Mandelson. The team carried out in-depth studies across eleven of China’s most competitive sectors, surveying over 200 foreign companies in China. The sectors covered in the research included Machinery, Chemicals, Automotive, Pharmaceutical, ICT Equipment, Agriculture, Financial Services, Distribution and Retail, Construction, Telecommunication Services, and the Sustainable Technologies and Services Sector. A twelfth theme explored China’s intellectual property environment across all sectors.

According to the research, China’s rise presents a great challenge to the global economic system. As globalisation progresses, European operators are beginning to compete head on with Chinese industry, and the question of Europe’s competitiveness in an open world economy is becoming an increasingly important one.

Formulating a response to China is in many senses similar to formulating a response to globalisation itself. Low-wage workforces driven by labour surpluses, which form the main thrust of China’s competitive advantage, are common to many developing countries, though not all have been able to climb the technology ladder and boost productivity as quickly. Europe, along with other developed economies

where ideas and the production of knowledge drive economic growth, must therefore carefully consider its role in the global economy and focus on what it does best.

COMPETITIVE STRENGTHS

The report emphasizes that in terms of competitiveness in labour-intensive manufacturing, Chinese industry is second to none. However, European operators still enjoy a sizeable advantage in higher value-added economic activities such as:

- Innovation and R&D
- Design
- Marketing and branding
- Servicing
(after-sales, customised solutions)
- Management

- Overall superior quality of goods and services
- Financial strength
(applies mainly to multinationals)

The range of competitive strengths of European operators is therefore relatively comprehensive and covers nearly all aspects of the spectrum of competitive factors except for price, with the exception of some large retailers who are able to leverage buyer power. Therefore, at this stage, it is useful to make a number of distinctions.

The first distinction is to be made between manufacturing and services, while the second distinction is between commoditised markets and specialised high value-added markets. Clearly,



European operators are at a competitive disadvantage in commoditised markets, in which price plays the most important role. It is in these markets where European operators are faced with the greatest pressures and only those which successfully relocate production to or source supplies from low-wage countries are able to compete effectively.

Those European manufactured goods which contain high value-added in the form of R&D or design are largely able to retain their market share in European markets by differentiating their products from Chinese goods. This applies equally to export markets. As incomes in China grow, demand for higher value-added products will also increase presenting significant opportunities for European operators. Moreover, as environmental standards are raised in China, European operators offer the world's leading environmental products as well as the technologies for cleaner production, energy etc. However, this is not to say that all is well for European Companies. Chinese manufacturers are climbing the value chain and starting to internationalize. A general increase in the quality of goods and services (e.g. ma-

chinery, automotive, ICT, chemicals) combined with low-cost bases allows for entry into markets which were once the domain of European companies, particularly rapidly emerging markets such as ASEAN and globally in South America, the Middle East and Africa.

As for services, the advantages enjoyed by European operators are considerable. For the 5-year period covered by this study, there exists little question of a competitive threat from Chinese service providers. While there have been some concerns in the construction sector about third market competition, little evidence exists that this threat is currently or likely to be substantial. However, investment barriers in service sectors in China remain problematic.

In all sectors the opportunities to maintain Europe's competitiveness will be realised by reacting swiftly to new paradigms and globalisation trends. It will be equally important to improve competitiveness at home.

• **Cost competitiveness:** Just as the lower costs of goods from China benefit European consumers, these trends bring challenges to European opera-

tors to reduce their own costs in order to maintain competitiveness.

• **New concepts for home markets:** Growth trends in the Chinese market can also lead to new innovations that can inspire European operators to develop new concepts and business practices which can then be adapted and applied in Europe.

HIGHLIGHTS OF SECTOR-SPECIFIC OPPORTUNITIES FOR EUROPE

In the machinery sector, the drive for lower energy intensity will lead to an increased demand for more energy efficient machines, power generators and renewable energy-related equipment, a field in which the European machinery industry excels. European operators must continue to capitalise on their superior knowledge of producing specialised, innovative, highly integrated and precise machines. Projections to 2010 put sales growth for European companies at 10% per annum, making China the market with the highest growth potential in the Asia-Pacific region for customised services. While China still has a trade deficit in machinery, import substitution strategies should result in a trade balance by 2008-2010.

In the chemicals sector, 2004 saw China's chemical imports (including pharmaceuticals) valued at around € 44 billion (bn) and the size of the domestic market reach around US\$ 180 bn. If further reforms (e.g. improved IP protection and the company law regime) continue to support market growth trends in key customer industries (manufacturing, construction and farming) the chemicals industry will grow at a rate of 10.2% CAGR. European commodity chemicals producers in upstream segments should leverage their financial strengths and invest in China, while speciality and fine chemicals producers should seek further export opportunities in China. Chemical companies should continue to capitalise on the strength of their customer relationship management expertise to provide customer specific R&D and servicing. Overall, European operators should build on their position as the world leaders in terms of energy efficiency, environmental management and the development of environmentally-friendly materials.

The automotive sector in China will see moderate to strong growth with overcapacity and increased local competition. Auto production capacity in 2010 is expected to be more than double domestic demand, increasing from approximately 8 million units a year to 16 million vehicles by 2011. The rapid introduction of new models in the Chinese domestic market will ensure that car parts will be an important export sub-sector for European companies. Furthermore, increased competition in the passenger vehicle sector in China could accelerate developments in low-cost, city-use vehicles which can also be marketed in Europe. Eventual crackdown on rapidly-deteri-

orating air quality in China will result in higher emissions and fuel quality standards, which will provide distinct advantages for European automakers since the standards are modelled on those in Europe.

In the pharmaceuticals sector, continued economic growth and rising living standards will result in the emergence of "diseases of affluence" in Chinese society. Longevity and the ageing population will fuel demand for drug categories that have preventative qualities e.g. OTC pharmaceuticals and "nutraceuticals", resulting in expected sectoral growth at approximately 10% per annum over the next five years. Other important trends include the growing use of self-medication facilities. Companies should explore innovative distribution channels in China, building on trends such as the emergence of pharmacies within retail chains in Europe, particularly as European retailers are rapidly developing their networks. An overall positive outlook relies on continued macro reform and an improvement in IP which will weaken the dominance of Chinese generics over foreign drugs. A strong rural strategy is required so that disparities in healthcare expenditure between more affluent coastal regions and rural areas are reduced. European operators may introduce Traditional Chinese Medicines within their product ranges in Europe allowing new growth opportunities. Considerable opportunities exist for European companies to leverage cost advantages from R&D in China.

In the ICT equipment sector, European operators should compete on design rather than in the manufacture of commodities. Future export opportunities should be targeted at those in-

dustries where the EU has established competitive advantage e.g. precision machinery, energy efficiency and pollution reduction technologies for the chemicals, automotive and agriculture sectors. This will help to ensure that European companies maintain their current levels of market share for which projections of US\$ 130.5 bn in terms of revenue have been made for 2010. An overall positive outlook will require China to move towards adopting international standards to further market access.

Currently, agricultural exports rank 6th in importance in terms of EU goods exported to China. However, EU exports to China have been unable to reach full potential due to market obstacles such as China's SPS regime, insufficient logistics for transport to and from China as well as storage in China, and insufficient protection of intellectual property rights for some high-value agricultural products registered under well-known trademarks. Export opportunities exist in the agricultural services sector as the EU has substantial experience in organic production, value-added food production and sustainable land management. European operators also have considerable investment opportunities in China's rural economy such as in irrigation systems, supply chain management services, eco-tourism and biodiversity protection.

In the financial services sector there exists significant opportunities despite ongoing market access restrictions. Strong growth in the Chinese economy requires further reform and opening of the banking sector to meet the predictions of sustained 20% annual growth of consumer loan busi-



ness, 50% in credit card business and 15% in business transactions. Due to limited market access, current market share of European banks is only 0.8%, though this is expected to grow to 3.5% by 2010. In insurance, the transition from state pensions and social support to private insurance provides foreign institutions with a chance to increase market share from 2% to 10% in the coming decade. European insurance houses' non-life and life insurance market shares are expected to grow from 0.4% to 5% and 0.8% to 8% respectively by 2010. European banks and other financial institutions should support Chinese banking reform, and bring innovation such as public-private partnership investments and excellence in customer servicing.

The opportunities presented by China are perhaps the biggest for European retailers. Foreign retailers are sourcing an increasing amount of products from China for their home markets (US\$ 60 bn in 2005) and are leading the foreign expansion into the Chinese retail market, where total sales are predicted to grow at an average rate of 10.1% until 2010. Competitiveness in retail, gained by focusing on lean operations, supply chain management, integrated procurement, effective quality controls and management flexibility, and the ability to identify with local consumer preferences places European operators in a strong position. Chinese consumers are increasingly willing to pay higher prices in return for confidence in product quality and food safety. Sales of consumer goods (retail and wholesale) driven by strong growth in disposable incomes, urbanisation and population growth are estimated at € 618 billion by the end of 2006 with 4%

of sales by foreign retailers. This could grow to between 8% and 10% by 2010, though the dominance of European retailers will somewhat diminish as US retailers catch up.

The construction sector's share of national GDP rose from 6.7% in 1998 to 7.0% in 2003. This increase together with an average annual growth rate of 8.3% between 2000 and 2005, and an estimated annual growth rate of 7.5% during the implementation period of the 11th Five-Year Programme (2006-2010), indicates the significance of this sector in China. This indicates that China will be the world's largest building and construction market for the foreseeable future. While Chinese companies are in general low-cost and relatively efficient many lack the key expertise and management skills to handle large and sophisticated projects. The European construction industry is well positioned to take advantage of these capability short-falls and has global experience in adopting cutting-edge technologies in large infrastructure projects, as well as new concepts in sustainable building systems. However, beyond limited high-profile showcase projects, European construction companies are being excluded from the larger market, in particular the housing market. They have difficulty therefore in demonstrating their ability to offer integrated services throughout the entire life-cycle of a project.

China's telecommunications value-added services market remains all but closed. There is little prospect of foreign companies increasing their current minimal market share by 2010 unless China revises the current legislation governing the Telecommunications sector, and lifts

the equity ceilings on foreign investments (for example by allowing them to provide backhaul and to market services to corporate customers). As a means to circumvent restrictions in the telecoms and other hi-tech sectors, European operators should seek partnerships with those influential Chinese operators seeking strategic alliances in China (and internationally) for the integration of services in advanced service applications, high quality of customer relations, and management and marketing skills.

Macro Trends Create Opportunities for European Operators

- Environmental requirements for product features will be increasingly important in China. Through its 11th Five-Year Programme (11th FYP), China has set itself the target of achieving more balanced and sustainable growth where increasing energy efficiency, investing in renewable energy and overall environmental protection plays an increasingly important role. This has considerable implications for Europe's materials, engineering, construction, machinery, chemicals, automotive and ICT sectors. Service sectors can also take advantage of their product offerings to support environmental applications.

- Changes in consumption patterns: As China's middle class continues to grow in number there are increasing market opportunities for all consumer-orientated businesses and secondary positive effects for business-to-business operators. Rapid urbanisation and an ageing demographic structure will further influence the business strategies of European operators in the Chinese market. **TheLINK**



CEIBS MBA Program Ranked 11th in the World



On January 29, 2007, Professor Zhu Xiaoming, President of the China Europe International Business School announced that the school's MBA program was ranked No. 11 in the "Top 100 Full-time Global MBA Programs" by the London-based *Financial Times* (2007). The 12 year-old young Chinese business school is hence ranked No. 1 in Asia for 4 consecutive years and listed among Global Top 100 for 6 consecutive years. This is the first time an Asia-Pacific school entered the first league (from No. 1 to No. 12) of b-schools defined by the *FT*, which marked the historic achievement of China's management education.

Compared to last year, CEIBS made significant improvement in nine criteria out of the total twenty. The nine factors altogether account for 63% of the overall weight. The school exhibits best performance in the following six factors: "salary percentage increase at 3 years" (1st), "employment rate at 3 months" (2nd), "international faculty" (6th), "weighted salary at 3 years (based upon PPP by World Bank)" (7th), "international experience" (9th), and "international board" (14th).

CEIBS MBA 2007 FT ranking
releasing press conference

(M: Prof. Zhu Xiaoming,
President of CEIBS; R: Prof.
Liu Ji, Honorary President
of CEIBS; L: Prof. Zhang
Weijiong, Vice President and
Co-Dean of CEIBS)



On behalf of the Shanghai Municipal Government, Vice Mayor Yan Junqi sent congratulation letter to the school, praising CEIBS's pioneering role in the development of China's management education. Madame Yan extended the wishes for CEIBS' greater achievement in the future and its continuous contribution to China's new round economic growth.

Professor Zhang Weijiong, Vice President and Co-Dean summarized that CEIBS's remarkable achievement could be attributed to three major elements. First, China's fast growing economy has provided the education industry vast space. Second, CEIBS has obtained long-term support from the Chinese Central Government, Shanghai Municipal Government and European Commission over the past 12 years since its establishment to adopt a non-traditional education system and explore an innovative path while maintaining international education standards. Finally, the com-

mitment of its high quality staff and excellent faculty members. CEIBS boasts that 95% of its full-time faculties received Ph. D. degree from first-class business schools.

As to the features of the MBA program, according to Professor Lydia Price, Associate Dean and MBA Academic Director, CEIBS endeavors to maintain a balance between internationalization and localization while fostering strategic thinking and strong decision-making ability of the students. The CEIBS MBA program equips students with applicable business knowledge. In addition, the international exchange program and internship opportunities help to broaden the students' mind, richen their experiences, and consolidate their knowledge in real practice.

The success of CEIBS, as Professor Zhu Xiaoming remarked, is a result of co-operation between the Chinese Government, Shanghai

Municipal Government and European Commission. It is also a result of the joint efforts of the CEIBS faculty, staff and students, following the school motto advocated by Honorary President Professor Liu Ji: conscientiousness, innovation and excellence. The founders of CEIBS have spared no efforts, contributing their wisdom, energy and even life like the late presidents Professor Li Jiahao and Zhang Gouhua, laying a solid foundation for the school's development.

The Top-10 business schools in the ranking are University of Pennsylvania Wharton School of Business, Columbia Business School, Harvard Business School, Stanford University Graduate School of Business, London Business School, University of Chicago Graduate School of Business, INSEAD, New York University Stern School of Business, Dartmouth College Tuck School of Business, and Yale School of Management. **TheLINK**

The Common Road of an Uncommon B-school

By Audrey Wu

When Pedro Nueno, one of the founding fathers of the China Europe International Business School (CEIBS) set the goal for the new born to be the No. 1 business school in Asia 12 years ago, no one believed the reality of it except its ambitious founding members. At that time, few mainland Chinese had known about MBA or heard of “business school”, which was called management school or economic and management school in state-owned universities. Ten years later, CEIBS realized its dream: the school was ranked No. 53 in the world and No. 1 in Asia in the Global Top 100 MBA programmes by



the London-based *Financial Times* in 2004. The late president of the school, Zhang Guohua found it headache to decline lobbyists for a seat in the school, who at the beginning, had to visit company by company, persuading managers to take the hardly-heard programme. At the same year, Zhang Guohua set a new goal for the school: to be listed among top 10 b-schools in the world within 10 years. Still suspicious. What stand ahead are big names as Harvard and Yale. How can the late comer compete with them?

A VP'S SHORT-CUT

Located at Hongfeng Road, Pudong, Shanghai, the school is far away from the bustling downtown. The quiet small road, hardly to be found in the map, is now well-known in thousands of taxi drivers of this booming city. Inside the grand white and grey walls, hundreds of MBA, EMBA and Executive Education (EDP) students

are busily engaging in heated brainstorming. Standing at the podium are first-class professors from around world.

In 2002, when Luo Zhiyong began his MBA study at CEIBS under the sponsorship of his company, the young manager set a short-term goal for his career: to be the top executive for the company's China business. However, the goal was reached much faster than he expected – in mid 2006, 2 years after his MBA graduation, Luo was promoted as the VP of the company, in charge of the overall business in the East Asia and Pacific regions. The CEIBS MBA study is a propeller, which provided him a valuable platform to study with the same excellent peers, helped broaden his mind and enlighten him through open exchanges with classmates, faculty, alumni and senior managers. Like other MBAs, in this school, Lou had the opportunity

to communicate with people from different countries and learn from people with different education and working backgrounds. Most of them have the opportunity to go exchange study in another world-class b-school, where they will get first-hand experience on how to manage in a different culture. The significance of such opportunities is obvious in an increasing globalised business world, which would be jealous by most of Luo's peers in other mainland b-schools, not mentioning that the school has established exchange relationship with over 30 renowned international business schools.

Of course, Lou is not an exception among the many MBA graduates whose careers have been significantly improved after graduation. In the 2007 *Financial Times* Global Top 100 MBA programmes ranking, CEIBS MBA programme is listed No. 1 globally in "salary increase", No. 2 in "employment at 3 months", No. 7 in "weighted salary" and No. 9 in "international experience".

Eye-catching numbers. But how these numbers are reached? The interpretation of these numbers may well explain the reason why the CEIBS founding members can realise their dream so soon.

IMPOSSIBLE IS TIME-KILLING

Workloads here are never light. Except attending classes in the day time, the CEIBS students must work hard till mid-night, even till the morning for after-class discussions, group exchanges, assignments... "You must build your body strong enough to handle the heavy loads at CEIBS" is popular saying among the CEIBS MBAs. The school's library is closed



at 10:00 pm, but for most students, that just means the beginning of the study of that night. Covered with the night tranquil, lights glimmer from dorms, where the students are immersed in study, writing assignments, reading books, or engaged in a heated case discussion. If tired, they can go relaxation in the three-floor gym equipped with the most advanced sports facilities and a standard indoor basketball court, another thing to be jealous by their peer MBAs at other schools.

The school is strictly disciplined. Faculties will show no mercy if you are late for the class, not actively engaged in the class discussion, or fail the exams. Even answering phone calls in the classroom is prohibited. The rule-breaker is to be fined 200 Yuan for punishment. So forget cheating. The result may be dismissal. The rigorous academic atmosphere is partly because of the school's strict management, partly because those who come to the school do want to learn and they are clear that "you cannot survive at CEIBS without hard working". In fact, those who want to idle time cannot step into the threshold of the school. Rigorous entrance exam and interview guarantee the quality of the intakes.

FACULTIES CAN ALSO BE GIVEN A "FAIL"

The school's founders would rather take the risk than sacrifice the autonomous status even if it means the school's degree would lose the official recognition from the state education department (the formal recognition was obtained in 2002). Choosing a different way from the state-owned universities chained by the stiff education regulations, what CEIBS fight for is the autonomous right to enrol

intakes, set curriculum, recruit faculty, and make decision of its own strategy, finance, development, etc., which allows it integrating the best resources the ordinary local universities cannot get. Faculty invited by CEIBS are from Harvard, Wharton, Chicago, INSEAN, Columbia, UBC, LBS...

When Wu Jinglian comes to teach at CEIBS each time, he will stay up in his office. The 76 years old famous Chinese economist will think over his teaching in the day and make adjustment according to the feedbacks or receive students baffled with problems. Wu is persuaded to reduce his teaching loads and take more rest by the school management, but to a man who loves teaching as part of his life, persuasion can hardly work. At the same time, Xu Dingbo, Professor of Accounting is also busy in preparing the class next day. He is likely to work till 2 or 3 am today. Having found some updates of the company he will cite in a case, he is going to search for the related financial information and make the update in time. Of course, the two are not alone on this campus, where many other faculties are still working. Even if they are staying at home, it doesn't mean that they can lay aside their busy work.

The "hard to survive" principle fits the faculties here as well. The students can also give their teachers a "fail". Lacking of experiences, poor teaching skills, rushing into classroom without careful preparation will all be reflected in the teaching evaluations right after the class. The students are picky. They will write harsh comments, provide detailed suggestion. Feeling unsatisfied, they can also be "merciless". CEIBS' high teaching quality is hence guaranteed by the strict academic atmosphere, what's more the faculties'

responsibility and their professional dedication to create and disseminate knowledge.

Lack of resource at the beginning forced the school to be "creative": they not only "borrowed" classrooms from other university but also faculties from the world. In a short term of several years, the school has built a strong faculty team of nearly 40, comprised of experts from all the major management areas, marketing, finance, accounting, economics, HR and OB, strategy, entrepreneurship, POM, decision science and management. The internationalisation of faculty is ranked No. 6 in the world (*FT*, 2007), with 95% Ph. D. holders. Competing for good faculties with schools like Wharton and Harvard, CEIBS has its own attractions: world class research facilities, favourable research environment, strong support from the school and the business community, moreover, a hot topic interested by the whole world: the emerging Chinese market economy.

A "LOST" CAMPUS

In 1999, CEIBS moved to its new campus designed by Pei Cobb Freed Partners. Students have several reasons to be proud of studying here: it's a masterpiece of Pei; the only stand alone campus of an independent graduate b-school in mainland China; it is equipped with the most advanced teaching facilities and a modern gym, winning frequent praises from the visitors. People often feel "lost" on this fine mixed campus, which embodies the simplification and grandeur of the west and the elegance and subtleness of the east.

But don't confuse it as a westernised b-school. The school not only

values “global perspective” but is also “Chinese rooted”. It excels at connecting the advanced management knowledge with China’s business reality, laying its emphasis on local research and case writing. The CEIBS faculty, Chinese or non-Chinese, are all experienced in the research of the China (Asia) economic development.

THE “GROWING” ALUMNI

Students of the earlier days may feel bit jealous of the late comers, but the first comers also have something cherishing -- the memories of the bitter yet sweet pioneering days. What’s more, CEIBS keeps its arms open to the alumni – various kinds of executive and humanity forums, alumni clubs and activities, alumni programmes, family days, class reunions, etc. tighten the relationship between the alumni and their alma mater and provide them a valuable platform for further learning, career development, and networking.

Taking “conscientiousness, innovation, and excellence” as school motto, CEIBS values the tight connection with the business reality, which drives its continuous improvement. Every year, the school provides new programmes, makes adjustment to MBA and EMBA curriculum or take other innovative steps to meet the new demands. It also extends the spirit of innovation to the alumni, providing specially designed alumni programmes and forums for their further learning.

THE GENE OF A WORLD-CLASS SCHOOL

CEIBS is young. However, at the moment of its birth, the founders injected the genes which make it grow to be a first-class business school: its autonomous status, international

standard management and curriculum, rigorous enrolment process, world-class faculties and teaching facilities and excellent alumni service, etc.

A school’s success is often the result of all walks’ supports. As a cooperation between the Chinese government and the EU, CEIBS has received strong support from the both sides since its establishment as well as the support from the business community, who provides the school development funds, internship, business practices, etc.

January 29th, 2007 is another historic moment for CEIBS. On the day, *Financial Times* released its 2007 Global Top 100 MBA ranking. CEIBS made another leap to No. 11, joining the first league of the world MBA club (defined by *FT*). The breaking-through is no accident. In the 2006 *Business Week* (China) Top Chinese Business

School ranking, CEIBS was listed No. 1. The same year, CEIBS MBA was ranked the most valuable full time MBA programme in mainland China by *Forbes* (China).

All these achievements show that CEIBS is an uncommon school. But the school reaches the uncommon achievement by walking a common road with her dedicated management members and staff, committed faculty members, diligent students, encouraged by the spirit of pursuing the best.

The school’s achievement is a comfort to all those who lay efforts on its growth, among them are Prof. Li Jiagao and Prof. Zhang Guohua, the two late presidents both falling down at their work. Two bust statues were set up in memorising their commitment and showing the respect to their spirit of excellence pursuing. **TheLINK**



Observations on the Past, and Future, of Management Education in China

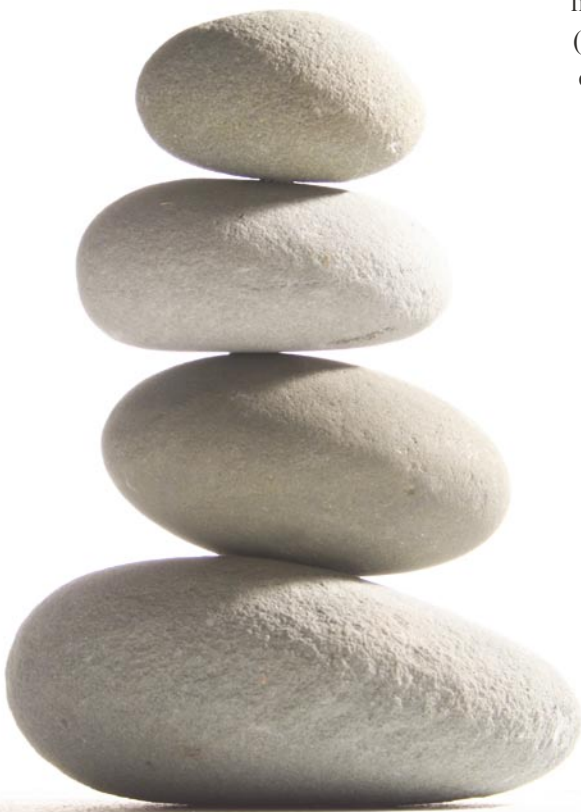
By Jan Borgonjon

When I arrived in 1988 at the China Europe Management Institute (CEMI), the predecessor of the China Europe International Business School (CEIBS), management education in China was in its infancy. China's economy was dominated by the state-owned sector and both exports and foreign direct investment were still relatively small. Only a few years before, Deng Xiaoping had encouraged the introduction of "scientific management" to China. However, in practice, managers in state-owned enterprises (SOEs) had little interest in change and the focus remained on achieving objectives (many of them non-economic) set by the planning system and the political administration.

There was little or no job mobility, employees were linked to their employment "units" for life and changing jobs was not considered "acceptable". At that time one of the key objectives of CEMI therefore was to train personnel for SOEs and some people even accused CEMI of channelling people away from SOEs.

However, many CEMI graduates, once they went back to their companies, discovered that they had to do exactly the same job as before and would have to wait for their possible promotion until "their time had come" – often years. As a result, by the early 1990s more than one-third of all CEMI graduates worked in foreign companies and another third had left China, with the remainder in education and SOEs.

As a consequence of limited mobility and limited employment opportunity, there was also almost no market for management education: there were very few MBA applicants and no interest by companies in paying for management education.



In addition, the impact of leftist ideology was still strong and Western management education was sometimes viewed with a certain suspicion, as an “instrument of the West to peacefully transform China”. “Management” was also interpreted in a very narrow way, limited to quantitative methods, excluding the (ideologically more sensitive) soft skills.

Another obstacle to the development of management education was the near total lack of qualified faculty. China had few faculty with a practical understanding of enterprises (given the very academic focus of most universities) and even less with knowledge of how markets and the capitalist system function, given the very short history of the opening and reform policy. Also, there were at that time very few Chinese or people of Chinese origin among faculty in Europe and the US pursuing careers in management education. This further limited the potential sources of management faculty for China.

So management education in China seemed to be facing quite a bleak future in the early 1990s. On the demand side there was no market, no mobility, little interest from both individuals and companies, and ideological concerns about the appropriateness of Western-style management education. And on the supply side there were few channels for delivery and also no people to deliver.

However, the second half of the 1990s and also the first half of this decade saw a dramatic change and the current situation is totally different from 10 years ago: a vibrant market, strong interest from both individuals and companies in all types of management education and training, less ideological obstacles, plenty of institutions

delivering management education and also a marked increase in the number of available faculty.

This dramatic change was brought about by two factors:

- On the demand side, China clearly needed “international managers” to become internationally competitive, to develop exports, to support the development of foreign investment and to develop competitive domestic enterprises. It was clear that China needed to establish a more formal management education system. It also had to bring in international experience. Apart from “Chinese management skills”, or knowing how to operate in China, international management skills would be a key element in China’s export and foreign investment boom of the last 10 years.

- On the supply side, different stakeholders, mainly educational authorities and institutions, slowly adapted to the new demands of the economy. In this respect, the emergence of CEIBS was the main catalyst for change. The existence of CEIBS as an international benchmark within China speeded up the change process and also provided direction in terms of processes and products that competing management institutions offered to the market.

The current situation in management education has on the one hand greatly changed and improved compared to 10 years ago but on the other hand remains quite confusing.

First, the economic and corporate environment in China has completely changed. The state sector is no longer dominant and private enterprises have taken on a much stronger role in the economy. Also, the SOEs, many of which

are now listed companies, can no longer rely on state support and have to take the market into account. Exports have boomed over the last 10 years and China has become the manufacturing centre of the world. Foreign investment has grown equally fast, and foreign companies are now an important presence in many sectors in China. Outbound investment by Chinese companies is still relatively small and limited to a few companies but it is gaining momentum and is bound to become very important within the next five to 10 years. As a consequence, although the Chinese competitive environment might still retain many of its local peculiarities (“the Chinese way of doing business”), international business rules are increasingly influencing the operational environment in China.

Second, the demand for business education in general and for international business education in particular has boomed beyond belief. Not only has there been a boom in demand from individuals for both MBA and executive MBA education, companies are increasingly willing to pay international fees for management education and training.

Third, the educational sector has undergone substantial changes. Educational institutions have become more market oriented in general and in terms of business education they have tried, in many different ways, to capture the wave of demand. Many initiatives have emerged over the last 10 years, sometimes with international partners, and in general there is now wider market choice. However, as in any incipient market, there are teething problems: the quality standards are not clearly defined and, where they are, not always respected, with many schools observing different standards across different types of programmes.

One other obstacle remains the availability of faculty. Obviously there is more faculty now – Chinese and non-Chinese – with international experience and/or education and also an understanding of business practices in China. But the number of qualified faculty is still way below the requirement. In my view this is a situation that will not improve rapidly.

THE REASONS FOR THE SUCCESS OF CEIBS

The current situation in China is one of a buoyant and rather developed market, with a less developed supply structure, within which CEIBS and a few other institutions are the lonely leaders. It might be interesting to look at the reasons for the success of CEIBS within this environment, since this provides an indication of what will be required for other institutions (including CEIBS itself) to be successful in the future. The success of CEIBS can in my view mainly be attributed to:

Its autonomous status

From the very beginning, the founding parties of CEIBS agreed that endowing the institution with a relatively autonomous status would be an absolute precondition for the success of the school. “Relative autonomy” did not mean the right to do whatever was in its interest: it meant a clear status, respecting China’s sovereignty over education, in which all parties would have clear responsibilities through a clear framework. In the case of CEIBS, this framework was modelled on the corporate joint-venture approach with its own board of directors. The school was itself responsible for strategy, activities, finance, faculty and so on and none of the founding parties ever interfered in the school’s operations.

The vision and commitment of the founding parties

The founding parties of CEIBS had a clear vision of the future of management education in China and CEIBS’ role and were willing to stand up for this vision. This was the case not only with the people involved in the actual establishment and start-up but also with the different institutions involved, such as the Shanghai government, the European Union, Shanghai Jiaotong University and EFMD, who allowed CEIBS the room and autonomy to develop. In addition, the continuing commitment, in many cases going back more than 10 years, of a core group of people, both Chinese and European, has provided unity of purpose and continuity.

Its academic credibility

During start-up, CEIBS faced an environment with little competition but without a well known brand. Once Chinese universities started to enter the fray by the end of the 1990s, the very strong brands of the top Chinese schools posed a considerable challenge. CEIBS has been able to build up its own brand, initially thanks to the support of a consortium of top European business schools together with the backing of the Shanghai Jiaotong university, and later through its international recognition (through the international rankings and EQUIS certification).

Its faculty network

CEIBS’ ability to build a strong faculty group with international credibility, a commitment to the school and a good understanding of business practice in China has been another key element in its success. CEIBS benefited from the 10 years experience of its predecessor CEMI, which had developed a group of pioneering – largely European – faculty with a strong commitment to China and CEIBS. In the initial years after its establishment CEIBS enlarged

this group with faculty of Chinese origin, and these faculty, many of which have been teaching on and off at CEIBS/CEMI for 15 years or more, still remain at the core of the large faculty body which CEIBS has built.

The success of CEIBS has exceeded even the wildest dreams of its founders, not just because of the growth of the institution itself and its international recognition but probably even more so because of the enormous impact the school has had on the way business education has developed in China over the last 10 years. Nearly all major innovations in business education in China during that period have been pioneered by CEIBS. Maintaining this leadership position and exerting a similar level of influence on the development of management education in China, will be the major challenge for CEIBS in the next decade.

MANAGEMENT EDUCATION IN CHINA: THE FUTURE?

One would expect that China will develop a vibrant business school community to match and support its development as an economic power with global influence in manufacturing, R&D and technology. One would also expect China to have a management education sector that is closely interlinked with the international management education community and has a strong influence beyond China’s borders.

However, in my view this will not happen as soon and as strongly as one would expect. Although a lot has changed, in particular on the demand side, on the supply side the structural challenges remain largely the same, although probably not as large. Any school wanting to establish a strong position in China’s business education market will have to overcome many of

the challenges that CEIBS faced during its establishment and initial growth period plus a few more.

The Chinese authorities could further stimulate the growth of the management education sector in China and create the instruments for a faster and more beneficial development. However, many of the suggestions for change one could think of (such as free entry in education, freedom of schools to establish new institutes, full access to foreign competition and so on) go well beyond what is currently possible in China.

In my view, the main changes on the regulation side could be related to allowing a special status with a large degree of autonomy to business schools, allowing them to associate with non-university partners (corporate or private and/ or foreign schools), and provide tax allowances for sponsorship as is common in many other countries. One could also envisage an independent Chinese quality assessment system similar to EQUIS or AACSB. However, for such a system to be credible it would have to be perceived as truly independent. Changes will have to be gradual, and therefore it is unlikely that we will see a vibrant, highly competitive and internationally influential management education scene in China within the next 10 years.

As can be seen, the challenges remain big and the market will remain a lonely place for CEIBS. In my view, CEIBS's main competition for the next 10 years will remain CEIBS itself: it will require discipline and dynamism to continue to strive for excellence in a market where there is limited head-on competition. The main aspects which CEIBS will have to address (most of these are already being addressed, incidentally) in order to maintain leader-

ship in China and to continue to be a trend-setter will be:

Innovation in terms of programmes

CEIBS has many examples in its past in which it predicted the market and took a bet on innovation – in most cases, correctly. This spirit of continuous innovation and internal questioning will remain the basis of its future leadership.

China focus and relevance

Relevance within China not only means China-focused research but also China-focused teaching and faculty who can bring these ideas to the public in its widest sense (not only the media but also companies, government and so on). Fully Chinese business schools have a natural advantage here and CEIBS will have to continue to make a concerted effort.

Quality and academic integrity

Ethics were from the very beginning a focus area for CEIBS. It will be im-

portant to continue to lead the market in terms of teaching of business ethics and application of academic ethics in research and especially teaching.

Faculty development

This is not only a necessity for CEIBS itself but could also be a major contribution to the development of management education in China.

Internationalisation

Being truly international is probably the main differentiator for CEIBS and it makes sense to exploit this advantage fully through enhanced student exchange, more foreign students, and more exchange and collaboration with top international business schools.

Achieving the above objectives would not only allow CEIBS to maintain sector leadership but also to make a contribution to the further development of business education in China by continuing to be an example and a benchmark for the management education sector. [TheLINK](#)



ABOUT THE AUTHOR

Jan Borgonjon has lived and worked in China for over 20 years. He was the Director of the China Europe Management Institute (CEMI, Beijing), and later was one of the founders of the China Europe International Business School (CEIBS) in Shanghai, of which he is now a board member.

From 2002 to 2006, he was first the Vice President and later an Executive Committee member of the European Chamber of Commerce in China (EUCCC). He is also the Vice-Chancellor of the International Academy of Management for Asia-Pacific.

Jan Borgonjon was one of the founding partners of InterChina Consulting in 1994.



Media and Marketing: It's Post-tradition Time?

First there were LCD advertisements mushrooming in the commercial high-rises of downtown Shanghai, catching the eyes of the bored white-collars waiting for lifts. Then came the “super girls”, a live show of ordinary people, sweeping through the whole nation and winning audiences aged from 16 to 60 together with the its sponsor, Men Niu yoghurt, whose revenue jumped from RMB0.7 billion to RMB2 billion in that year. Other new money makers are SMS (given the huge number of Chinese mobile users, even a piece of the billions of RMB0.1 SMS messages sent is a fortune) and net games. “Ads are everywhere,” can’t be better reflected in these times. And there are many more unknown areas which might become the new channels of advertising and promotion and give birth to new riches over night. Take Jiang Nanchun, for example, whose Focus Media, a three-year old company, topped the China concept stocks in NASDAQ half a year after its listing. The key word “innovation” is not exclusive to traditional products, technology or services, but is also the principle in advertising, media, and marketing under increasingly intense competition.



The marketing and media years of 2005 and 2006 are definitely highlighted with two names, Jiang Nanchun, CEO of Focus Media China and Sun Jun, the planner and operator of “super girls.” The two brought brand new ideas and forms of media and marketing, presenting a breakthrough, opening a blue ocean and earning names for themselves and their companies. But surely this success will not stop new creations as they

have both moved on to the next step. Compared with his peers in the fashionable new media and new marketing area, Su Xianze, president of Supor, the leading Chinese cookware manufacturer, is inclined to move forward more steadily. With his 10 years of industry experience, he believes quality is forever first-of-all and that the best media, traditional or new, is the one most fitting to promote his products to his targeted consumers.

On the CEIBS EMBA student forum on marketing on December 16, 2006, Jiang Nanchun, Sun Jun (CEIBS EMBA97) and Su Xianze (CEIBS EMBA04) brought their experiences, thoughts and insights on “New Media, New Marketing and New Ideas.” The forum is presided over by Fang Guang (CEIBS EMBA03BJ), famous hotel management consultant and career advisor to the CCTV live show program “Challenge.”

JIANG NANCHUN: NEW OR OLD, MEDIA IS THE TOUCH-POINT IN DIFFERENT TIMES AND PLACES OF PEOPLE'S LIFE.

“Plant” your ads into the lives of customers

It is not important whether a media channel is old or new, but whether it can effectively promote a client's products. Given the current trend, modern media are most likely to develop in the following four directions: high technology, i.e. utilizing hi-tech to get better media expression, internet ads, outdoor LED ads, mobile media.

Over the past years, the ad clients have experienced great change, turning their focus from media to the customers. They began to study who their targeted customers are, what their lifestyle is, and where their media touch-points are. The most attractive media forms are those that can plant ads into the lifestyles of customers and make it become a part of their life. It is unnecessary to make a split between old media and the new ones. They are actually different touch-points in different times and places of people's lives. In the coming future, the media will tend to be having wider coverage and be more segmented. Successful media campaigns can provide more accurate and segmented promotion channel for clients, assisting them in improving ROI. In fact, new media are those which can explore the new touch-points in people's lives. In this sense, BBS, entertainment activities, movies, and music all can be media. Media is everywhere. The key to it all is how to plant ads into media, i.e. people's daily lives. Those who can turn advertisements into a natural part of life (in entertainment, movies, games, music, etc.) by hiding the ad more deeply



are the most powerful. Special attention should be paid to entertainment promotion. The biggest advantage of entertainment is that it can loosen the defensiveness to advertisements of the participants. Once it is loosened, ads become easier to accept, sometimes even without customers' noticing. Another trend is personalized service. A search engineer, for example, can tell what users like. It can be said that the search engineer knows you best. One day, the users won't need to log on to news websites but will read news delivered directly from providers.

The “one to one” trend of marketing

In the future, the media will turn from the conveying model of “one to group” to “one to one”. With social segmentation, a certain product can reach its targeted customers through certain promotion channels, which avoids talking to all the people and wasting ad expenditure on the wrong group.

Chinese TV stations have many channels that are not differentiated .

Namely, there are no clear definitions of different kinds of audience. There is no special channel for business people or for fashion followers. Advertisers are putting more and more money into their campaigns, but are failing to achieve expected awareness from their customers. Why is this? On one hand, the time people spend everyday watching TV is decreasing. It only average 5 to 10 minutes per person in watching ads every day. On the other hand, during these 5 to 10 minutes, there are 70 different ads fighting for customers' attention. The potential market segment of TV is rather scarce. However, people have 24 hours each day and go to many places. So why not look into the times and places that are not covered by ads yet and then plant them into this exclusive new territory?

Media must be forceful, which may sound a bit terrible. But the reality is that you are “surrounded” by lots of ads every day but at the end of the day few can remember even one. So media should be forceful and ads should be placed in narrow spaces where people

can hardly avoid noticing them, such as the LCD TVs inside lifts. When watching TV, the programs are dominant compared to the ads. This means in the choice between TV programs and ads, the latter can hardly win. When waiting for a lift, it is a choice between ads and boredom. Under such circumstance, people usually turn their interests to ads.

How to find a blue ocean

The Focus Media is dubbed as a blue ocean in the fiercely competitive media industry. I think there are blue seas in any industry, the road to which involves three elements: perspective, suspect eyes and an active mind.

Observed from a different angle, there will be new discoveries. Taking outdoor advertising, for example. If commercial centres like Xu Jiahui and Huaihai road are entirely covered by ads, chances for the late comer to find suitable locations are slim to none. So if the new comers always think of finding locations at those places and cannot change their mind, they are sure

to fail. Change the angle and we can see that people's life is actually very regulated. It is no big deal for us to miss shopping in Xu Jiahui for a week, but can you not go home or go to work for a week? So, there are places that people must go in their lives. Even if one more outdoor ad cannot be placed into Xu Jiahui, I am not worried. If you turn your eyes away from the crowded competing commercial centres, you can find new territories and a blue ocean. That's how I find the LCDs market.

SUN JUN: I LIKE SELLING ENTERTAINMENT, LIFESTYLE AND CREATING NEW THINGS.

The way out for "Super Girls"

This year's "Super Girls" may have disappointed many of you. I decided not to be involved in the 2006 "Super Girls" because I could hardly see any breakthrough. We were somewhat confined to the success of last year. However, I had put forward some proposals for the 06 program.

First, change the sponsor. I came

from Men Niu and I like Men Niu. But the program needs a sponsor with an entertainment focus to move ahead. I introduced the president of Pepsi Cola to Hunan Satellite TV (the organiser of "Super Girls," one of the most successful local TVs in China), because Pepsi has used lots of stars in their ads and the Pepsi team is very experienced and creative in marketing. I suggested inviting Jay Chou, Beckham, Yao Ming and Rain to interact with the super girls on the stage. I knew that there must be many new live shows in 2006, so if you want to win, you must do something special. There are too many alternatives, which is tiring the audience. If there are Yao Min, Rain and Beckham on the stage in the final, I believe will create a stir and beat all the other programs.

Second, "Super Girls" must walk outside their current comfort zone. A program involving all the Chinese girls in the world rather than only in China should have much more influence and freshness. In addition, the marketers cannot only "push" the products to customers, which results in "pushing" customers away. The marketers need to think of some way to pull back the audience.

This year "My Hero," presented by Shanghai Media Group (SMG) was quite a hit. Before the program, I was invited by the CEO of SMG and asked what kind of program they can make to rival with Hunan Satellite's Super Girls. I think the theory is simple. There are only two kinds of people in the world, man or woman. If there is "super girls," there must be "super boys". But copying is the wrong approach, because the stars admired by men and women are different. Don't mix them up in one program, and don't speak like a kind



Mr. Sun Jun

of authority but give the stage to the people. If Hunan Satellite is going to make a program about super boys, how should they do it then? The most important, I think, is to look for things and styles that interest young people today – the new spirit and culture brought by the Internet.

Good chances are “pressed” out

Jiang Nanchun is unusual. It is not easy for everyone to make such an achievement. But I feel if there is a chance in China, it belongs to Jiang Nanchun. Why? First, the opportunity presented by Focus Media does not exist in every country, because they don't have such big markets – metropolitan cities that are highly populated and with tremendous consuming power. This change also does not belong to big companies, because they are too cosy to care about things in small corners. They don't have enough different angles and they only buy big ads and media. Second, this person must be a start-up. Third, this person has not been successful, so that they will try their best to think of a true breakthrough. I say good chances are “pressed” out. And last, this chance belongs to someone careful and who is well prepared.

When the 05 “Super Girls” ended with great success, I could find no more passion in it. It is not because I don't like milk, but I like selling entertainment, lifestyle and creating new things more. So I then turned to SMS voting.

Timing is critical in marketing. You must take advantage of key points as fast as possible. When I was doing the “Super Girls” program, I said on August 6 that I would present a book on the competition on August 26, the date

of the final. I promised I would have it on sale when the program ended. I did make it. I finished writing the book in seven days and had it on the shelf by September 1. I am sorry that my words might be plain, but the results were hot – the whole nation was stirred.

When games become media

What is my next step? I am now focused on SMS voting but I think this is also short-term opportunity. Now everyone is rushing into the field and it looks like that every business is bound to use SMS. The wireless model is very good, but now the users have become frustrated -- they receive messy messages from the SP operators too often. Actually there aren't many good operators and I feel it's hard to create a good platform for one's career in this field.

I have turned myself onto net gaming industry. Why do I regard this a good opportunity? One thing I want to make clear about net gaming is that it is not proper for people to criticize it without really understanding it. Ignore a growing industry and you end up ignoring the needs of a child. Net games have huge potential. The biggest characteristic of the internet is that it is interactive. For example, there is a game provided by 9you.com. It has 130 million registered users who spend a lot of money on buying virtual clothes worth about 1.8 million every day. The trade volume is even bigger than Taobao.com. It is more than a game but actually a form of media because it can convey the same message to 130 million users at the same time, who spend an average of 200 minutes a day on the net. Now I am negotiating with net gaming providers and agents to bring together entertainment and customers. We are going to present a dancing game starring the super girls

and boys later next year.

It's hard to buy a TV ad. I am thinking to expand advertising from TV to the Internet, to turn games into media. At last, I will move games back to TV and make a program, a Hip-hop game. We should always seize the lifestyle, thoughts and pulse of young people, and develop models catering to their interests.

Just like Jiang Nanchun has said, the importance of media lies in what form it takes and what it can convey, regardless whether it's traditional or new, or whether the content is old or new. If we can continuously create new things, tying fashion with lifestyle and making it influential to people, then turning it into new media, we can use it to promote the products attached to it more effectively. The world is changing fast, but we are lucky because we are in a better environment and need less time to create something new than before. It takes several decades to build a traditional brand, while Focus Media has only spent three years to grow up and “Super Girls” in two years. Of course, the risk is also higher. What's more, the life cycle of some new products and media is shorter than traditional ones.

SU XIANZE: QUALITY, FUNCTION AND FEASIBILITY OF THE PRODUCTS AND INNOVATION ARE THE FIRST PRIORITY TO COMPANIES AND THEIR BRAND.

Supor was established in 1994. We are in a traditional industry, different from the fancy new marketing models of Focus Media and “Super Girls”. How should we market our cookware?

First, I would say that quality, function and feasibility of the products



Mr. Su Xianze

and innovation are the first priority to companies and their brand. Today, Supor has built up high brand recognition and is a brand favourite among consumers. The solid basis of all these is our continuous product innovation, such as our pressure cooker, non-sticky pot, stainless iron pot, and electric rice cooker that make better rice.

Match media targets with potential customers

The first step of marketing is about targeting customers. It's important to find out how many similarities there are between the media targets and the potential customers of Supor. The resources of any company are limited. Supor spent about RMB0.5 billion, or 20% of our income, on marketing this year. How can we spend this money most effectively? Also, our products are durable. It's very likely that once the customers buy one cooker, they won't spend money on another for two to three years. So we must find a suitable media, whose targets match our potential customers as much as pos-

sible for the best promotion effect. As sixty-eight percent of our consumers are housewives, we choose the CCTV Channel 8 and place ads in each big hit TV drama, usually a favourite of housewives after a day's routine.

Point of Purchase Promotion is actually the most important marketing area for durable products like Supor. It gives a last push to the consumers in make buying decision. The promotion people can help the consumer understand the different functions of different products. I think the LCD ads in the supermarkets are also very helpful. They are better focused on a special consumer group.

Taking advantage of incidents

Taking advantage of incidents can help increase the awareness of a company and its products. The 2004 Teflon crisis and our recent merger with the French cookware maker SEB were both widely covered by the media. Such effects can never be gained by just spending money on ads. Of

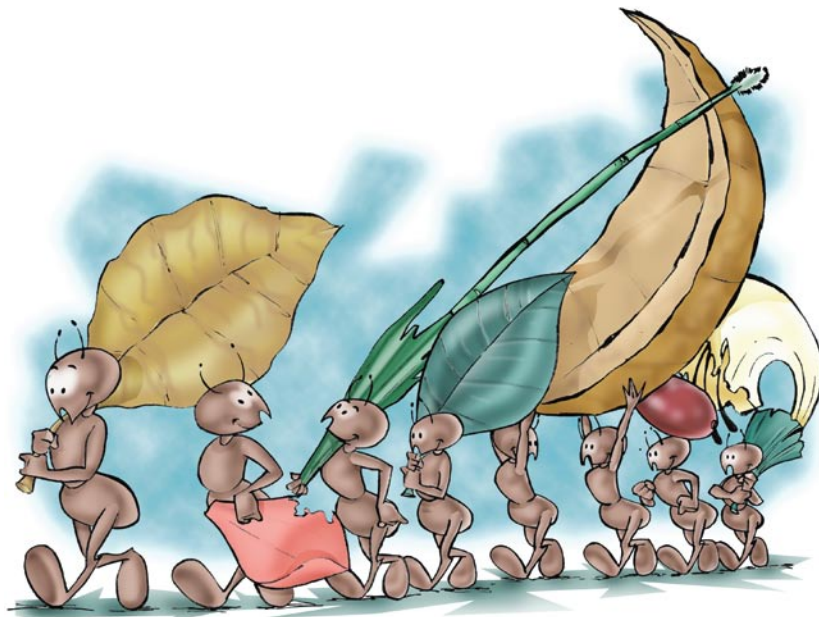
course, it is critical how the company utilises these incidents. First of all, you must know whether the incident is good or bad. If bad, keep away from it or handle the negative reports appropriately, otherwise it will cause negative effects on your company.

As to the strategic meaning of cooperation, Supor's current net assets are only RMB0.7 billion and the deal with SEB was sealed with RMB2.4 billion, which allows both sides more resources for further development. Supor is eager for capital, technology, and catching up with the international management standards, while SEB needs the best manufacturing base. SEB's factories are all located in developed countries, where labor cost per capita is 20 times higher than in China, which is fatal for such a traditional industry. In addition, SEB values the Chinese market and Supor's channels. Cookware is greatly influenced by a country's living style, so there are some obstacles for European and American products being accepted by the Chinese customers. We have reached a complementary strategy through cooperation. Supor still has 30% of the shares of the new company. With cooperation, we can expand our brand and channels to other markets. We are actually exchanging our most valuable core competencies and our marketing, which optimises the resource of both companies. Thus we pre-assessed the reaction from opposite sides and the final result that may be generated by the cooperation. We felt it would be favourable to us and made effective communication and publicising accordingly. **TheLINK**

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

Develop Organisation Capability and Leadership Brand

– Experience in the CEO Learning Consortium Forum



By Tracy Liu

This January, I participated in a forum of the CEO Learning Consortium -- “How Business Leaders Respond to New Business Realities” in Beijing. The Consortium is jointly sponsored by China Europe International Business School (CEIBS) and University of Michigan’s Ross School of Business. Participants are CEOs from leading companies, including Li-Ning Sporting Goods, Kingdee International Software Group, Johnson & Johnson, and Sinopacific Heavy Industries, etc. Whether from multinationals or local companies, all the CEOs have expressed great interest and enthusiasm in this systematic learning platform, which helps them confront the challenges brought by the rapidly growing business. The CEO Learning Consortium is designed as a lifelong learning platform, providing opportunities for business leaders to communicate with each other and share valuable experiences.

Up to now, the Consortium has successfully held three forums. Prof. Arthur Yeung, Associate Dean of CEIBS and Executive Director of the Consortium, presided over this forum. This time, the Consortium was honoured to invite Prof. David Ulrich, the Most Influential Management Gurus in the World (ranked by Business Week) to share with the CEOs his latest research results on leadership and organisation capability under the new challenging business environment.

THE GREATEST CHALLENGES OF CEOS

Prof. David Ulrich began his presentation with the remark: “I am not talking to you but talking with you” in order to engage the participants to: 1) Think - how to meet with the emerging challenges; 2) Act – to develop and implement strategies; 3) Interact- to learn from each other in an open and relaxed atmosphere.

Prof. Ulrich asked the participants about the biggest challenge that their companies face. For Mr. Zeng Guang’an, CEO of Guangxi Liugong, what troubled him most was how to attract talented people to work in Liuzhou, a remote city in Southwest China, and how to strengthen the leadership skills of executives developed since SOE reforms. Mr. Robert Xu, Chairman of Kingdee International Software Group, raised the question of how to innovate to meet customer needs and expectations. Mr. Ding Jiansheng from Yantai Wanhua responded by asking how to seize market shares from large multinational competitors such as BASF and Dow Chemical...All of the participants unanimously conveyed the simple message: during the period of rapid growth, talent development and management, globalisation, business transformation and innovation are challenges that perplex companies and their leaders.

Where should these CEOs take the company? And how can they get there? According to Prof. Ulrich’s research, challenges that every company faces, regardless of their industry or location, can be summarised into six types: change management, competitiveness, organisational capability, leadership, value and talent management.

TAKING ACTIONS TO MEET THE CONSTANTLY CHANGING ENVIRONMENT

Change is a constant fact in the business world. For a business to succeed, it must master change and competently guide the organisation through changing conditions and competition. To illustrate this point, Professor Ulrich raised the example of Microsoft where more than 50% of its future income will come from the products that it has not yet developed. In a changing world, leaders must learn to embrace and respond to change and take actions based on external realities. In 1986 Jack Welch, former CEO of GE resolutely changed the strategy of the company to align with changing market conditions, requiring each subsidiary to be No. 1 or 2 in their respective businesses. Leaders can assess both their strengths and weaknesses in dealing with changes through an examination of leadership, capability of creating market needs, visions, motivation, decision-making, institutionalisation, monitoring and learning.

ORGANISATION CAPABILITY IS DEFINED BY EMPLOYEES NOT CEOS

To improve the competitiveness of an organisation, a CEO must be able to set the strategies and create a strategic organisation. From top to bottom, and across various levels within the organisation, each employee should clearly understand the strategic direction of the company to effectively execute it. “The leader’s role is to create a strategic mindset that focuses on what we want to do and how we will do it.” According to Prof. David Ulrich, an organisation is not about the structure, but more importantly, about its capability, which is not defined by the giver (the CEO), but by the receiver (the employee)

through the value they create. Why do we respect a company? It’s because of its core competence, something it does well that draws our attention. The core competence of a company is developed during the process of implementation. An organisation needs to define and prioritise the capabilities key to its success, whether it is speed, collaboration, innovation, customer service, efficiency or shared mindset. When these organisational capabilities are universally embraced within the organisation they can be leveraged to turn the strategy of the organisation into action and sustained success.

LEADERSHIP BRAND: TURN CELEBRITY LEADERS TO BRANDED LEADERSHIP

Prof. David Ulrich proposed a new concept at the forum—Leadership Brand. Leadership is not something or somebody but a brand.

What is leadership brand? The research shows 50% - 80% of the leadership attributes are consistent between leaders and are called leadership codes, with the remaining attributes called leadership differentiators, namely “our leader is known for his...” Leadership is an image that is associated to the whole organisation. Famous brands like Nestlé, Coca-Cola and Marlboro invoke strong brand associations with the product and company. It’s important to turn celebrity leaders into branded leadership for the entire organisation, and bound individual leaders into a leadership system. The organisation needs to build bench strength (reserve force) at all levels and ensure a sustainable leadership development process for the intangible values. Leadership as a brand has significant implications for developing a globally competitive organisation.

The brand concept focuses on the intrinsic and extrinsic value generated by the leaders, instead of leaders' specific activities. The concept of brand applies to all levels of leaders, rather than the most senior leaders. Leadership brand is sustainable, enduring, does not belong to one specific person, is unique and inextricably linked to strategies.

How should an organisation go about to build the leadership brand? Prof. David Ulrich shared with us the four steps that he found through his research. The first step is to identify the type of leadership brand required for

the company's strategic success. For this step the core organisational DNA and the brand differentiators required for success must be defined and communicated to all staff. The second step is to assess the current leadership which requires collecting data on leadership brand to understand the gap between expectations and realities. The faster the organisation grows, the more obvious the gap as needs for leadership will become greatly magnified. The third step is to invest in leadership development and reduce the leadership gap. Tools such as training, job rotation, etc can be employed to achieve this goal. Lastly, the fourth step is to measure the impact

of leadership brand investment. One frequent mistake of leaders is "desperation hiring". When an organisation is growing rapidly, leaders are tempted to place a warm body into a position even though they may not be a good fit for the company. The hiring process is inconsistent and often subjective; moreover, organisations lack proper evaluation and development of their talent on the job.

TALENT = COMPETENCE + COMMITMENT + CONTRIBUTION

Talent management is attracting attention from business leaders worldwide. It is well recognised that "the competi-



Members of CEO Learning Consortium with Prof. David Ulrich (L6, front)

ABOUT THE CEO LEARNING CONSORTIUM:

The CEO Learning Consortium was established to meet the burgeoning demand of CEOs in China interested in engaging in a well-orchestrated, rigorous, and time-efficient learning consortium that can help them think through some critical issues as their businesses are going through rapid growth in China. The CEO Learning Consortium is a post-graduate programme targeted for CEO participants of the Global CEO Programme, and a very select group of CEOs from Multinational and Chinese companies.

Built upon the principle of collaborative learning, a very selected group of successful business leaders in China have joined the Consortium working closely with two of the leading business schools in the world, the China Europe International Business School (CEIBS) and the Ross School of Business at the University of Michigan in making this the pinnacle of learning programs for top executives in China.

tion of the 21st Century is all about talent”. But who is talent? The following formula by Prof. Ulrich helps to gain a deeper understanding of the definition of talent. Talent = competence * commitment * contribution. Competence refers to one’s knowledge, skill and value, which requires leaders to assess and develop. Commitment is about one’s willingness to work hard, which leaders can help to enable by building a strong employee value proposition. Contribution is one’s ability to sense abundance which the leaders must build meaning for the employees. To get started, the leader should do a competence audit of her organisation. List the competence the company has currently, challenges facing the industry and competence the company will need to succeed in the future. After all that work, the company can then determine its talent strategies, namely, how to acquire, develop, promote, and retain talented people. As to the contribution, employees have universal needs, such as aspiration, development, management, security, etc. Organisations provide the environment to meet these universal needs. When leaders help employees meet their needs, employees will be more engaged and productive. When both employees’ and organisation’s needs are met, value will be created.

EXPERIENCE SHARING ON LEADING LOCAL COMPANIES

In the afternoon session, participants had the opportunity to share and exchange their experiences through a panel session and small group discussions. This allowed them to contemplate and integrate learning from the morning session to their own business. The CEO Forum offers each participating CEOs the opportunity to share their unique experiences and view

points. The panellists for this were Mr. Zeng Guang’an from Guangxi Liugong, Mr. Wu Guangquan from Shenzhen CATIC Group, Mr. Ding Jiansheng from Yantai Wanhua and Mr. Zhang Zhiyong from Li-Ning Sporting Goods.

Mr. Zeng Guang’an commented that the products of Liugong have low entry barriers and they currently have only a small share of the international market. With an eye on the global market, their strategy is in two steps: first enter developing countries and then move into developed countries where competition is more intense. The company aims to ascend into the industry’s global top 50 by 2010. To achieve this, Liugong is implementing an aggressive talent plan—combining abundant internal training with outside hires and reforming the compensation system. They will also implement an attrition policy where the lowest performing 2% of non-management staff and 5% of mid-level managers in the performance evaluation will be laid off. This is done so that organisation as a whole feels the urgency to improve its competitiveness.

Mr. Zhang Zhiyong, CEO of Li-Ning Sporting Goods, spoke about their leadership competency model. He shared the successful experience of his company, by integrating Prof. David Ulrich’s four steps of leadership brand. Firstly based on the experience of the company, they identified the attributes and characteristics of existing leaders in the organisation and attempted to provide an environment to nurture the development of these values and competencies in the company. Take for example, the perseverance and courage of the company’s founder, Mr. Li Ning. Though he seldom exerts direct control over specific issues in

the company, his spirit remains strong in the company and has in fact become the DNA of the company. These attributes exist at the top level of the company, but also cascade throughout all levels of employees. Secondly, they identified Li-Ning Company’s employer unique value proposition in order to better grasp the key issues that would attract and retain talented people. Thirdly, they have invested heavily in succession planning. Finally, they have also implement measures to determine the success of their appraisal process through 360° appraisals, internal transfer, etc.

PANEL DISCUSSION

After hearing the panel speakers’ experiences, Prof. Yeung listed two topics—“The Incentive and Training of Senior Executives” and “How to Attract and Retain Talent” as topics for small group discussions. The discussion was lively and each participant candidly shared their dilemmas and solutions on the topic.

The daylong forum drew a close in a friendly and relaxed atmosphere. CEOs shook hands to bid each other farewell until the next CEO Forum in April. In the eyes of the public, these CEOs have taken on celebrity status; however, in reality, they must deal with a tremendous amount of pressure daily. They bravely seize opportunities in the market and continue to propel the strong economic growth of China. I would like to quote the words by Mr. Zeng Guang’an from Guangxi Liugong to sum up this article. To those businessmen who are steadfastly leading Chinese enterprises’ march towards the world: “we learn from the world giants, walk with the world giants and compete with the world giants.” [TheLINK](#)

VISITS



Vice Party Secretary Wang Anshun with President Zhu Xiaoming

MR. WANG ANSHUN, VICE PARTY SECRETARY OF SHANGHAI MUNICIPAL COMMITTEE VISITED CEIBS

On the afternoon of March 8, Mr. Wang Anshun, Vice Party Secretary of Shanghai Municipal Committee, accompanied by Mr. Liu Weiguo, Deputy Secretary-General of Shanghai Municipal Committee of the CPC, and Mr. Xi Jieren, Executive Vice President of China Leadership Executive Academy Pudong, visited China Europe International Business School.

During the visit, the delegation listened to the report from Dr. Zhu Xiaoming, President of CEIBS, and Dr. Zhang Weijiong, Vice President and Co-Dean of CEIBS on the recent developments of the school. Likewise, Mr. Xi Jieren provided a brief introduction of his organization. Mr. Wang Anshun fully affirmed the achievements that CEIBS have made during the past 12 years. He pointed out that the success of CEIBS in a relatively short period was the outcome of the wisdom and hard work of all the staff and faculty at CEIBS. He encouraged the school to maximize its strengths and capacity in management training to better serve the interests of the national economic and social developments, especially the training

of senior managerial talent for the country.

Mr. Wang also commented on how to develop a long-term cooperation between CEIBS and China Leadership Executive Academy Pudong to share educational resources for specific research.

DR. FANG XINGHAI, DEPUTY DIRECTOR OF SHANGHAI MUNICIPAL GOVERNMENT FINANCIAL SERVICE OFFICE VISITED SHANGHAI CAMPUS OF CEIBS

On the afternoon of March 7, Dr. Fang Xinghai, Deputy Director of Shanghai Municipal Government Financial Services Office visited the Shanghai campus of China Europe International Business School.



Dr. Fang Xinghai

Dr. Fang was accompanied by the management team from the Department of Human Resources and the Policy Research Department of Shanghai Municipal Government Financial Service Office .

During the visit, the delegation had a friendly and constructive talk with Dr. Zhu Xiaoming, President of CEIBS, Dr. Zhang Weijiong, Vice President and Co-Dean of CEIBS and some of the faculty members, about the research and training opportunity in the financial sector.

To end his visit, Dr. Fang hoped that CEIBS can leverage its own strength to contribute to research and elite training in the financial sector and to play an active role in the development of Shanghai International financial center.

CEIBS WELCOMES DELEGATION FROM SHANGHAI MUNICIPAL CPC COMMITTEE OF SCIENCE AND EDUCATION AND THE MUNICIPAL EDUCATION COMMISSION

On the morning of March 7, Mr. Li Xuanhai, Party Secretary of Shanghai Municipal CPC Committee of Science and Education, Mr. Shen Xiaoming, Director of Shanghai Municipal Education Commission, and Mr. Wang Qi, Deputy Director of Shanghai Municipal Education Commission visited China Europe International Business School for inspection and investigation. During their visit, they listened to the reports from Dr. Zhu Xiaoming, President of CEIBS, and Dr. Zhang Weijiong, Vice President and Co-Dean of CEIBS.

Mr. Li Xuanhai and Mr. Shen Xiaoming fully affirmed the achievements that CEIBS have made during the past 12 years. They also had a wide range of exchanges and discussions with the school's management team on education philosophy, international ranking, student recruitment, and global cooperation.



Delegation from Shanghai Municipal CPC Committee of Science and Education and the Municipal Education Commission with President Zhu Xiaoming and Vice President Zhang Weijiong

At the end of the investigation, Mr. Li and Mr. Shen reassured that the local government would continue their support to CEIBS. They encouraged CEIBS to maintain its international dimension and to become a famous education brand in Shanghai.

FACULTY

PROF. LIANG NENG ELECTED AS MEMBER OF STANDING COMMITTEE OF CPPCC PUDONG

On the afternoon of January 24, the First Plenary Session of the Third CPPCC Committee of Pudong New District was successfully held. Fifty three members were finally elected to be the members of the standing committee. Prof. Liang Neng from CEIBS was one of them.

Dr. Neng Liang is Professor of Management, Associate Dean and Director of the Executive MBA Program at CEIBS. Previously he was a tenured Professor of Management at Loyola College of Maryland, USA, and a professor of management at the China Centre for Economic Research (CCER), Beijing University. Dr. Liang received his Ph.D. from Indiana University



Prof. Liang Neng

(Bloomington), an MBA from The Wharton School, and was a Fulbright Scholar at Stanford University in 1984.

PROF. KWAKU ATUAHENE-GIMA WINS AMERICAN MARKETING ASSOCIATION TECHSIG BEST PAPER AWARD

On Feb. 17, 2007, the TechSIG (Technology Special Interest Group) reception of the AMA's (American Marketing Association) Winter Educator's Conference in San Diego announced the winner of the TechSIG best paper award in 2005. Kwaku Atuahene-Gima, Professor of Marketing and Innovation Management at CEIBS received the honor with his article "Resolving the Capability — Rigidity Paradox in New Product Innovation" (*Journal of Marketing*, Oct. 2005).

The TechSIG Best Paper Award is selected based on a two-phase evaluation process. In the first phase, nominations are requested from TechSIG members and friends. Then, a three-member Blue Ribbon Panel evaluate a selected set of nominated articles and identify two articles that will be recognized with the Best Paper Award and an Honorable Mention Award, respectively.

Professor Atuahene-Gima's paper uses data from companies in China to resolve a long-standing paradox in innovation that researchers and managers have grappled with for many years: how to strike an appropriate balance between the need for investments in current competencies to develop incremental innovations and the need for investments for entirely new competencies to simultaneously develop radical innovations.

The chairperson of the Blue Ribbon Selection Panel, Professor Jakkı Mohr, Jeff and Martha Hamilton Distinguished Faculty Fellow, Professor of Marketing, School of Business Administration, University of Montana had this to say about the paper: "I was...impressed with the compelling and sophisticated rationale offered (how to ensure that capabilities do not become rigidities in the innovation process based on market orientation and moderated by interfunctional coordination), the high level of care taken in data collection (use of two respondents in each organisation, with a follow-up taken 14 months later) and in the mediation and moderation tests. Finally, the thoughtfulness with which the summary of results (pp.77-78) is presented does a masterful job of addressing the important contributions of this research."

"This award recognizes contributions made by a paper during the previous year on substantive issues related to technology and innovation", according to TechSIG's

NEWS BRIEFING



Prof. Kwaku Atuahene-Gima

Chair Prof. Manjit S. Yadav from the Mays Business School of Texas A&M University.

TechSIG is a special interest group of the American Marketing Association (AMA). It serves members who are marketing academics and professionals interested in the confluence of technology and marketing. TechSIG held its first organizational meeting on August 4th at the 1996 Summer Marketing Educators' Conference. Since that time, TechSIG has sponsored panels and sessions at every AMA Educators' Conference. The goals of the group are to share information on: marketing technology-based products; using technology to market any product; and using technology to deliver marketing education.

MBA PROGRAM

CEIBS MBA HEATEDLY PURSUED BY OVERSEAS APPLICANTS

CEIBS is not only a destination of MBA study favoured by local students. The school has seen an increasing number of overseas applicants. In this year's first round of MBA application, the number of overseas applicants reaches nearly half of the total.

With the increasing influence of CEIBS at abroad, the school has become a choice of many overseas young elites pursuing further career development through world-class MBA study. These applicants are from

15 countries in Asia, Europe, North America and South America. Most of them are graduates from world-renowned universities, such as Princeton, Cornell, University of California, University of Warwick, Korea University and National Taiwan University, etc. And 1/4 of them are Master or Ph. D. degree holders. They have worked in international giants like Siemens, 3M, Samsung, Nissan, Daewoo, UBS, Kookmin Bank, etc. as middle managers or specialists.

CROSS-SCHOOL MBA PARTY AT THE "SHANGHAI NIGHT"

The first ever cross-school MBA party of its kind, December 15, 2006 attracted over three hundred MBA students from three leading management schools in Shanghai, CEIBS, Management School of Fudan University and Antai School of Management of Shanghai Jiaotong University, to spend a special time at "Shanghai Night".

Under the organisation and preparation of the CEIBS MBA student committee, the evening party was a fantastic show of the Eastern and Western cultures and life. In addition to professional dances, participants were amused by their own talented performances, including kung fu, lion dance, catwalks and ballroom dancing.

The activity is aimed to provide a platform of communication and exchange for

MBA students in leading B-schools. The organisers hope to hold such kinds of activities on a three to four months base on various subjects to enrich the MBA life and networking.

FAREWELL TO MBA05

After 18 months of study, the CEIBS MBA05 students were packing their knowledge, experience and friendship to start a new career. A farewell party was held before the Spring Festival on Feb. 7th, 2007. Mainly organised by MBA06 students, the party's preparation involved more than 90 MBA05 and MBA06 students. Around 360 students, professors and staff at CEIBS attended the party.

Dean Rolf Cremer made a thought-provoking speech to the audience to congratulate the graduation of the students. The party was highlighted by wonderful students performances and rewards presented to the 05 MBAs. Chinese traditional dancing, Latin dancing, group singing, mini-comedy and other performance showcased the artistic talents of the students. The presentation of the MBA05 Top 10 Popular Figures refreshed students' memories of the past 18 months and push the party to climax.

The auction of books written by the CEIBS professors aroused great interests from the students. A total of RMB15,000 was collected from the auction, which will be used as the fund to buy gift to the



alma mater. The flash show “Memorable Moments” drew the party to a happy and memorable ending.

MBA EXCHANGE STUDY SHARING

After several months’ exchange study, the 67 students of MBA05 have returned to the school in December and January, bringing back enriched experiences, as well as suggestion to their schoolmates and the school.

On January 19th, the returned exchange students were invited to a party organized by the MBA Night Club for experience sharing. During the party, they memorised valuable moments in exchanges, talked about the seeings and hearings, and helped the 06 MBAs to choose right exchange schools.

SEVENTY LEADING COMPANIES TARGET CEIBS MBAS

Seventy leading companies came to CEIBS campus to hunt young business talents in the recruitment fair organised by the CEIBS Career Development Centre (CDC) on Tuesday 23 January 2007.

Senior management members were sent to the event for a direct and better understanding of the candidates, as well as providing the candidates the opportunity to interact with the key members of their future companies. While some companies such as ABN Amro Bank, Emerson, and

Tesco have successfully recruited CEIBS MBAs in the past, other companies like Fiat Auto, Omnicom Group and Bank of Communications are news comers, who, however, have began their recruiting relationship with CEIBS through the fair.

The recruitment turned out a win-win result. Of the 90 participating MBA05 students, many got on-spot interviews. Most job opportunities offered are mid-level managerial positions in various business areas. Employers were impressed by the quality and professionalism of the CEIBS MBAs. Many companies thought the fair highly productive and well-organised.

EMBA PROGRAM

CEIBS EMBAS TOOK STUDY TOUR IN TIANJIN NEW COASTAL DISTRICT

On January 10, over 50 CEIBS EMBA students from 2006 and 2005 Beijing classes took a study tour in Tianjin New Coastal District. Prof. Liang Neng, Associate Dean and EMBA program director also participated in the tour.

The students first visited the District’s planning exhibition to learn its future development and opportunities. In the following visit to Tianjin FAW Toyota Motor Co., Ltd. (TFTM), the students learned the company’s advanced manufacturing and

assembling processes after the introduction of its deputy general manager and onsite visits. They also had discussion with TFTM mangers on quality control, inventory management, etc. The afternoon visits began with Novozymes A/S, a leading company in producing enzyme and microorganisms. Ms. Chen Hong from EMBA2006 is working in the company. The students met with Liu Hongcong, president of the company. They were impressed by how the company creates value through technology innovation and environment-friendly biotechnology.

The study tour ended with the visit to Motorola’s plant in Tianjin. Ms. Liu Yan from EMBA2006 is working in the company. The students were shown with the production lines and learned the development of the company in China. Finally, the students listened to the lecture from the instructors and Black Belt Masters from Motorola University on Six Sigma management.

HISTORIAN ZHU XUEQIN SPOKE ON THE RELATIONSHIP OF CHINA AND THE WORLD

Zhu Xueqin, famous historian, gave a speech entitled “China and the World in the Past 200 Years” at CEIBS on January 13. Prof. Zhu explained the far-reaching influences exerted by the constantly changing trends of the world on the development of the Chinese history in the past 200 years.

In Prof. Zhu’s opinion, the history of the world is connected. To understand China’s today, people not only need to know its own past development, but its connection with the other parts of the world. Since the Opium War in 1840, the wanes and waxes of China have partly been a result of the fluctuation of the world. In his speech, Prof. Zhu made comprehensive historical and horizontal comparisons to trace the development of China in the past 200 years.



“Hopefully We will Help Enrich both China Netcom and Telefónica Sharing Experiences and Know-how”

--Interview with Mr. Mauricio Sartorius, Chief Representative Officer Asia, Telefónica Internacional

By Seáníe Comerford



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elefónica, one of the world's largest telecommunications companies has been accelerating its move into the Chinese market, by teaming up with the second largest Chinese state-owned telecommunications enterprise, China Netcom. In this interview, Mr. Mauricio Sartorius, Chief Representative Officer Asia of Telefónica Internacional discusses the strategy behind this partnership

In 2005, Telefónica opened a rep office in Beijing and later that year acquired a 5% stake in China Netcom. Where is China now positioned in Telefónica's global strategic plans?

China is a very important emerging market for Telefónica, given its potential. As you mention, our Office was opened in March, 2005, with three main areas: Institutional Relations, Corporate Development and Sourcing and Technology. Regarding Institutional Relations, our intention was to establish a good relationship with the Chinese Government and Institutions (like CEIBS for example), serve as a connection point between them and Spanish Institutions, and offer our support to the Chinese Government to take advantage of our strong position in Latinamerica. We have had visits of many Spanish Officials in China, Chinese Officials in Spain and Latinamerica and, above all, we have been honored with the

visit of the President of the People's Republic of China, Mr Hu Jintao, to Telefónica in Madrid. Regarding Corporate Development, we have acquired a 5% stake in China Netcom, to be increased up to a 9.9%. And regarding Sourcing, Telefónica has increased the relationship with Chinese vendors, such as Huawei, ZTE and others. We are already Huawei's one of the most important customers worldwide.

You were appointed as a Director to the Board of China Netcom Group in December 2006; can you explain the significance of this?

This has an utterly important significance both at a personal as well as at a professional level. Regarding personal, it is for me an honor, as a Spaniard, to be part of the Board of Directors of a Chinese telecom giant. Besides, I hope I can modestly contribute to bring our countries a little closer. China and Spain, both countries with such a

long history, are surprisingly, almost unknown to each other, and I think it is time to change this situation and start sharing the things that we have in common and understand each other better. As you may know, 2007 is the Year of Spain in China, which is further proof of the intention from both countries to get closer. At a professional level, it is an exciting challenge to be in such position, and hopefully we will help enrich both China Netcom and Telefónica's sharing experiences and know-how. In fact, as you say, we got two seats at the Board of Directors of CNC, and China Netcom has a seat in the Board of Directors of Telefónica Internacional.

What activities are Telefónica and China Netcom currently focused on?

We have several initiatives that are already implemented or in the process, for example, International Business, Corporate Customers, Call Centers,



Name: Mauricio Sartorius
 Nationality: Spanish
 Family: Married with two children
 Education: Business Administration in Economics,
 Universidad Complutense of Madrid, Spain,
 MBA, New York University
 Current Position: Chief Representative Officer Asia,
 Telefónica Internacional

Management Exchange, TV signal transmission for the Olympic Games, etc. We have also been invited to be shareholders of CNC's National Engineering Laboratory, with a colleague from Telefónica being appointed as co-CEO. This will be a great opportunity, since the Laboratory is aimed to promote the use of broadband and develop innovative products and services, all this being a useful tool to bridge the digital divide and contribute to the objectives of the Chinese Government, as described in the XI Five Year Plan.

Any involvement in the 2008 Beijing Olympics?

Telefónica could not let go this opportunity and, together with our partner, China Netcom, Official Sponsor of the Olympic Games Beijing 2008, we have projects like Call Center services for visitors during and previous to the Olympics, and TV signal transmission for broadcasters. Of course, there will be other projects to

come in the future, since our cooperation with China Netcom is intense and allows new opportunities to arise.

Telefónica and China Netcom have an on-going management exchange program between both companies. How is this working?

This initiative has turned out to be a most interesting experience and, as we expected, it has allowed our colleagues from China Netcom become more familiar with Spain and with Telefónica, and vice versa. This is an important step to know each other and exchange experiences and know-how. We have already had two editions of the Program, and we are preparing the third one.

What in your opinion is the outlook for China's telecom industry?

If you mean if I have a crystal ball, I don't. Anyway, it seems clear that this market has a high growth potential, given the present figures and the future

projections (1 - in 2005, the telecom growth was 12.5%, even higher than GDP growth, at 9.5%; 2 - every year there are roughly 50 million new customers in mobile telephony). I am sure that the Chinese Authorities know well what they are doing, and the upcoming restructuring and the 3G licenses issuing will be done with in accordance with the objective of making that potential become a reality. We are looking forward to becoming an active participant.

Your professional career started in Corporate Finance; Banco del Progreso & CSFB, until you joined Telefónica in 1997. You were soon after appointed as Human Resources Managing Director for Telefónica Internacional with responsible for 23,000 employees; how did this significant career transition happen?

The real truth is that one day back in October 2004 I was sitting in my office in

Madrid and Jose Maria Alvarez Pallete, President of Telefónica International, my boss, told me that I was going to China. Not if I wanted to go but that I was going. My answer in two seconds was “OK, when am I supposed to go?”

What is behind this “transition” is that as HR responsible I was always trying to sell the idea that rotation among management is always healthy in any organization. I was an example of rotation. Definitely I believe it was a good decision for me. And I believe for the Company. My biggest added value is/was that I knew the top employees in the Organization. To date this is serving us to use their talent in China accordingly. Business is People and many times we forget.

What were the greatest human resources challenges and achievements during that tenure? Can any lessons learned be applied to the China market?

The biggest challenge at that time with Telefónica in Latin America was to adapt the different cultures of the different countries to the Telefónica Group. Like Cesar Alierta our Chairman says “We are not a Multinational Company but a Multidomestic Company. In Peru we are Peruvians, in Brazil we are Brazilians, in Argentina we are Argentinians,.....” and hopefully, one day in China we will be Chinese. I believe now, if you were to ask in Latin America, employees will tell you that they feel part of the “Telefónica family”. We are trying to work like one Company but respecting the richness of every country and trying to export/import best practices accordingly. But as the famous saying “in Rome, do like Romans do”.

China is no different. They have their own culture, their own language. But in China we have to be Chinese.

Presentations in Chinese. Chinese food. Chinese schedule (difficult for us since we have lunch at 2:30 pm and dinner at 9:30 pm), etc. And Chinese employees. I, as an expatriate, have a “maturity date”. As I mentioned above the Management Exchange with China Netcom is a very rich experience for both Companies.

I believe that the main lesson learned is very important to maintain cultural backgrounds of each country trying to adapt as much as possible and that in many occasions we tend to underestimate new countries, new cultures, etc...

You have worked and resided in Spain, the USA, Latin America and now China. Which market has been the toughest and why?

All markets are different with different challenges in different moments. Obviously for me China is the toughest. Of course because of the language barrier but also because of the maturity of the market and timing. We have our expectations and our timings and they, China Netcom, their own. Finding equilibrium among both is key to avoid misunderstandings and frustrations. So far so good. We can learn from them and I think they can learn from us.

What or who most influenced your career path and why?

On the professional side, one of the things that impacted more in my career was the crash of October 1987 in Wall Street. I was in New York at that time working for CSFB. It taught me a lesson of “never taking things for granted”. The day before the crash I had friends that were the smartest people in the world. A day later they were fired. Jobless.

At a personal level, without any doubt, my closest allies have always been

my family and since 7 years ago specially my wife. They have always been there to listen to my anxieties and my frustrations. And to support me. Many times we tend to forget who is our most important customer and where are our priorities. Also, I have been very lucky with the colleagues in my office, both at a senior level and at a more junior level. At the end of the day, we like it or not, we spend more time with them than with anybody else so they become like your family.

You hold an MBA from NYU : did this in any way, impact your career path and choices in life?

The MBA served me especially for networking. Since I graduated I have had contacts with former colleague/students that today are spread around the world. What you learn is important. The institution where you study is important. But the people you are with during the course attending class with you are also very important.

What advice would you give to an MBA student at CEIBS today?

While at CEIBS, never underestimate your fellow students and when the course is over keep in touch with them as much as possible.

For their future as unsolicited advice I recommend to enjoy whatever you do. Do not fall in the “comfort zone” and never lose sight on your priorities. Any career, job should be a mean and not an end.

With 25 years working experience, what in your opinion, is the key characteristic of a successful business leader?

Have sense of humour. Be ethical. Walk the talk. Motivate your employees. Work long hours as an exception to the rule. **TheLINK**

Dow Corning Partners with CEIBS to Strengthen Collaboration on Talent Development and Market Understanding

Dow Corning Corporation, a global leader in silicon technology and innovation, signed a partnership agreement with the China Europe International Business School on Dec 18, 2006. Dow Corning will donate 100,000 Euros over the next three years to support the school's development fund.

Dow Corning understands that highly competent staff is the key for corporations to expand their businesses in China. The company started their cooperation with CEIBS as early as 1997 on MBA graduate recruitment and executive development programs. The newly announced collaboration goes beyond cooperation in talent management and market understanding, but also fortifies the collaboration between advanced management academia and international business operations.

Regarding talent management and development, CEIBS will provide Dow Corning with priority access to engage CEIBS faculty for the development of company specific management programs. This will enable Dow Corning staff to not only serve the local market, but also to acquire advanced business skills that are essential for bridging with the international market. Furthermore, Dow Corning will cooperate with CEIBS for executive recruitment to fill its needs for business expansion in China.

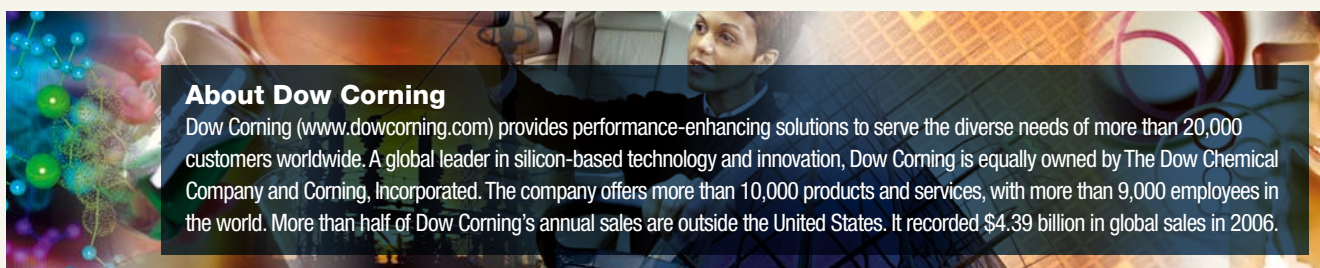
Going forward, Dow Corning will also



collaborate with CEIBS to strengthen the company's understanding about the China market at the signing ceremony of the new partnership, Mr. Jean-Paul Mollie, Commercial Director of Dow Corning Asia, said, "One of the corporate priorities for Dow Corning is to succeed in Asia, especially in China. We need to have deeper and broader understanding about the local market in order to provide effective solutions to our customers. The collaboration with CEIBS provides an advanced

platform and unique perspective for us to access the China and Asia markets."

The collaboration between CEIBS and Dow Corning implies a combination of advanced management philosophies and practical business operations. Dow Corning will become a member of CEIBS Corporate Advisory Board to advise the school's development strategy. CEIBS will invite Dow Corning senior management to be guest lecturers on MBA and EMBA programs, as well as to participate in leading forums and industry events, to share the company's international business operational and management experiences, with the CEIBS community **TheLINK**



About Dow Corning
Dow Corning (www.dowcorning.com) provides performance-enhancing solutions to serve the diverse needs of more than 20,000 customers worldwide. A global leader in silicon-based technology and innovation, Dow Corning is equally owned by The Dow Chemical Company and Corning, Incorporated. The company offers more than 10,000 products and services, with more than 9,000 employees in the world. More than half of Dow Corning's annual sales are outside the United States. It recorded \$4.39 billion in global sales in 2006.



China Europe International Business School: A Strategic Necessity?



by Raghuram KS

It is finally over. I am not referring to the MBA degree; despite the enthusiasm of many of my classmates after wrapping up the Corporate Finance and Operations Management mid term exams, we have 1 more year to go. What has come to an end is just the first half of the 2nd term of perpetual classes, long assignments, group projects and of course, the late nights.

Yet I feel a sense of accomplishment. This does not stem from learning critical concepts such as how to estimate a company's value or measure its performance. These skills are now uniformly acquired by MBA students worldwide and will not necessarily give me the competitive advantage I need.

What will give me the advantage is the ability to build and leverage relationships. This skill, which has come from informal interaction with classmates, alumni, mentors and professors, is where the true value of CEIBS MBA lies. This, especially in China, is a way of life and affectionately termed as "Guanxi". Over the last 3 months, I have been able to touch base with more than 200 CEOs and Senior Executives (many of them CEIBS EMBA students and Alumni) through various discussion forums and networking events organized at CEIBS.

The most fascinating thing to know about CEIBS is that it is a community. It is an academic, professional and social community that only begins with your 18 months in Shanghai. This community is full of extraordinary people who are eager to contribute and

help each other. Every time I struggled, had questions, or needed help, my classmates, professors and alumni went out of their way to ensure that I got what I needed. Once the term started, section mates volunteered to run finance and statistics review lessons and always seemed available for either a quick review session or group preparation. This supportive culture plays such an important role in making the CEIBS experience so great. Moreover, a well diversified class ensures unique learning experience. I feel that I understand the culture and thinking process of many countries that I knew little about before coming to CEIBS. I have met people from over 20 countries, who have worked in dozens of industries, and who have some of the most unique hobbies. Being exposed to this diversity, I feel that I am now much better groomed as a Global manager.

In fact, this diversity is also consistently mirrored in the work groups and again groups are changed every term to reflect geographical diversity and functional balance. In addition, we ourselves form different interest groups either as part of club activities or special projects such as business plan competitions or Language exchange. One of the recent activities was the production of a short movie for the grand Shanghai Nights Party "An adaptation of Crouching Tiger, Hidden Dragon" which was a hit. The Social Venture Club, which I preside over, organized a Charity bazaar to support the poor children of Yunnan Province in China and also facilitated appointment of 6 CEIBS students as directors of the board of 2 reputed NGOs in Shanghai. This initiative, while helping the students to gain board level exposure, is also aimed at preparing them to adapt inclusive business rationale in future.

The academic oriented clubs such as Finance club, Supply Chain club, Marketing club, Consulting club and others organize regular seminars and networking sessions involving faculty and alumni with industry participation. For fun, food and entertainment, you do not need to look beyond the events of International club's frequent Cuisine tours and food festivals, Dancing club's Salsa lessons, Kung fu Club's Tai chi classes, Single club's KTV events or even Night club's ever popular wine testing and unwind hours. If you are a passionate sports person or keen to learn a new sport, you will be spoilt with choices. Still better, if you have an unconventional interest and can assemble some fellow participants, you may be even on your way to start your own club! Another major initiative is the first student led CSR conference in Asia Pacific called "Being Globally Responsible Conference (BGRC)" which involves participation from students of all top business schools in Asia, businesses and NGOs.

The best part in CEIBS is the quality of the teaching and the case method which opens new thought frontiers. A CEIBS case discussion is to learning what a Picasso is to art. At first intimidating, the case method is an exciting way to learn and demands in depth preparation and analysis. I walk into class each day with a certain view of the case and what strategy I believe the protagonist should take. But each class I am astonished by the views and opinions of my classmates. Our debates are invigorating and they create an interactive learning environment unlike any I have ever known. The professors act as facilitators and provide overall guidance and direction to the class discussion. My experience

with the case method has taught me the importance of looking at issues from all perspectives in order to understand business problems and formulate creative solutions. The case-method has inculcated that in life I will not usually be presented with 100 percent of the facts; I must instead make due with what information I have. These lessons will be key to my potential success as I move on in my career.

As with the student community, the faculty is truly international drawn from renowned institutions and industries worldwide and they bring in fresh and latest business perspectives and issues. The school also brings in distinguished visiting faculty and guest lecturers from the industry to aid in further learning and view points. With such a diversified atmosphere, it is not uncommon to hear debates and discussions on business issues as far away as Romania, Nordic countries, or South America, thereby stretching your view points and broadening horizons.

CEIBS is also renowned for its Exchange partnerships with the top global schools. Last year, more than 60 students went on to attend 3-4 months exchange program at London Business School, NYU Stern, IESE, Fuqua, Melbourne and others. The school has also won the mandate to award 9 Asia Link scholarships on Social Venture and CSR for exchange applicants to IESE and Copenhagen business school which covers travel and living expenses. For those opting out of exchange program, the incoming exchange students bring added diversity and contacts during this period thereby enriching the experience.

The Group Consulting Project is another highlight of the program

spreading over 7 weeks after the 3rd term. Every year CEIBS' corporate partners look to derive solutions to challenging real business situations and post consulting projects through the career services department. We are required to form a group of up to 5 members and bid for consulting projects. Many students in the past have used the GCP as a platform to future career and also to understand the nuances of consulting. Some students also choose to undertake an internship



instead of GCP after gaining approval from MBA Director.

Being the No.1 business school in Asia and 11th Worldwide (*Financial Times* 2007 Rankings), CEIBS attracts many high profile Global companies and Chinese firms. The CDC is especially helpful in preparing students for an eventual return to the workplace through career fairs, career workshops, CV preparation, Personal assessment and Soft skills module and Mock interviews. Access to the influential and high profile alumni network provide additional impetus to research on specific industries and domains. Besides, CEIBS organizes major industry specific events such as

Automotive forum and Health forum giving further access to top decision makers in the industry. Is that an overstatement if I say that the CEO of NYSE is on my personal network?

The location of the school is an overwhelming consideration for many MBA applicants and in this regard, Shanghai is second to none among the global cities. The sprawling metropolis with one of the latest and advanced metro system and Maglev, with its high rise buildings, business spread, bustling night life and entertainment centers is a great place to live. The people are very friendly and it is not uncommon for a Chinese to bump into a foreigner to practice English and they will greatly appreciate if you demonstrate an eagerness to learn mandarin. China also presents enormous options for the traveler in you and some of my friends also traveled around Cambodia, Philippines, Indonesia, Japan and Interior China while I plan to undertake a dream journey in the Trans Siberian Railway through Mongolia and Russia.

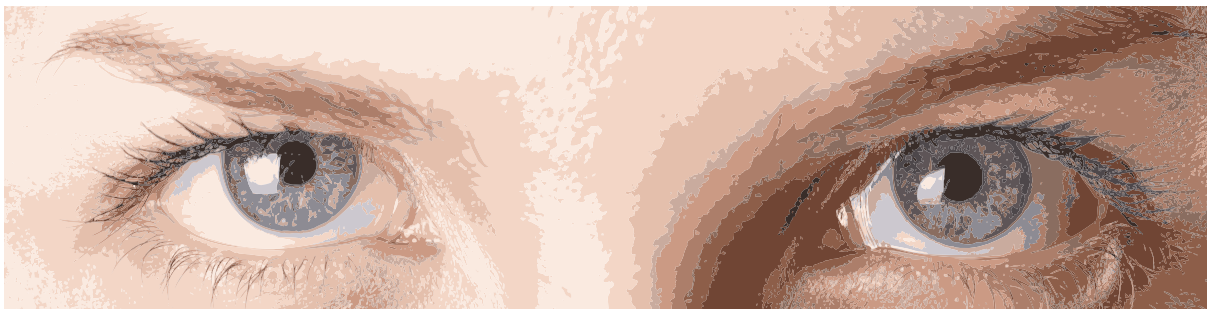
As you can appreciate by now, CEIBS opens multidimensional and multifaceted choices for you. As I believe, for any Global manager aspirant, the decision to come to China is no longer a choice but more of a strategic necessity.

Do I need to say any further why you should choose CEIBS? Good Luck! [TheLINK](#)

The author is CEIBS MBA06 participant. Prior to this, he had worked for more than 6 years in Telecom and Entertainment business in Hutchison Essar Telecom and Essel Group. The article was originally published in the 2007 *Business World* (India) Mega B-school guide. *Business World* is the largest selling Indian business magazine.



China and India



at the Glance of a Lǎowài

By David Vinagre Solans

Last November, I attended “The India Phenomenon” conference organized by the Indian Institute of Management in Ahmedabad (IMAA), India. I participated in an international competition with plenty of business schools coming from all over the world. As a CEIBS student, it was an interesting experience to encounter in situ the Indian reality. Unavoidably, I was constantly comparing China and India. Although both countries have a long way for development and both are facing their own challenges to maintain their fast growing economies, the

comparing China and India. Buildings, walkways, motorways and other types of city-life structures are much better equipped in China than in India.

Population pyramid structure is considered a key advantage for India’s development in the future. Single-child policy was established in 1979 in China to control the overpopulation problems. The impact of this policy remains unknown, but it could be an advantage for manpower in India in the future. Moreover, their talented English speaking people are attracting investors in overcoming the difficult communication barrier in a foreign

and CEIBS) talk about the Asia phenomenon, outside the schools, right next to the walls separating the school campuses and the streets, homeless families sleeping on the streets are found in IMAA, or people living in conditions that from a western society can be considered as “a hundred ago” are also found right next to CEIBS.

How can these developing countries dream one day of becoming a world economy super power in these conditions? The answer is clear: with the determination of their people. IMAA and CEIBS with their excellence in education are inspirational schools. They both share the same vision of the future with their MBA students who will consolidate these emerging economies. On the one hand, I met different Indian students who had the determination to work for the development of India. On the other hand, I feel convinced for success in any of my Chinese classmates at CEIBS. All of them believe in the bright future of China. Growing economies require these entrepreneurs and innovators, who lay the economical foundations of the emerging powers. Indians and Chinese are building their societies and future based on their attitudes and beliefs in their success. Quoting Mahatma Gandhi, “be the change you want to see in society.”

Likewise, Confucius said “a journey of a thousand li begins with the first step.” India and China started walking a long time ago. Yesterday we were talking about China or India ... today we can talk about India and China... tomorrow maybe “with”? Both walk in the direction of development. Let the world shake! [TheLINK](#)

The author is CEIBS MBA06 participant.

Yesterday we were talking about China or India... today we can talk about India and China... tomorrow maybe “with”?

two countries share the same spirit and determination for a successful development to become a major player in world economy.

Besides the huge cultural gap between countries, India and China’s current development differences can be explained in terms of political reform. The two growing countries are in different stages of development, considering the starting point of the big reforms in 1978 by Deng Xiaoping in China and initiated in 1991 by the former Indian Prime Minister P. V. Narasimha Rao in India.

Although there is an important foreign global investment in both countries, China attracts significantly more capital mainly due to its better infrastructure. China created infrastructure before there was a necessity. This aspect shocks at first sight when

country. Even though the current percentage of illiterate in India reaches around 30%, India population has the British colonial inheritance, which can be felt today talking with any person in the chaotic streets of Delhi.

Both countries have a long way to go in order to keep their development. Demographics, education system, poverty, rural area development, politics corruption are some of the main challenges that their governments are trying to overcome. There are important problems both countries have to solve in order to make the real leap forward towards their future sustainable development.

What has been more surprising in the experience of living in China and India is the contrast in living conditions that can be seen in both countries. While both business schools (IMAA

CSR Education at CEIBS



By Tracy Shao

News headlines have never been so crowdedly occupied by negative reports as in 2006.

Coverage from the Foxconn sweatshop, the retreat of the SK-II problematic products, to the KFC crisis have drawn increasing attention from the business community, as well as the government and the customers on Corporate Social Responsibility (CSR) in China.

As an essential part of the modern society, nowadays, the role played by companies has gone well beyond economic significance, as Dean Rolf Cremer of CEIBS indicated, “Today the role of government has changed as the one of business and the role of the media. Corporations create jobs, contribute to the building of social networks, pay taxes, invest or withdraw investments, innovate, create products and services, etc. This shift of power to private business has been a trend observed worldwide.” Neglecting the

due social responsibility, a company cannot be recognized and respected by the customers. It may make quick money, but can hardly live long.

The precondition of a responsible corporation is responsible business leaders. The improvement of the awareness of being social responsible relies on the imperative laws and regulations, as well as the soft side, the education of business executives by business schools. Business schools, as the cradle of managers and entrepreneurs should take CSR education as an important mission. As the leading business school in China, CEIBS is also taking a leading role in the CSR area by taking different kinds of steps.

CEIBS is the first business school to provide Business Ethics in MBA study in mainland China ever since its establishment in 1994. The compulsory course has been a tradition of the school, comprised of Responsible Leadership, Business Ethics and Corporate Governance. Explaining with real cases, the course is to teach the concepts that a responsible entrepreneur is not only about charity,

but to create value for the society. The school also provides Responsible Leadership in its Executive Education Programme.

At the opening ceremony of EMBA2006, Professor Jiang Ping, the domestic law guru gave a speech on “Entrepreneurs and Social Responsibility”. He warned if a company takes money-making as first priority and its only goal, the entrepreneur is not a good entrepreneur and the company is doomed to be an “economic monster”. This is the first class CEIBS provides to the business leaders and executives attending its class. The school is a place to learn business knowledge, moreover, a place to learn business ethics.

Research plays an important role in the school’s CSR education. In order to help companies have a better understanding of CSR, CEIBS takes initiatives by setting up “Euro-China Centre for Leadership and Responsibility” and CEIBS Health Care Policy and Management Centre, supported by Bayer AG, etc. to cultivate the students’ relative attitude and skills.

Meanwhile, CEIBS regularly holds various kinds of speeches, forums, seminars on CSR, inviting internationally renowned business leaders, government officials, experts and academia to explore the topic with the students and alumni.

On September 12, 2005, Mr. Jon M. Huntsman, chairman and founder of Huntsman Corporation, the largest private chemical company in US was invited to deliver a speech entitled “Winners Never Cheat”. Mr. Huntsman said: “I might surprise many of you suggesting that money may not be the most important thing in your life. There are many other aspects of your life that are more important than money”. He reiterated that the most important quality of businessman is to be honest.

On October 14, 2005, CEIBS held a forum entitled “New Partnership between Politics and Economics – Corporate Responsibility and Sustainable Development” together with DaimlerChrysler and Deutsche Bank. The forum attracted over 150 participants and was widely covered by media. In the opening remark, Professor Zhang Weijiong, Vice President and Co-Dean of CEIBS said: “the mission of CEIBS is to educate managers with international perspective and competitiveness. This goal cannot be realized without improving the awareness of social responsibility of our entrepreneurs. This is the duty of a business school.”

The efforts of CEIBS in promoting CSR have been well reflected on its students. The CEIBS students and alumni have initiated forums on CSR, organized social activities and donations.

In 2005, the EMBA2003 students donated RMB400,000 to build a CEIBS Hope School in Gexi, Jiangxi Province under the suggestion of their class coordinator, Flora Zhu. The students also encouraged social responsibility by organizing relative activities in their companies, such as Li Dexiao, President of Viewsonic China, launched the campaign “Ten Yuan from each sale of Viewsonic display for CEIBS hope school”. Shen Jia, Chairman of Shanghai Liren Computer Co., Ltd. and monitor of the class memorized in an article later: “To CEIBS graduates, what matters is not money, but the recognition of the importance of social responsibility.”

One year later, in November, 2006, a group of CEIBS EMBA2003 Beijing class2 students established the “Spring Rain Scholarship”, providing subsidy to poverty-struck university students in the Northwest area of China. The donators made half a year’s preparations and research before issuing the scholarship to make sure that they would help the most needed ones. Choosing Northwest Agriculture and Farming University as the subject of their subsidy, the EMBS students thought they could not only help students there, but also the construction of the west area.

The CEIBS’ CSR activities go well beyond donation. A Social Venture Club was established by the MBA students, who regularly hold charity fairs, provide community service, free lectures, donations, and so on. The students thus strengthen their social responsibility by contributing to the society in many ways. In April, 2006, a charity bazaar was successfully held on the CEIBS campus. Organized by

the Club, it involved around 100 students, faculties, staff and their family members. Except this, dancing club, golf club, swimming club, consulting club, film club, etc. all organized their own activities to collect donation. The campaign collected over RMB20,000 which was all sent to the two charity organizations in Shanghai. Another donation was launched at the end of the year by the Club, initiated by Marketing and Communications Department of the school. Over one thousand pieces of clothes, shoes, toys, stationeries were collected for the children in the cold mountain area of Yunnan Province. Some MBA students even donated their suitcases to pack the donated goods and their carings.

CSR is not only reflected in practice, but also academic research. In June 9, 2006, the CEIBS MBA2006 students planned and organized Being Globally Responsible Conference. More than 150 MBA students and professionals from top business schools in Asia attended the conference. This is the first ever student-led CSR conference in Asia-Pacific region. The organizers of the conference also arranged on-site visits for the participants. One participant said: “Corporate Social Responsibility is not something on paper. It is real.”

According to Sam Lee, an MBA05 Korean student and the initiator of the Being Globally Responsible Conference, one of the major reasons he chose CEIBS is that it is the only business school in mainland China to provide course on Business Ethics. At CEIBS, he does find what he needs, which as he said, will help the further development of his career in the charity field. **TheLINK**

BRIEFINGS



Golf club "China Resource Power" tournament

CLUBS

GOLF CLUB**"China Resource Power" CEIBS Alumni Golf Tournament**

On Feb. 19, 2006, the "China Resource Power" CEIBS Alumni Golf Tournament was held in Shenzhen to celebrate the traditional Chinese Spring Festival. The tournament attracted over 80 alumni, coming from around the nation. Participants were divided geographically into Southeast China, South China and North China teams, competing for the group title and individual titles. Ms. Julia Li, director of the Alumni Relation Office also attended the tournament to show the school's support to the event.

The event was also strongly supported by China Resource Power and SCAS, who generously provided various kinds of awards.

The North China team won the group championship at last after fierce competition with other teams.

MARKETING ASSOCIATION**Song Wenming: Marketing for VC Capital**

On the evening of Jan. 21, the alumni marketing association invited Mr. Song Wenming, the winner of "Win in China" to share his successful experiences with the

CEIBS alumni and students.

Hosted by Mr. Fang Guang, vice secretary-in-general of the association, the forum especially invited Zhou Dongsheng, Professor of Marketing and EMBA, MBA student representatives as observers. The two-hour's activity was filled with tides of laughter from the audience, amused by the humorous speeches of the host, the "exclusive" Song story in CEIBS class leaked by his monitor Mr. Shen Jia, the witty and sharp questions from the observers and Mr. Song's excellent performance.

Ms. Shen Yan, Secretary-in-General took the opportunity to make an introduction of the association and its activities, welcoming the CEIBS alumni and students' participation. She also extended her gratitude to the support of the EMBA office.

AUTO INDUSTRY CLUB**2006 Annual Meeting**

The Auto Industry Club held its 2006 annual meeting on the afternoon of Feb. 10. About 20 club members attended and exchanged their ideas.

Mr. Lou Zhouren, Secretary-in-General made a retrospect of the club's activities over the last year. Aiming at exploring the development of China's domestic auto industry, the club initiated a series of study tours in 2006. In the Beijing-Tianjin and Southwest China trips, the club members visited major local auto makers and research centres, and organised seminars on topics of the Chinese import auto market, and auto exhibition and auto marketing. The activities are highly appraised by the alumni.

After the steady development of the last year, the club has begun the planning of year 2007. The club will still facilitate the alumni resource, take overseas and national trips, and explore topics on auto export, auto



Auto club 2006 annual meeting

BRIEFINGS

parts export and second-hand autos.

CHAPTERS

SHENZHEN CHAPTER 2nd COMMITTEE ELECTION HELD

The Shenzhen Alumni Chapter elected its 2nd committee members on Jan. 8.

Chairman: Xu Hang

Vice Chairman: Xu Shaochun, Wu Guangquan, Chen Jian

Secretary-in-General: Huang Fanzhi

Vice Secretary-in-General: Ouyang Xu, Cong Lin

Members: Xiao Li, Guo Xiaoguang, Xiao Donghua, Lin Mingkun, Yuan Hao, Li Shuhua, Bai Wentao, Cai Dajian

The committee will serve in a 2 years term, lasting from December 2006 to December 2008.

SHAANXI CHAPTER: SPRING FESTIVAL PARTY

On the evening of Feb. 3, the CEIBS Shaanxi Chapter members gathered together in Xi'an to celebrate the Chinese Spring Festival.

The party was begun with the speech



Shaanxi Chapter

of Mr. Qi Shiliang, Chairman of the Shaanxi Chapter. Mr. Liang introduced the development of the chapter. As the earliest established CEIBS alumni chapter in the north China area, Shaanxi chapter has expanded its team from 11 in November 2003 to over 40 till now. There were 3 more alumni joining the chapter in 2006, injecting fresh blood into the organisation.

Memorising the study at CEIBS, members described it as the "sweet and bitter" days. They were greatly impressed by the outstanding teaching skills of the faculties, which rejuvenated their concepts and mind-sets. The CEIBS education has equipped them for more career achievements. The alumni's talks reveal their love and commitment to the school.

Alumni gathering is not only about

memory, but more a platform for networking and cooperation.

TAIWAN CHAPTER: SPRING FESTIVAL REUNION

Established in January 2006, The Taiwan Alumni Chapter currently has about 70 members, working in the mainland and Taiwan. The 20th CEIBS alumni chapter is keeping growing with the increasing influence of CEIBS in the Hong Kong and Taiwan area.

On Feb. 15, 2007 the first Spring Festival after the chapter's establishment, all the members gathered in Taipei, celebrating the Chinese New Year and welcoming the 2007 participants.

HONOURS

CEO PROGRAMME ALUMNA DONG MINGZHU AWARDED "2006 CCTV TOP ECONOMIC PEOPLE OF CHINA"



Ms. Dong Mingzhu

Ms. Dong Mingzhu, CEIBS CEO programme participant was awarded "2006 CCTV Top Economic People of China" in Beijing, Jan. 20, 2006. Ms. Dong is CEO of Gree Electric Appliances, Inc. The highest award of its kind in China, the "Top Economic People" is to recognise the outstanding contribution of those in the business and economic fields. The nominee criteria of the 2006 award are Innovation, Responsibility, Influence and Impetus.

ALUMNI INFORMATION UPDATES

Dear Alumni,

The CEIBS Alumni Relations Office is currently conducting database verification to update the contact details of our graduates. The purpose is to keep in touch with our alumni, update and invite you for upcoming events organized by the alumni organizations and the school.

We would appreciate if you could take a few minutes to update your contact details by one of the following ways:

1. On-line update your particulars www.ceibs.edu/alumni/index.shtml
2. Mailing your latest business card to:

CEIBS Alumni Relations Office, No. 699, Hongfeng Rd. Pudong, Shanghai, 201206

3. Fax your latest business card to us at 021-2890 5330

4. Call us at 021- 2890 5130 / 2890 5666

Thank you!

Through the Looking Glass

By David Gosset

Chinese democracy is making progress along a way unique to itself, despite the fact that political modernization in the country often escapes the vision of many Western observers. This is what David Gosset, Director of Academia Sinica Europaea at Shanghai-based China Europe International Business School, told a forum on China, sponsored and organized by the Foundation Marcelino Botin (Spain), late last year. Excerpts follow:

Used to widespread Western criticism on China's human rights record, lack of religious freedom, Han chauvinism and the inaccurate view that the People's Republic of China ruling party is a monolithic entity obsessed exclusively by maintaining an unfair status quo, we are failing to measure the degree of China's social pluralism and political opening up. In fact, the level of individual freedom enjoyed today by Chinese citizens has no equivalent in China's past. Beijing's elites are gradually engineering political adjustments and a process of managed democratization is reinforcing China's economic reemergence and will ensure the renaissance of the Chinese world. In order to understand current sociopolitical dynamics, one has to remember the long and tortuous post-imperial and colonial transition, to reflect on the Chinese traditional values and their links with modernity, and to discuss some of the factors that will determine the nature of China's future political system.

On his fourth visit to China as French president, Jacques Chirac told Chinese students in Peking University, "Tomorrow, China will be one of the great if not the greatest power in the world." (October 26, 2006) A member of the presidential delegation, former French Prime Minister Jean-Pierre Raffarin declared, "For our children the norm will not be American anymore but Chinese." (*Le Figaro*, October 28, 2006) Such affirmation raises a fundamental question: What would be this norm and the exact content of China's intellectual, social, economic and political dimensions?

It is particularly timely to reflect on the political dynamics of a reemerging China. Let us put China's sociopolitical reality into both historical and intellectual perspective, even if this reality is a challenge for the analyst.

China is highly heterogeneous. She is *mutatis mutandis* the Europe of the Far East—a Europe without nation-states, and one writing system! Four times the U.S. population, one European Union plus one Africa, China's population is so large that when we speak about the "Chinese" we are almost always making oversimplifications. Of the 22 People's Republic of China provinces, nine are more populated than France. Moreover, as an effect of China's rapid economic growth, some coastal areas (Dalian, Shanghai, Xiamen or Shenzhen, soon Tianjin and Ningbo) are, to a certain extent, closer to London, Sydney or San Francisco than they are to most part of the Chinese vast hinterland.

In the preface to *My Country, My People* (1935), Lin Yutang wrote, "China is too big a country, and her

national life has too many facets, for her not to be open to the most diverse and contradictory interpretations."

Currently, after 28 years of "reform and opening up," an unprecedented level of pluralism is at work in China's mega society. People travel within and outside the Chinese world, artists create and intellectuals debate inside and outside universities. Intensity of exchanges between China and the rest of the world has no equivalent in the past. In the 2004-05 academic year, China sent more than 115,000 students abroad (62,000 to the United States). An estimated 300,000 Westerners live in China and are in constant and free interaction with the Chinese people. There is not only one Silk Road, but hundreds. Through Internet millions of e-roads connect China and the West. One has to visit a bookstore like Jifeng in Shanghai to observe that almost all the important Western thinkers are translated into Chinese—including European or American post modernists. Dalian, Shanghai, Shenzhen and others are districts of the global village. The Great Wall, a previous symbol of isolation, is now just an attraction for tourists.

The process of political modernization that began more than 100 years ago is ongoing and will go on in the foreseeable future.

There are concrete signs of democratization: elections at the local level, more open elections for seats in the people's congress, less formal roles of the National People's Congress, its standing committee and the Chinese People's Political Consultative Conference, real efforts to perfect the system of autonomous regions, and, last but not least, opening up of the

Communist Party of China. This is the meaning of Jiang Zemin's "Three Represents." Democratization within the Party is opening the path toward more political pluralism. However, China's leadership will "seek truth from the facts" and stick to managed gradualism.

China's President Hu Jintao set the overall direction. In his speech in Yale University (April 2006), he declared, "We will vigorously promote social and economic development, protect people's freedom, democracy and human rights according to law, achieve social fairness and justice and enable the 1.3 billion Chinese people to live a happy life." In the communique of the Sixth Plenum of the 16th Communist Party of China Central Committee one can read, "The plenum puts forward the main objectives and tasks for building a harmonious socialist society by 2020, which are as follows: The socialist democratic and legal system is further improved; the fundamental principle of administering the country according to law is implemented in an all-around way; people's rights and interests enjoy concrete respect and guarantee."

The references to the rule of law are not empty words. The European Commission is discussing with the authorities of the People's Republic of China the creation of a Sino-European law school that will stand as a strong symbol of China's efforts to perfect its legal system.

Many believe that since China is not a Northern Europe type of democracy, she is a dictatorship without citizens, but only oppressed subjects without any rights. I remember

a question that was raised a few months ago-privately-by a European political leader after one general presentation on China that I was asked to deliver: "But, tell me, how can you live in a communist dictatorship?" Obviously, my briefing and analysis had not much effect on this person's bias, misunderstanding and ignorance. For many people the very use of the expression, China's democratization, might be surprising. It should not. While for the past 100 years China has been through a process of political modernization, one has also to realize that such a process has some roots in the Chinese culture. Chinese traditional values and modernity do not necessarily exclude each other. If it is true to say that China never experienced democracy-when we use this word we speak Greek not Chinese-one can find in the Chinese tradition sources for genuine democratization.

In *Historical Foundations for a Democratic China*, a programmatic text written in 1941, Hu Shi (1891-1962) developed ideas that are stimulating debate on the internal source of Chinese democratization. Hu asked himself a fundamental question, "Does Chinese democracy have any historical basis?"

Hu mentions three intellectual foundations. First, in the Chinese tradition human nature is conceived as essentially good. Second, rebellion against tyrannical government is traditionally justified. Third, the subordinate has a sacred duty to criticize and oppose the wrongdoing of his superior. Indeed, one can find these elements, for example, in Mencius' thinking that enriched Confucian doctrine in the 4th-3rd century B.C.

It is fundamental to keep in mind that democratization also has some roots in China's traditional humanism. For China, the process of democratization does not have to be a process of alienation, the import of an absolutely foreign element. And precisely, since relatively recent political modernization is not in total disagreement with traditional elements, one cannot expect China to adopt Northern Europe democracy but anticipate a democratization with Chinese characteristics. In other words, China can be modern and Chinese, as a living matrix of civilization, will also enrich modernity-and certainly enrich the vocabulary of Western political scientists.

China's political modernization has not been an easy and straightforward process. How will China's political transformation evolve in the beginning of the 21st century?

What Hu said in the 1930s is, to a certain extent, still very relevant, "The problem of China, however multifarious and complicated it may seem at first, is in reality one of cultural conflict and readjustment." (Haskell Lectures, University of Chicago, 1933) Indeed, China needs to adjust to economic and political modernity that historically originated in the 18th century Europe but that is not by essence in contradiction with all the traditional Chinese values. In reference to the West, China's gradual political opening up is internally threatened by two extremes.

The first threat is what can be called pure conservatism preoccupied exclusively by the question of identity, a closed and static identity that is, as such, largely a myth. Pure Chinese

conservatism dislikes the very idea of democracy because it does not want to see, or cannot see that democratization also has some roots in the Chinese tradition.

At the opposite of this Sinocentric cultural essentialism, China's occidentalists-to use a term that comes from the 19th century Russian intellectual debates between the "zapadniki," occidentalists or Westernizers and the slavophiles-are also very active both inside and outside the People's Republic of China. They are welcome in American universities and think tanks since they say what most Americans want to hear.

In reference to the West, China will have to avoid these extremes (on one side, a pure logic of identity based on cultural essentialism and, on the other, a logic of imitation) and reinterpret her own tradition to make the necessary adjustments. Western policymakers and analysts should not forget that Chinese reformers have to deal with these two extremes.

Freedom is not absent from the Chinese tradition. Western bias-China as "the quintessential despotic country"-is not a recent phenomenon. One can expect that many Westerners will continue to focus exclusively on the various imperfections of the Chinese society and refuse to look at its improvements, a way for them to confirm their bias and to be reassured on their own "superiority." This does not mean, of course, that the Chinese world is not going through unprecedented social, economical and political progress; and, no matter what the critics say, China's renewal is already enriching our modernity. **TheLINK**



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