

https://dspace.org/

Successful strategies for multinational companies in China

Chen, Ting

2011-03-23
http://hdl.handle.net/10539/9212

Downloaded from a DSpace repository. https://dspace.org/

Success Strategies for Multinational Companies in China

Ting Chen

Success Strategies for Multinational Companies in China

Ting Chen

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg

June 2006

ABSTRACT

As one of the largest emerging markets, China's enormous population and economic boom have recently attracted many multinational companies (MNCs). In the past two decades, the Chinese government has reformed the economy, installed market forces, and opened various industries to foreign investors. With the admission of China to the World Trade Organisation (WTO) in 2001, it signalled the growing maturity of the Chinese market and its expectation for further increase of investment opportunities. Successful MNCs have regarded investing in China as a long-term strategic approach in which they have tried to reach a balance between global orientation and local conditions so that they could maximise market coverage, minimise risk exposure, and optimise their overall performance for sustainable prosperity.

The research was qualitative in nature, conducted in the interpretive paradigm, using in-depth, semi-structured interviews with three successful MNCs presently operating in China. In this paper, the author discusses the conceptual background for China's business environment, problems faced by the executives of MNCs, and classical strategy theories, as well as the country specific strategies related to China. The results of this study are presented through a discussion of the research findings from the interviews in relation to the propositions, and provide useful guidelines for MNCs investing or intending to invest in the Chinese economy.

The research identified the following successful strategies for MNCs investing in China: the appropriate market entry mode, adaptation to local environment, developing guanxi to build trust and credibility, cross-cultural management in HR, creating good Chinese brand names, efficient brand communication and emotional marketing, chief executive's long-term commitment to the Chinese market, and establishing a "China Centre" as well as diversified corporate approaches to the indigenous market.

DECLARATION

I, Ting Chen, declare that this research report is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. It has never before been submitted for any degree or examination to this or any other university.

Ting Chen

June 2006

DEDICATION

To my parents: thank you for your endless love, unwavering support and immense encouragement which made my MBA possible.

ACKNOWLEDGEMENTS

With special thanks to:

- My supervisor, Geoffrey Bick, for his valuable time, academic guidance, efficient assistance, and most of all for his enthusiasm for research which I found inspirational.

- All the interviewees who sacrificed time from their busy schedules to participate in this research.

- Michael Whelan and Ronald Whelan, for their assistance in proof-reading the research report prior to submission.

- Shanya Pillay, Jenny Chan, Jason Pan, Albert Yu, Lancelot Yu, Kathy Liu, and Yile Liu for their kind support and encouragement.

- Friends and colleagues from all of my classes who made this a memorable experience.

- And lastly, to the One above us, for his watchful eye and guidance and a few miracles.

TABLE OF CONTENTS

ABSTRACT ..... **i**

DECLARATION ..... **ii**

DEDICATION ..... **iii**

ACKNOWLEDGEMENTS ..... **iv**

LIST OF FIGURES ..... **viii**

LIST OF TABLES ..... **viii**

CHAPTER ONE: INTRODUCTION **1**

1.1 Background 1

1.2 Purpose of the Research 2

1.3 Research Problem and Sub-problems 2

1.3.1 Research problem 2

1.3.2 Sub-problems 2

1.4 Delimitations 2

1.5 Limitations 2

CHAPTER TWO: LITERATURE REVIEW **4**

2.1 China's New Business Environment 4

2.2 More Liberalisation and Opening Economy 10

2.3 Problems faced by Executives of MNCs in China 13

2.3.1 Infrastructure and distribution 13

2.3.2 Government regulation 13

2.3.3 Relationship – "guanxi" 14

2.3.4 Human capital constraints 15

2.3.5 Violation of intellectual property rights (IPR) 17

2.4 Strategy Theory and Toolkit 18

2.4.1 Five Ps for Strategy 18

2.4.2 Game Theory & PARTS Mind-set 19

2.4.3 Porter's Generic Strategies 20

2.4.4 Mckinsey 7-S Model 21

2.4.5 The VIRO Framework 22

2.4.6 Strategic Transformation 23

2.4.7 Cultural School 26
2.4.7.1 The nature of culture 26
2.4.7.2 Premises of the cultural school 27
2.4.7.3 Differences between national and organisational cultures 27
2.4.7.4 Confucianism 29
2.4.7.5 Cross-cultural relationships 29
2.4.8 SWOT analysis for MNCs in China 32
2.5 Country-specific Strategy 34
2.5.1 Market entry strategy 34
2.5.2 Localisation strategy 35
2.5.3 Human resource strategy 37
2.5.4 Brand strategy 38
2.5.5 Building trust and relationship strategy 38
2.6 Conclusion from the literature review 40

CHAPTER THREE: PROPOSITIONS 41

CHAPTER FOUR: RESEARCH METHODOLOGY 43

4.1 Qualitative Research 43
4.2 Interview Method 43
4.2.1 In-depth interview 43
4.2.2 Interview sampling 44
4.3 Data Collection 45
4.4 Data Analysis and Interpretation 45
4.5 Validity and Reliability 47
4.5.1 External validity 47
4.5.2 Internal validity 47
4.5.3 Construct validity 47
4.5.4 Reliability 48
4.6 Ethical Issues 48

CHAPTER FIVE: FINDINGS & ANALYSIS 49

5.1 Introduction 49
5.2 Market Entry Strategies 51
5.2.1 No preferred market entry strategy 51

5.2.2 Important factors affecting market entry strategy choices 57
5.3 Localisation Strategy 61
5.3.1 Localising inputs procurement within China 61
5.3.2 Localising production facilities in China 62
5.3.3 Localising research and development in China 62
5.3.4 Think globally, act locally 63
5.4 GuanXi Strategy 65
5.5 Cross-cultural Management in HR Strategy 69
5.6 Effective Marketing Strategy 73
5.6.1 Create good Chinese brand name 73
5.6.2 Effective brand communication is essential 74
5.6.3 Emotional marketing is a strategic movement 76
5.7 Chief Executive's Long-term Commitment 77
5.8 Other Findings 80
5.8.1 Establish a "China Centre" 80
5.8.2 One strategy does not fit all 82

CHAPTER SIX: CONCLUSION 88
6.1 Value of the research 88
6.2 Results of proposition 1 analysis 88
6.3 Results of proposition 2 analysis 89
6.4 Results of proposition 3 analysis 90
6.5 Implications for MNCs in China 92
6.6 Suggestions for further research 93

REFERENCES 94

Appendix A: Interview questions 104
Appendix B: Interview roster 106
Appendix C: Siemens in China 108
Appendix D: Kodak in China 118
Appendix E: Alcatel in China 129

LIST OF FIGURES

Figure 1 China's GDP growth 4
Figure 2 Foreign direct investment in China 5
Figure 3 China's national free trade zones 7
Figure 4 EIU survey – Global headquarters 8
Figure 5 Foreign direct investment by type in China 11
Figure 6 Newly-enrolled students in higher education in China 16
Figure 7 Porter's generic strategies 20
Figure 8 McKinsey 7-S model 21
Figure 9 Jay Barney VIRO framework 23
Figure 10 Kaplan & Norton Strategy Map 24
Figure 11 Stockport's strategic transformation framework 24
Figure 12 Kotter eight steps to transform 25
Figure 13 Strategy scheme for developing the cross-cultural relationship 31
Figure 14 Creswell data analysis spiral 46
Figure 15 Relationships between three elements and market entry strategies 57
Figure 16 System perspective thinking for human resource management 71
Figure 17 China's conglomerated markets explained by regional differences 83
Figure 18 Siemens (China) 108
Figure 19 Eastman Kodak (China) 118
Figure 20 Alcatel's business thoughts 130
Figure 21 Alcatel Shanghai Bell's core competence 133
Figure 22 Telecoms subscribers in China 138
Figure 23 Alcatel's marketing-driven strategy 141
Figure 24 Alcatel's sustainable development 142

LIST OF TABLES

Table 1 World's leading traders - Imports & Exports 6
Table 2 China's business environment index 9
Table 3 Hofstede's culture dimensions for four countries 28
Table 4 SWOT analysis for MNCs in China from executives' perspective 33

CHAPTER ONE: INTRODUCTION

1.1 Background

Since 1978 the year China began its economic reform and open door policy, China has become a very attractive market for MNCs from around the world. Since 1997 the stock of inward foreign investment has increased by US$265bn, the country's exports have more than doubled and the economy has grown by more than 50%. A fourth generation of leaders has taken the stage, and China has joined the World Trade Organisation (KPMG, 2004).

As China's economy and business landscape have been transformed fundamentally over the years, so too are MNCs having to interpret and react to a business environment in a state of flux. There is a paradigm shift in the way foreign companies are approaching China because the country itself has changed. In many ways and in many sectors, the Chinese economy has taken on the realism of an international market, with all the associated challenges and opportunities that this implies. Regulations remain but are being relaxed; competition is emerging, from local companies as well as new foreign entrants. The very visible growth of demand within China has made building business not only feasible but also essential for any performance-oriented multinational. Economist Intelligence Unit (EIU) (2004) stated that a truly global company would no more ignore China than it would the UK or France.

China, undoubtedly, is an emerging market with peculiar Chinese characteristics. Yet it is not simply any emerging market; it is the world's most important emerging market, thriving on a virtuous cycle of globalisation (EIU, 2004), and it must be considered extreme short sightedness for any MNC, seeking market share growth, not to be invested in the Chinese economy.

As more MNCs enter China's market and run their business within China's economic system, their successes and failures have attracted the interests of researchers (Davis, 1997). This paper has endeavoured to make significant contributions to both

business practice and related literature. Thus, the research into the success strategies of MNCs in China is both important and necessary.

1.2 Purpose of the Research

The purpose of this research report was to understand the challenges facing multinational companies (MNCs) investing in the People's Republic of China, and to identify their success strategies. This report focused on the strategic thinking of managers from MNCs in China and their decision-making in Chinese business environments.

1.3 Research Problem and Sub-problems

1.3.1 Research problem

The research problem is to understand the challenges facing MNCs investing in China, and to identify potential success strategies for MNCs.

1.3.2 Sub-problems

1. What is the current business environment in China?

2. What are the problems that the executives of MNCs face in China?

3. What are the potential key success strategies for MNCs in China?

1.4 Delimitations

The scope of this paper focused on the existing MNCs in China based on current Chinese business environment, and not in other countries.

1.5 Limitations

Certain limitations apply to the findings contained in this research report.

Firstly, it should be mentioned that different industries tend to have unique economic

characteristics. Therefore, the success strategies for a multinational company in one industry may not be applicable to another company in a different industry.

Secondly, this paper focused on large and well-known MNCs in China, which often have clear global strategic goals and strong financial resources. The results should be studied carefully but viewed with some circumspection when smaller foreign companies are analysed.

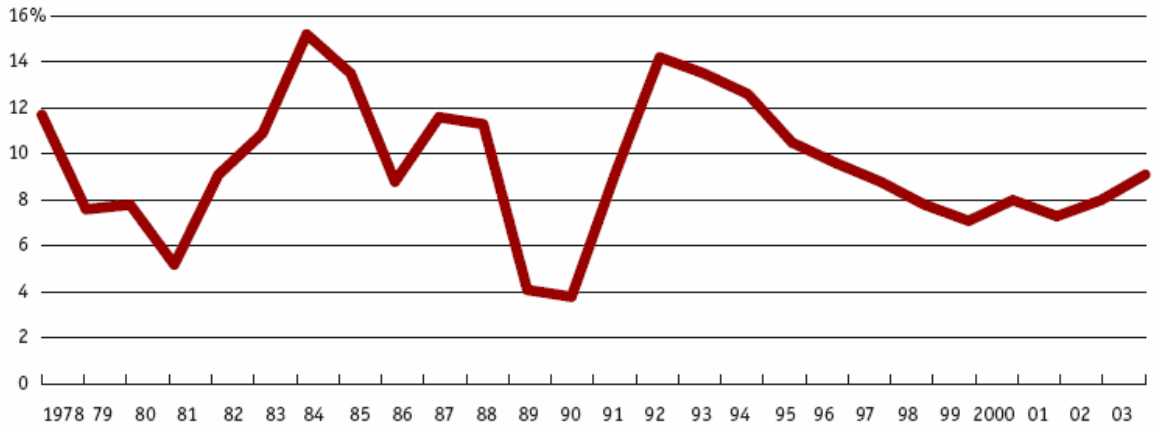
Thirdly, political, economic and social conditions in China are undergoing rapid changes, which have had a significant impact on the business environment, and what works for MNCs in China today may not work for them tomorrow, and success today does not necessarily imply success tomorrow.

CHAPTER TWO: LITERATURE REVIEW

2.1 China's New Business Environment

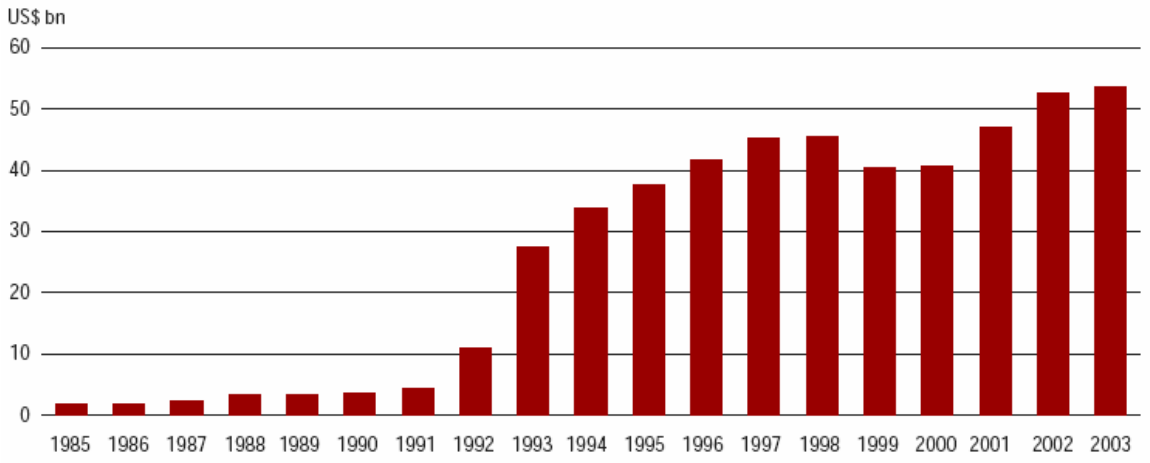
According to the KPMG special report (2004), China is by far the largest consumer of steel in the world and in 2003 the country overtook Japan to become the second-largest consumer of oil, trailing only the US. Although China had not become the world's largest mobile-phone market by 2003, its subscription numbers had surged to 269m. In 2003, the local car sales grew to more than 2m, with China overtaking France to become the sixth-largest market in the world. The value of domestic mortgage lending totalled less than US$2bn in 1997, but had grown to US$142bn in 2003, with China's market for house lending thus rivalling that of Italy. Regarding the Semiconductor Industry Association, China is now the fastest-growing electronic chip market in the world, accounting for nearly 11% of global demand in 2003.

Figure 1 China's GDP growth



Source: National Bureau of Statistics, China (2004)

Figure 2 Foreign direct investment in China



Source: National Bureau of Statistics, China (2004)

The following information is adapted from the PRC Government website:

Improvements to infrastructure networks:

In recent years the transport infrastructure, which was the target of a government spending programme launched to support domestic GDP growth in the aftermath of the Asian financial crisis of 1997-98, has also improved significantly. The biggest beneficiary of the government's transport spending binge has been focused on the road network. Before 1997 China had virtually no expressways. By 2003 there were 30,000 km of them, although this is still small compared to the US, which has an arterial network that stretches for 120,000 km. Nonetheless, anyone who travels frequently within China can attest that the transport infrastructure has indeed improved dramatically. This has greatly raised the efficiency of distribution, particularly in the eastern part of the country. China's overseas air links have also been mushrooming: the number of weekly international departures from Shanghai rose from 41 in 1985 to 554 in 2002.

Ongoing moves towards market orientation:

The improvements in the soft infrastructure and deregulated policy environment are part of the government's ongoing effort to make the economy more market-oriented. Large state-owned enterprises (SOEs) have been downsized and partly privatised. Since 1999 the state constitution has been amended twice to upgrade the status of the private sector.

WTO gives reforms a boost:

The process of reform and liberalisation began long before China joined the World Trade Organisation (WTO) in December 2001. Nevertheless, the country's entry to the trade body was still important. It had a strong symbolic significance, particularly for foreign executives living outside China who saw accession as a signal of the country's entry to the mainstream of the international economic community. China's long and detailed WTO accession agreement also promised tangible changes in the rules governing the activities of foreign firms operating in the country, including the liberalisation of rules that had previously prevented or restricted the operation of MNCs in sectors ranging from automotive to financial services. For the first time since 1978 that the Chinese government was willing to commit itself to a timetable of change, marking a distinct shift from the ad hoc and experimental approach that had characterised the previous passage of reforms.

Table 1 World's leading traders - Imports & Exports

Exports, US$ bn

	1993			2003	
1	US	465	1	Germany	748
2	Germany	380	2	US	724
3	Japan	362	3	Japan	472
4	France	222	4	China	438
5	UK	181	5	France	385
6	Italy	169	6	UK	304
7	Canada	145	7	Netherlands	293
8	Netherlands	140	8	Italy	290
9	Hong Kong, China	135	9	Canada	272
10	China	92	10	Belgium	255

Imports, US$ bn

	1993			2003	
1	US	603	1	US	1,306
2	Germany	343	2	Germany	602
3	Japan	242	3	China	413
4	France	217	4	France	388
5	UK	209	5	UK	388
6	Italy	148	6	Japan	383
7	Hong Kong, China	141	7	Italy	289
8	Canada	139	8	Netherlands	261
9	Netherlands	126	9	Canada	246
10	Belgium-Luxembourg	118	10	Belgium	234
11	China	104	13	Hong Kong, China	233

Source: World Trade Organisation (2004)

Free Trade Zones (FTZs):

The MNCs can seek to maximise the tax benefits within operating in the Free Trade Zones and can familiarise themselves with the new business environment and regulatory changes.

Figure 3 China's national free trade zones



Source: People's Republic of China, Government (2005)

Because of the improved business environment, for the MNCs in China, the focus of management attention has moved, with executives spending more and more time thinking about the kind of strategic planning and development issues that tend to preoccupy their counterparts in more developed markets.

Economist Intelligence Unit (EIU) white paper (2004) pointed out: Retailing giants like Carrefour and Walmart are rolling out nationwide store networks, and the British homewares chainstore, B&Q, which only established its first store in Shanghai, China in 1999, plans to have 75 outlets across the country by 2008. Through JVs with domestic firms, foreign brands also dominate China's car market, with VW alone taking a market share of 30.8%. In 2003, 13.9% of VW's worldwide sales were

achieved in China, more sales than in any other market except Germany. China in 2003 was Nokia's fourth-largest market (trailing the US, UK and Germany), generating revenue of Euro2bn, equivalent to almost 7% of the company's worldwide sales. China is Motorola's largest market outside of the US, generating sales for the company in 2003 of US$4.7bn. In 2003, Siemens made sales totalling Euro2.8bn in China, accounting for around 4% of total global sales. In the same year China generated sales for the French food group Danone of over Euro1bn, equivalent to 8% of the global total. In 2000, HSBC relocated its mainland China headquarters from Hong Kong to Shanghai. Other large firms have also moved their regional headquarters to China.

Figure 4 EIU survey – Global headquarters



Source: Economist Intelligence Unit survey (2004)

In summary, the existing research suggests the following salient conclusions for the new business environment in China:

For MNCs, China's market has started to come of age, transforming both the opportunities available to foreign businesses and the way in which they think about the country.

Foreign businesses can now legitimately point to a serviceable market of substantial size. The growth of the middle class is creating strong consumer demand. There is

also a less-noticed but probably bigger business-to-business market, associated with China's emergence as the workshop of the world.

For MNCs, China's market is real. Improvements in infrastructure and a relaxation of regulations have made these markets much more accessible than was the case just a few years ago.

The emergence of domestic demand, together with the real improvement in the business environment, has helped to broaden and upgrade the activities of MNCs in China, and create new incentives and new accessibility for foreign firms looking to develop their China operations.

For many big MNCs, China has become a major global market and, in some cases, a large profit centre. It is characterised by real opportunities and revenue growth. China is no longer a market that MNCs should or can ignore.

Table 2 China's business environment index

	Value of index (out of 10)	
Note: A higher score signifies a better environment	1999-2003	2004-08
Overall position	5.3	6.2
Political environment	4.3	4.5
Political stability	5.1	5.1
Political effectiveness	3.6	4.0
Macroeconomic environment	9.3	9.0
Market opportunities	8.4	8.4
Policy towards private enterprise & competition	3.3	4.9
Policy towards foreign investment	6.1	7.2
Foreign trade & exchange controls	4.9	7.8
Taxes	5.1	5.2
Financing	3.6	5.5
The labour market	5.3	6.0
Infrastructure	2.6	3.9

Source: Economist Intelligence Unit (2004)

2.2 More Liberalisation and Opening Economy

MNCs have had a growing influence on the direction of the Chinese economy. In the 1990s the joint venture (JV) was the principal vehicle by which foreign companies entered China. In the early to mid-1990s JVs accounted for around 75% of all foreign investment. These arrangements allowed MNCs to establish joint ventures with local companies, giving them the opportunity to access China's market (EIU, 2004).

Killing (1983) identified some reasons why joint ventures were used:

- Government insistence.
- The project was too large, financially, for either a partner to handle alone; dependent on local partners for product distribution, market penetration, and relationship building.
- Neither firm had all of the skills, typically technique and marketing, to make a success of the business on its own.
- Only by combining forces could the joint venture partners have achieved satisfactory economies of scale in R&D, production, and marketing.

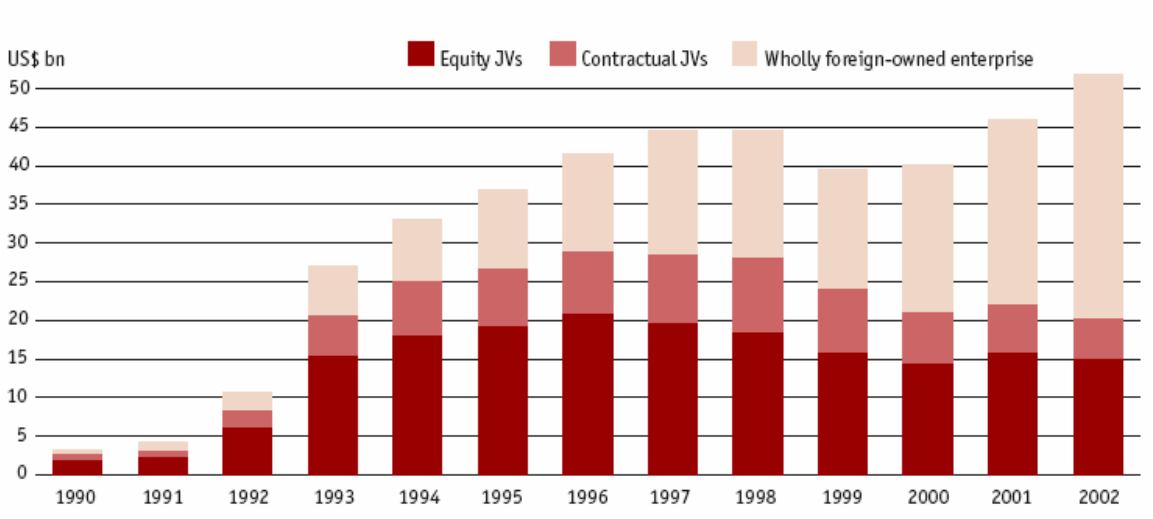
But many firms have a bigger say in the running of their own companies, owing to the growing prominence of wholly owned, foreign-invested operations for less conflict with the local partners and protection of expertise and intellectual property.

Dymsza (1972) summaried the major problems generated from joint venture, including: (1) International companies want to exercise full control over the management of their enterprises, and do not want to share profits from their managerial, technological, marketing, and other capabilities. (2) International companies believe that the presence of local partners may limit their own flexibility in overall planning, operations, and control of their business worldwide. (3) International companies do not want to get involved in differences with partners over crucial managerial issues.

By the early 2000s, however, JVs had been pushed aside by wholly owned operations, which now account for more than half of the foreign investment entering each year. The reasons for this change are numerous but they can be summarised as a much more relaxed attitude on the part of China's authorities in allowing foreign companies to operate in their country, combined with the desire of almost every

locality to attract as much foreign investment as possible. While the government has made it no secret that it wants to see Chinese companies emerge as the eventual winners from the country's market opening, it has also consistently maintained that foreign companies have a major role in this process. Foreign companies bring capabilities, skills, technologies and expertise which local companies lack; and through competition, can encourage Chinese local companies to improve and strengthen themselves.

Figure 5 Foreign direct investment by type in China



Source: Ministry of Commerce, China (2004)

China's compliance record since acceding to the World Trade Organisation (WTO) in December 2001 demonstrates determination to carry out its obligations, most notably with the watershed Measures for the Administration of Foreign Investment in the Commercial Sector issued by the Ministry of Commerce (MOFCOM) on April 16th 2004 (Economist Corporate Network, 2004). These supersede a pilot regulation on foreign investment in commercial enterprises promulgated in 1999. The Measures, which took effect with some restrictions on June 1st and then were further liberalised on December 11th 2004, allow foreign investors to set up wholly foreign-owned enterprises (WFOEs) in retail, wholesale, franchise and commission agency businesses with a vastly reduced capital threshold.

Key aspects of the new regulation include: (MOFCOM, 2004)

- **Joint ventures no longer mandatory**. From 11th December 2004, WFOEs are permitted in retailing, wholesaling and trading.

- **Geographical restrictions abolished**. Foreign investors may set up WFOEs in any part of the country after 11th December.
- **Minimum capital requirements drastically reduced**. Wholesale companies are required to have Rmb500, 000 (US$60,460), down from Rmb80m (US$9.7m); while retail companies must have Rmb300, 000 (US$36,245), down from Rmb50m (US$6.0m). There is no new capital requirement for opening stores: these can be opened as long as they comply with local urban and commercial development plans.
- **Approval process simplified**. MOFCOM handles the process at the provincial level under certain conditions. MOFCOM has also simplified the actual application procedure by integrating approval of the company set-up and its feasibility study report into one step.

The liberalisation and the opening up of the economy have allowed multinational companies more latitude in establishing WFOEs in China. With the emergence of local markets for mergers and acquisitions, many foreign companies have jumped at this opportunity, by either buying out partners in existing JVs or by making new investments on a wholly owned basis.

Conclusion: Current business environment in China

China's economy and business environment has now come of age. The growth of the middle class is creating a strong consumer demand, and there is also a burgeoning business-to-business market. Improvements in infrastructure, joining the WTO, and a relaxation of regulations have made these markets much more accessible than was the case previously. The broadening and upgrading of the activities of MNCs has accompanied these changes. For many big companies China has become a major global market, and in some cases, an important profit centre.

2.3 Problems faced by Executives of MNCs in China

Accompanying the rise in demand in China has been an intensification of competition. While this represents a new strategic challenge for MNCs, the development of China's economy has also opened up new ways in which they can respond.

At an operational level, doing business for MNCs in China remains quite challenging. Infrastructure has improved during the past years, but remains deficient relative to the demand. Restrictions on foreign companies in the manufacturing sector have been eased, but in some specific sectors, such as telecommunication and banking, they remain oppressive. Across the economic spectrum, skill shortages are severe and the violation of intellectual property rights is rife; and lacking of country-specific cultural experience in China, all these issues affect MNCs (EIU, 2004).

2.3.1 Infrastructure and distribution

Since late 2001, China has experienced a strong economic upturn. GDP grew by 8% in 2002 and, despite the economic disruption caused by the outbreak of Severe Acute Respiratory Syndrome (SARS) in the second quarter, by a further 9.1% in 2003 (National Bureau of Statistics). This growth helped fuel a further rise in incomes, particularly within the urban areas. But it has also raised overall demand to the point where elements of China's infrastructure, despite the very real upgrading that has occurred since the late 1990s, have simply been overwhelmed. Deficiencies in the transport network and the regulatory environment impede the ability of MNCs to distribute goods around the country quickly.

2.3.2 Government regulation

While the physical improvements have been real, managing the regulatory environment remains a salient issue for MNCs operating in China. Burdensome red tape, and ad hoc rules imposed by overbearing local officials; these reflect the operational difficulties that overwhelm day-to-day operations and distract MNCs' managers from long-term planning. Firms in several industries must cope with formal regulations aimed at restricting their access to the market. For example, the car industry is a sensitive one for the government. Foreign automotive companies in China can only produce cars by teaming up with local firms (Xing, 1998). Such levels of regulation in the manufacturing sector as a whole are now uncommon.

Until the late 1980s, domestic companies simply did not exist in sectors such as telecoms or insurance. These industries were run as part of the governing bureaucracy. The risk of foreign domination is particularly real in the financial services sector where domestic companies are not only young, but also financially weak (EIU, 2004). Years of bad lending have left China's state-owned banks with a non-performing loan (NPL) ratio of 20% (XinHua, 2005).

Regulations in some service sectors, such as telecommunication, hospital and banking, remain oppressive. MNCs across the industrial spectrum must still deal with red tape.

2.3.3 Relationship – "guanxi"

The ability of MNCs to influence the regulatory environment in their favour does not just stem from these corporate-level investments. Cultivating personal relationships – "guanxi" – is very important in China. Guanxi is one of the most important factors for business success in China (Yeung and Tung, 1996).

Pye (1992) defined guanxi as "friendship with implications of continued exchange of favors." Thus, guanxi is something more than just interpersonal friendship; it is a reciprocal obligation to respond to requests for assistance. Developing guanxi takes time, and MNCs who had been in China for a long time, were likely to have an edge over newer entrants. Foreign companies teamed up with host country organisations in joint ventures to access the network of guanxi (Sanyal & Guvenli, 2001).

Although not unique to China, guanxi plays a crucial role in China by providing the lubricant that enables decision outcomes to be desirable to the various parties (Sanyal & Guvenli, 2001). This is because, until recently, resources, which are tightly controlled, had been allocated in a top down fashion by the state and guanxi was a popular way to solicit favors from the authorities (Tsang, 1997). Thus, developing, cultivating, and expanding one's guanxi was of fundamental importance in China.

Guanxi is a basic element of Chinese business culture and is therefore something that no foreign company seeking to sell to or buy from local companies cannot afford to ignore. Domestic companies are inevitably in a better position to build guanxi, not only because their managers are personally steeped in the local business culture, but

also because the corporate structure offers them the necessary degree of flexibility. Foreign companies, even those with Chinese managers, often have tighter standards of accountability that make company procedures more rigid. For example, stricter accounting procedures result in smaller entertainment expenses, making it more difficult to wine and dine business partners in the expected style. The insistence on transparency in expenditure, a requirement that appears reasonable in a Western context, is also a disadvantage in China: officials will be more wary of accepting hospitality from MNCs if they believe their actual name will be documented in corporate records. Of course, there is a wider issue involved here: at some point the cultivation of guanxi becomes outright corruption (EIU, 2004). In recent years the Chinese Communist Party (CCP) has been taking stronger action against graft, a programme that has involved the execution of some very high-ranking officials.

Sako (1992) made the key distinction between trust as a capital asset in which people invest for self-interest, and trust as a social norm. She suggested that western society (e.g. the British) prefer the idea of trust as a capital asset investment, and eastern society (e.g. the Japan) consider trust to be a social norm.

Yang (1998) argued that human relation is the basis for trust. In China, as a result of tradition and culture, people value very much developing long-term human relations at different levels, from the central government, provincial government, municipal government, to business enterprises, local public security bureau, and neighbourhood committees. Close inter-personal relation is the basis of establishing trust among colleagues, friends, and officials. As long as personal relations are good, trust will follow suit. These human relations are extremely important among the Chinese and friends. They are even more important and critical for MNCs in making deals in China.

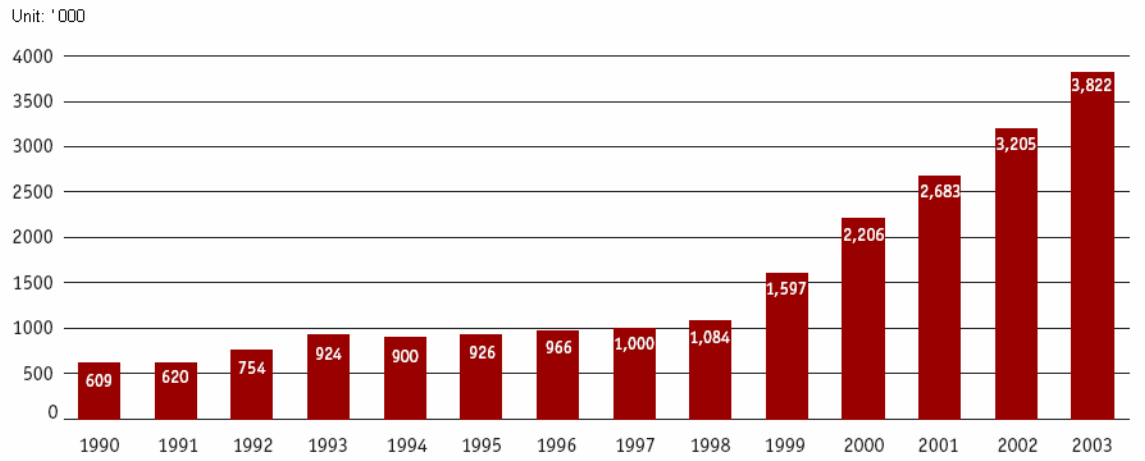
2.3.4 Human capital constraints

China has an intense shortage of skilled and experienced local managers, as a result of both rocketing demand and low supply. This relates particularly to people with soft skills, including longer-term thinking, comfort with ambiguity and uncertainty, and innovative problem solving required by MNCs. Firms are forced to pay high wages to recruit senior staff and must still fight to retain them in the face of poaching by competitors. All these factors increase the MNCs' business costs, and put further pressure on increasing profits.

As pointed out by EIU (2004) white paper, HR challenge is partly a problem of demand. Existing MNCs are expanding and new ones set up operations in the country almost every day. Competing with these foreign firms for skilled workers are domestic companies which are increasingly able to offer attractive opportunities, particularly for mid-career staff who already have the credibility and solid professional skills gained from having first worked for a foreign firm. The ability of local firms to poach staff is particularly high in industries like insurance, where the scope for advancement in foreign firms that are subject to heavy government restrictions remains distinctly limited.

At the same time, the supply of skilled workers is very limited. In 2003 the country's tertiary institutions accepted 3.8m new students (Ministry of Education), which is still a small number relative to the country's population. Moreover, only a small proportion of graduates will have the skills necessary to work at the management level in a multinational company. This forms the crux of the human capital problems facing MNCs in China.

Figure 6 Newly-enrolled students in higher education in China



Source: Ministry of Education, China (2004)

Another issue unique to China is the rigidity of mind sets and the lack of openness to change. A hangover, perhaps, from several decades of a top-down, state-led economic systems, as well as an education system, focused on learning rather than thinking (EIU, 2004).

2.3.5 Violation of intellectual property rights (IPR)

MNCs that are operating in China have traditionally employed a narrow, legally-based approach in protecting their IPR. This approach, which has proven largely satisfactory in the US, Europe or Japan, often does not work in developing markets such as China. With increased outsourcing of MNCs' manufacturing activities and distribution of their goods to China, managing the associated IPR and brands effectively will be critical to MNCs' financial performances as well as in keeping with good global corporate governance standards.

The violation of intellectual property rights in China is rife. Counterfeit goods are easily available. Although some are poor copies, others have been produced with the use of stolen designs and technology. Enforcement remains inadequate despite the introduction of new laws and regulations (EIU, 2004). MNCs can do little about improving the effectiveness of China's law enforcement in the protection of IPR, and it will take years for China to improve its legal enforcement in IPR. As a result, many MNCs have adopted a fatalistic attitude "IPR problems are simply a cost of doing business in China and little can be done" (KPMG, 2005: 7).

While there is no absolute in devising a right approach, it is essential for MNCs to solicit commitment from senior management and other relevant departments right from the start. KPMG (2005) suggested the following ten strategies that MNCs should consider adopting:

1. Seek to secure full ownership and managerial control
2. Assign budget and responsibilities in internal IPR housekeeping
3. Use direct sales and design outsourcing models
4. Conduct contractual audits on distribution and manufacturing partners; stay in touch
5. Keep tracking, tracing and labelling in control systems
6. Explore the feasibility of uniform pricing and product customisation
7. Police inventory and manage the inventory cycle
8. Educate and stay in touch with consumers; send a strong corporate governance message
9. Find allies within the system: domestic enterprises and local officials
10. Avoid lawsuits, but draw on innovative measures when necessary

Conclusion: Problems faced by the executives of MNCs in China

At the operational level, doing business in China remains challenging, despite the huge changes that have taken place in recent years. Infrastructure and distribution systems have improved during the past years, but remain deficient relative to demand. Regulations in the services sector remain oppressive. MNCs across the industrial spectrum still deal with bureaucracy. Guanxi remains one of the most important factors for business success in China. Human resource availability and skills shortages are restrictive, as well as the persistent violation of intellectual property rights.

2.4 Strategy Theory and Toolkit

2.4.1 Five Ps for Strategy

Mintzberg (1987) defined five Ps for strategy. Strategy as plan deals with how leaders attempt to establish direction for organizations and set them on predetermined courses of action. Strategy as plan also can be a ploy, a specific manoeuvre intended to outwit an opponent or competitor. As pattern, strategy focuses on action and introduces the phenomenon of consistency in behaviour. Strategy as position encourages viewing organizations in context, particularly in their competitive environments. Strategy as perspective focuses attention on how intentions diffuse through a group of people to become shared as norms and values and how behaviour patterns become deeply ingrained in the group.

Five Ps (plan, ploy, pattern, position, and perspective) provide the manager with a picture of what strategy is about and encourages mangers to look at the organisation in general; because strategy requires a natural synthesis of the future, present and past (Mintzberg, 1998)

2.4.2 Game Theory & PARTS Mind-set

Game theory is a useful way of describing the nature of many business and social relationships (Kay, 1993). Business is a high stakes game. Companies can succeed spectacularly without requiring others to fail. And they can fail miserably no matter how well they play if they make the mistake of playing the wrong game. The essence of business success lies in making sure you're playing the right game (Brandenburger & Nalebuff, 1995).

Mathematics genius John von Neumann and economist Oskar Morgenstern (1944) distinguished two types of games. In the first type, rule-based games, players interact according to the rules of engagement, such as contracts, loan covenants, trade agreements, etc. To every action, there is a reaction. In the second type, freewheeling games, players interact without any external constraints. For example, buyers and sellers may create value by transacting in an unstructured fashion. Business is a complex mix of both types of games. The game of business is all about value: creating it and capturing it.

The primary insight of game theory is the importance of focusing on others – namely, allocentrism. To look forward and reason backward, you have to put yourself in the shoes, even in the heads, of other players. To access your added value, you have to ask not what other players can bring to you but what you can bring to other players (Brandenburger & Nalebuff, 1995). Look at the person who is the leader. Look at what the leader is likely to do. It shows how much you hope to get in a game depends on your power in the game as well as on the power of others who have competed claims on the pie.

Brandenburger & Nalebuff (1995) argued that successful business strategy is about actively shaping the game you play, not just playing the game you find.

A key implication of game theory for business strategy is that it enables managers to view options that extend beyond the traditional win-lose (zero-sum) approach to competitive strategy. It shows that managers can be rewarded by identifying win-win alternatives that expand the value of a market, rather than concentrating simply on capturing a larger portion of the existing value in a market (Lewis, 1999).

Looking for win-win strategies has several advantages. Firstly, because the approach is relatively unexplored, there is greater potential for finding new opportunities. Secondly, because others are not being forced to give up ground, they may offer less resistance to win-win moves, making them easier to implement. Thirdly, because win-win moves don't force other players to retaliate, the new game is more sustainable. And finally, imitation of a win-win move is beneficial (Brandenburger & Nalebuff, 1995).

Brandenburger & Nalebuff (1995) pointed out that the game of business is all about value, and there are four elements of a game including parts, added value, rules, tactics and scope (PARTS) to help managers to shape ongoing strategies.

2.4.3 Porter's Generic Strategies

The fundamental basis of above-average performance in the long run is sustainable competitive advantage. The two basic types of competitive advantage (low cost or differentiation) combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above-average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus (Porter, 1985). The generic strategies are shown in the following Figure-7.

Figure 7 Porter's generic strategies

		COMPETITIVE ADVANTAGE	
		Lower Cost	Perceived Uniqueness
COMPETITIVE SCOPE	Broad Target	1. Overall cost leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

(Source: Porter, 1985: 12)

The notion underlying the concept of generic strategies is that gaining a competitive advantage is at the heart of any strategy, and achieving a competitive advantage requires a firm to make a choice – if a firm is to attain a competitive advantage, it

should make a choice about the type of competitive advantage, it should make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. Being “all things to all people” is a recipe for strategic mediocrity and below-average performance, because it often means that a firm has no competitive advantage at all (Porter, 1985). Porter suggested that we should not be stuck in the middle.

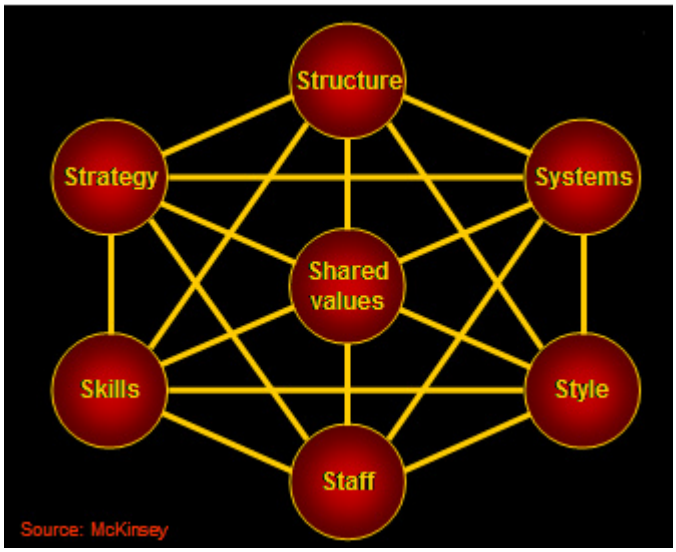
Porter (2005) recently developed 5 tests for a good strategy.

- A unique value proposition compared to competitors
- A different, tailored value chain
- Clear trade-offs, and choosing what not to do
- Activities that fit together and reinforce each other
- Continuity of position with continual improvement in realising it

2.4.4 Mckinsey 7-S Model

The 7-S model is a comprehensive guide to analysing the culture and behaviour of corporations. McKinsey & Company developed the 7S model in the late 1970s to help managers address the difficulties of organisational change.

Figure 8 McKinsey 7-S model



(Source: Waterman, 1982: 70)

Waterman (1982) defined seven key elements as follows:

- Strategy – A coherent set of actions aimed at gaining a sustainable advantage over competition.
- Structure – The organisation chart and accompanying baggage that show who reports to whom and how tasks are both divided up and integrated.
- Systems – The procedures for getting things done.
- Style – The way management behaves, including how management shows what it considers important.
- Staff – The people in an organisation. It is very useful to think not about individual personalities but about corporate demographics.
- Shared values – The values determine the culture of the organisation, and are shared by most people in an organisation.
- Skills – The capabilities possessed by an organisation as a whole.

2.4.5 The VIRO Framework

Thomas (1999) pointed out that "A conceptual framework for understanding firm-level growth using resources as the basic building blocks. These resources may be financial, intangible, physical, organisational or technological."

One of the major contributors to the resource-base in recent times has been Jay Barney (2002), who introduced "VIRO" framework.

Figure 9 Jay Barney VIRO framework

The VIRO Framework

Valuable?	Rare?	Costly to Imitate?	Exploited by Organisations?	Competitive Implications	Economic Performance
No	-	-	No	Competitive disadvantage	Below normal
Yes	No	-		Competitive parity	Normal
Yes	Yes	No		Temporary competitive advantage	Above normal
Yes	Yes	Yes	Yes	Sustained competitive advantage	Above normal

Source: Barney (2002)

Barney (2002) suggested there are four questions that must be asked for determining which resources provide the basis for a sustainable competitive advantage. These are:

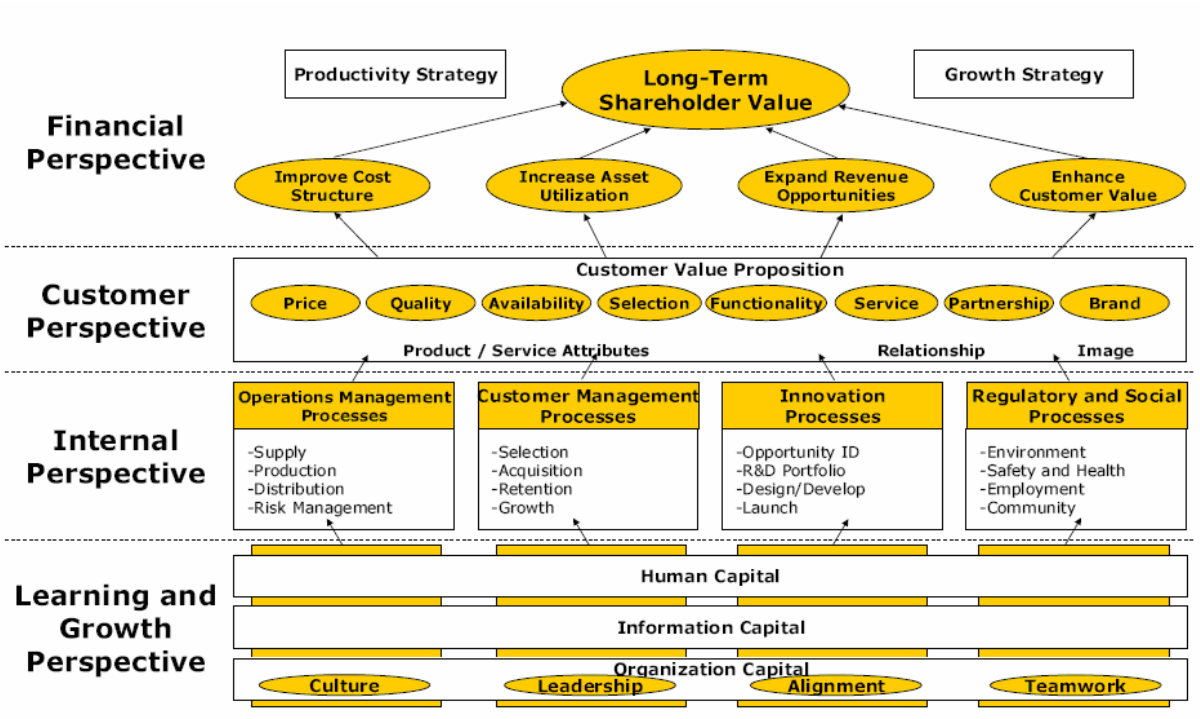
- Valuable – so that a customer was prepared to pay for them
- Costly to Imitate – so that the resources could not be easily copied
- Rare – so that they had limited availability to increase their value in the same way that gold and oil are valued
- Exploited by Organisations – so organisations make best use of them

2.4.6 Strategic Transformation

In early 1962, Chandler defined that corporate strategy is concerned with the determination of the basic long term goals and objectives of the enterprise, the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

Kaplan &. Norton (2001) introduced strategy map as a new strategic management and transformation system.

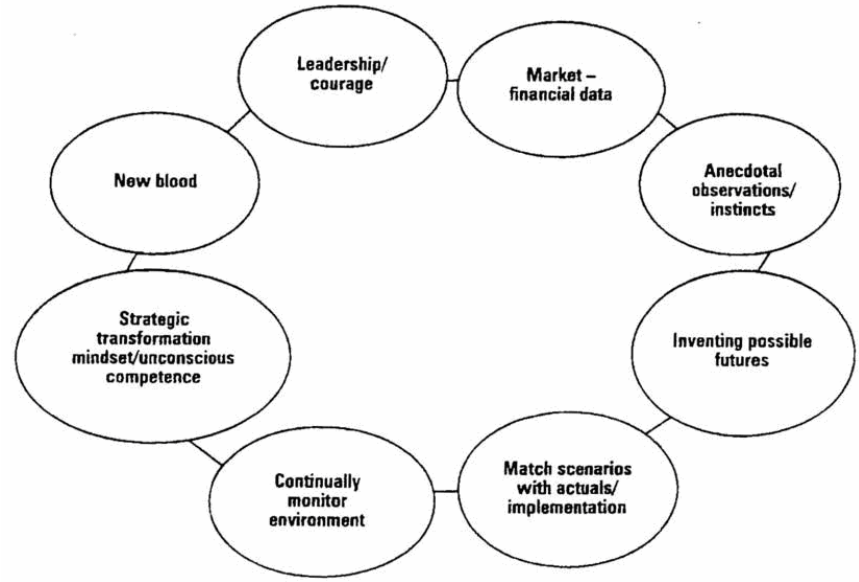
Figure 10 Kaplan & Norton Strategy Map



Source: Kaplan &. Norton (2001)

Stockport (2000) formed a strategic transformation framework which intends to be of practical use to managers.

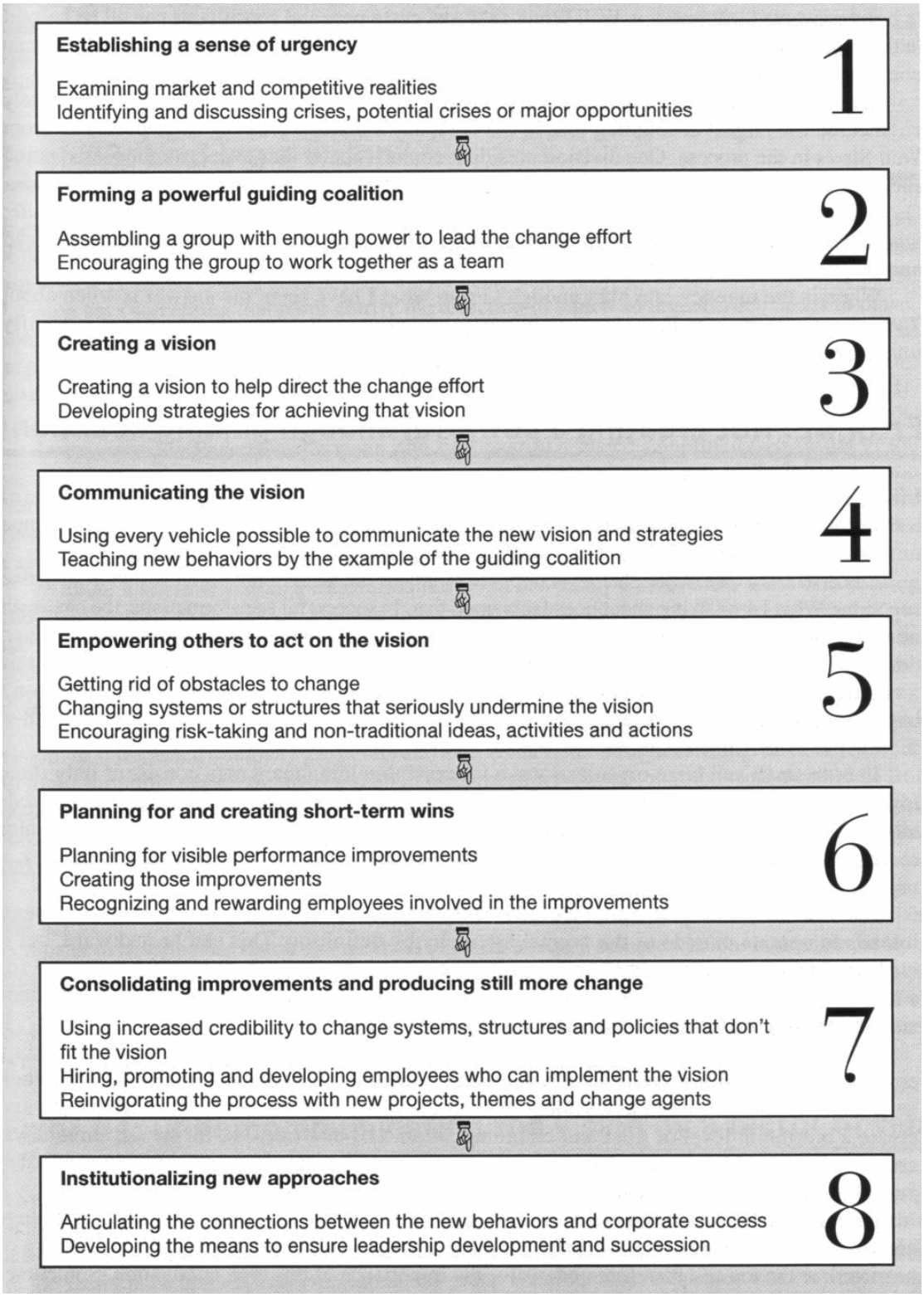
Figure 11 Stockport's strategic transformation framework



Source: Stockport (2000)

Kotter (1995) argued that the fundamental business changes should be made to cope with a new, more challenging market environment. He designed the eight steps framework to transform organisation.

Figure 12 Kotter eight steps to transform



Source: John P. Kotter (1995)

2.4.7 Cultural School

Yang and Lee (2002) point out that integrating Western and Chinese cultural elements and traditions into a company's business policies and operational procedures and ensuring those policies and procedures are protected by local legal systems has emerged as one of the key success factors for MNCs in China. Vanhonacker (1997) suggests that foreign companies to enter China must cultivate social and political connections; must respect China's culture and economic sovereignty.

2.4.7.1 The nature of culture

"Hold power up to a mirror and the reverse image you see is culture." (Mintzberg, Ahlstrand & Lampel, 1998: 264).

Rather than give one single all embracing definition of culture, here is a selection of definitions from different sources:

"Culture can be defined as a set of attitudes, values, beliefs and behaviours learned or created by individuals themselves or passed onto them by members of a group by social experience." (Duffey, 1999: 37).

"By the word culture we have to understand the sum total of the ways of living developed by a group of human beings and handed on from generation to generation. Central to culture is language. The language of people provides the means by which they express their way of perceiving things and of coping with them." (Newbiggin, 1986: 3).

Schein (1985) argued that culture is the way in which a group of people solves problems and reconciles dilemmas.

"Culture is the collective programming of the mind which distinguishes the members of one group or category of people from another." (Hofstede, 1993: 5).

Culture is essentially composed of interpretations of a world and the activities and artifacts that reflect these interpretations. Culture represents the life force of the organisation and the soul of its physical body (Mintzberg, Ahlstrand & Lampel, 1998).

Culture is about what differentiates one organization from another, one industry from another, one nation from another. Roth and Ricks (1994) point out how national cultures may influence the way in which an environment is interpreted, creating different strategic responses by the same company in different countries.

2.4.7.2 Premises of the cultural school

Mintzberg, Ahlstrand & Lampel (1998) summarise the main premises of the cultural school as follows:

1.) Strategy formation is a process of social interaction, based on the beliefs and understandings shared by the members of an orgaisation.
2.) Individuals acquire cultural beliefs in largely tacit and non-verbal ways.
3.) The members of an organisation can only partially describe the beliefs that underpin their culture.
4.) Strategy takes the form of perspective above all, rooted in collective intentions, and reflected in the patterns by which the deeply embedded resources or capabilities, of the organisation are protected and used for competitive advantage.
5.) Culture and ideology tend to perpetuate the existing strategy.

2.4.7.3 Differences between national and organisational cultures

Hofstede (2005) has pointed out that there is one important difference between culture at a national level and at an organisational level. At a national level, cultural differences reside mainly in values but less in practices. At an organisational level, cultural differences reside mainly in practices and less in values. Although it is true that for certain organisations the values of the founder shape their organisational cultures, the way this affects ordinary individuals within such organisations, Hofstede would argue, is through shared practices. Hofstede also emphasises the point that national cultures affect organisational cultures and therefore it can be difficult, if not

impossible, for organisational cultures to cross geographic boundaries without change.

From the result of Hofstede's (1980) research, Chinese culture dimensions revision is drawn from Chinese communities comparing them to those of the US, UK and Japan.

Table 3 Hofstede's culture dimensions for four countries

	Power distance	Individualism index	Uncertainty avoidance	Masculinity index
US	Low	High	Low	High
UK	Low	High	Low	High
JAPAN	Medium	Low	High	High
CHINA	High	Low	Medium	Medium

Source: Hofstede (1980)

The fifth dimension, long-term orientation (LTO), relates to the emphasis on short-term versus long-term returns. This dimension was added to the initial four dimensions to account for distinctions introduced as Hofstede's model was applied to Asian countries and it measures the extent to which a culture will engage in and value long-term decisions (Newman & Nollen, 1996). Low LTO cultures place an emphasis on short-term reciprocation of greetings, favours and gifts and tend towards meritocracy. On the other hand, high LTO cultures tend to value equality instead of equity and trust in generalised returns (Hofstede, 2001).

Aaker and Sengupta (2000) noted that individuals in East Asian culture tend to follow an additive strategy in which both pieces of information are combined to jointly influence evaluations.

Rhenman (1973) described four mechanisms for achieving "fit and consonance": mapping – reflecting the environment, matching – complementing the environment, joint consultation – supporting and cooperating with the neighbouring system with a view to a joint exploration of the common environment, and dominance – a system's ability to project a mapping of itself into the environment.

2.4.7.4 Confucianism

Confucian philosophy is a predominant value system in Chinese societies. It has been the most powerful influence in shaping the Chinese culture and the conceptions of Chinese people for thousands of years (Lu, Robin & Kao, 2001). As a belief system, Confucianism has provided the Chinese with great stability and resilience. Confucianism is authoritarian and stresses hierarchical principles. It guides the correct and best way of handling interpersonal relationships and is accepted at all levels of society (Bond, 1988).

The Chinese culture connection (1987) developed the Chinese value research, which consists of four dimensions of cultural values: social integration, human heartedness, Confucian work dynamism and moral discipline.

2.4.7.5 Cross-cultural relationships

Lewis (2000) pointed out some important factors impacting on cross-cultural relationships.

Language

Misunderstandings lead to breakdowns in communication and can seriously damage relationships. Where there are different languages or cultures involved in a relationship, the risk of misunderstandings, and therefore difficulties in the relationship, is much greater. There are very strong links between the way people express themselves in language and the cultural values and norms they ascribe to, whether consciously or subconsciously.

Humour

Use of humour can be problematic when meeting with people from other cultures. It can be an excellent way of breaking the ice. However, as with all language and communication, it comes with a risk of being either not understood or misunderstood. Much humour is usually very culture specific.

Technology

Communication is essentially about decoding the message the other person is trying to transmit to you and then responding appropriately. In intercultural communication,

you need to have as many degrees of context as is possible to try to gain an accurate picture of what is being communicated. It is important to consider which means of communication or technology another culture prefers to use in different situations. For a given situation, it may differ from that which you yourself might normally use. The use of a particular technology or communication may itself be providing a context for a message, telling you something over and above its content.

Truth and false assumptions

"For a German and a Finn, the truth is the truth. In Japan and Britain it is all right if it doesn't rock the boat. In China there is no absolute truth. In Italy it is negotiable" (Lewis, 2000: 8).

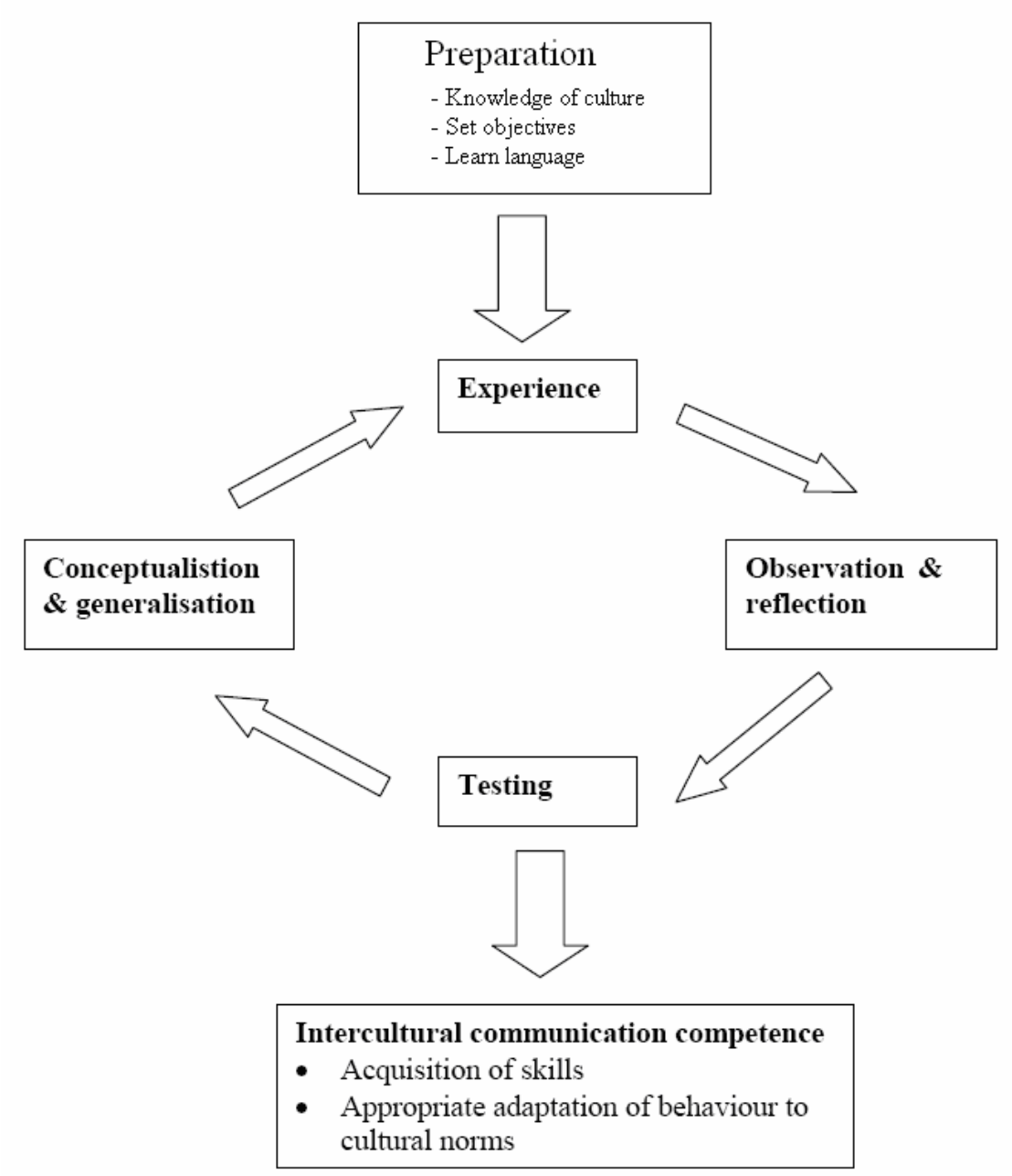
This quote may seem cynical; however, people treat things as true which are, more accurately speaking, matters which they believe to be true. People use pattern recognition frameworks in their brains in order to cope with large quantities of experiences and information. Experience is grouped and codified according to this framework to help ease its future retrieval. Different cultures, whether national, ethnic or any other, will codify using different frameworks based on different values, interpretations and meanings.

Face

People in all cultures try to maintain face in any relationship. This is the outward image that people wish to project and the positive social value to which this is linked. In cross-cultural relationships where there is little knowledge of the others' culture, it is easy to undermine the other party's face unwittingly.

The strategy scheme for developing the cross-cultural relationship is set out below (adapted from Dinges, 1996 and Kolb, Rubin, & McIntyre, 1973).

Figure 13 Strategy scheme for developing the cross-cultural relationship



Source: Adapted from Dinges (1996) and Kolb, Rubin, & McIntyre (1973)

2.4.8 SWOT analysis for MNCs in China

SWOT analysis is alive and well in strategic management. It is the assessment of 'strengths' and 'weaknesses' of the organisation in light of the 'opportunities' and 'threats' in its environment (Mintzberg, Ahlstrand & Lampel, 1998). Economic strategy will be seen as the match between qualifications and opportunity that positions a firm in its environment (Christensen, Andrews, Bower, Hamermesh, and Porter, 1982). It shows that strategy making seeks to attain a fit between internal capabilities and external possibilities.

Power *et al* (1986) provide typical guidelines on internal and external approaches for the SWOT model.

Environmental variables:

- Societal changes: changing customer preferences, population trends
- Governmental changes: new legislation, new enforcement priorities
- Economic changes: interest rates, exchange rates, real personal income
- Competitive changes: new technology, new competitor, price change
- Supplier changes: changes in input costs, supply changes
- Market changes: new products, new markets, product obsolescence

Strengths and Weaknesses checklist:

- Marketing: quality, product differentiation, market share, pricing policy, distribution channels, promotional programme, customer service, marketing research, advertising, sales force
- Research and Development (R&D)
- Management information system: speed, quality, expandability, user-oriented
- Management team: skills, value congruence, team spirit, experience, coordination
- Operations: control of raw materials, production capacity, cost, energy
- Finance: financial leverage, operating leverage, stakeholders' relations, tax
- Human Resources: employee capabilities, turnover, morale, and development

Table 4 SWOT analysis for MNCs in China from executives' perspective

Strengths:	***Weaknesses:***
♦ Sophisticated brand-building capabilities and marketing techniques ♦ Global distribution channels ♦ Research and Development ♦ International exposure ♦ Strong financial position and operating leverage	♦ Lack country-specific cultural experience ♦ Tighter standards of accountability make procedures more rigid ♦ More difficult to build "guanxi" network
Opportunities:	***Threats:***
♦ Involve in the world's most important emerging market ♦ Increase global market share ♦ Localise production ♦ Sourcing to lower costs ♦ Accelerate growth and buy out local competitors	♦ Violation of intellectual property rights ♦ Government regulations, deal with red tape ♦ Shortage of skilled labour ♦ More new competitions from local companies

(adapted and developed from EIU, 2004)

Conclusion: strategy theory

At the theory level, the author described Mintzberg's five Ps strategy, game theory, Porter's generic strategy, Mckinsey 7S model, Barney's VIRO framework, Kaplan and Norton's strategy map, Stockport's strategic transformation framework, Kotter's eight steps to transform organisation, strategy scheme for managing the cross-cultural relationships, and famous SWOT analysis. Recent studies showed that the efficient theories for MNCs investing in China were game theory, Kaplan and Norton's strategy map, cross-cultural management, and SWOT analysis which attained a fit between internal capabilities and external possibilities. Executives in China are spending more and more time deliberating on strategic issues with the specific intent of better understanding the Chinese market place (EIU, 2004).

2.5 Country-specific Strategy

2.5.1 Market entry strategy

Once a MNC decides to target a particular country, it needs to determine the best mode of entry. Kotler (2003) defined five market-entry strategies, which are indirect exporting, direct exporting, licensing, joint ventures, and direct investment.

Gross (1995) provided three fundamental strategies that can be used to enter the Chinese market: 1) export via a Hong Kong distributor; 2) export via direct channels in China; and 3) set up a joint venture. Gross (1995) further indicated that a foreign company must choose an appropriate market entry strategy for China depending on a number of factors including: 1) how the Chinese view the foreign firm's product entering the market; 2) the demand for its product; 3) the future growth of demand for its product; 4) the firm's resources; and commitment to entering this market and 5) the timeframe.

Pan (1996) provides empirical findings on ownership strategies for equity joint ventures (EJVs) in China. Utilising a large data set of international EJVs compiled by the Chinese Ministry of Foreign Trade and Economic Cooperation, Pan finds that the foreign partners more likely to acquire a higher or majority ownership in venturing with Chinese as those that spend more on advertising, contribute more capital, work under reduced country risk conditions, enjoy longer EJV contractual duration, and operate under more competitive conditions.

Yang (1998) found that one key success strategy was establishing wholly owned subsidiaries wherever possible. The following benefits are listed for wholly owned structure.

- Simpler decision-making structure: The decision making process is perceived by MNCs to be simpler and quicker in wholly owned subsidiaries.
- Clearer corporate objectives: In wholly owned subsidiaries, corporate strategic goals are easily defined and prioritised.
- Easier procedures for hiring and compensating local staff: Wholly owned subsidiaries tend to have greater freedom in terms of hiring and

compensating local managers and employees, according to business strategies and HR procedures at the parent company.

- Commonly shared corporate culture. Vallaster (2001) argued that a shared vision strategy is the lynchpin between people with different cultural backgrounds and allows them to develop efficient decision making approaches.

Pan and Chi (1999) examined a number of factors that may enhance the performance and survival potential of MNCs operating in China. They found early movers enjoyed substantial incentives not available to later entrants. Early movers had an opportunity to gain a foothold in the Chinese market that was subsequently closed to later entrants. Although Pan and Chi found that despite the perceived advantages of the special economic zones, the most profitable corporations were located in Shanghai (economic enter), Beijing (capital city) and open coastal cities. These profitable areas have stronger infrastructures and larger customer bases. It is clear that Pan and Chi (1999) suggest market entry, timing, and location must be considered the most influential choices and strategies that managers of MNCs must take into consideration.

2.5.2 Localisation strategy

McCarthy (1975) formulated the concept of the 4Ps – product, price, promotion, and place marketing mix. Internationalisation involves customising marketing strategies for different regions of the world according to cultural, regional and national differences to serve specific target markets. In order to standardise the marketing mix, the strategy needs to group countries by social, cultural, technological, political and economic similarities (Vignali, 2001). Czinkota and Ronnenken (1995) believe that altering and adjusting the marketing mix determinants are essential and vital to suit local tastes, meet special needs and consumers' non-identical requirements.

Taylor (1991) supports the view that it is important to heed the maxim "think global, act local". The firm must ensure that its structure fits in with its international environment, while at the same time, have the internal flexibility required to implement its strategic goal. For example, the concept of "think global, act local" has been clearly adopted by McDonald's (Ohmae, 1989).

In Vignali's (2001) research, he found that the adaptation is required for many reasons including consumer preferences and laws. There are many situations where McDonald's adapted the product because of religious laws and customs in a country. For example, in Israel, Big Macs are served without cheese in several outlets, thereby permitting the separation of meat and dairy products required of kosher restaurants. McDonald's restaurants in India serve Vegetable McNuggets and a mutton-based Maharaja Big Mac. There are also many examples of how McDonald's adapted the original menu to meet customer needs in different countries. In tropical markets, guava juice was added to the McDonald's menu. In Germany, beer is sold as well as McCroissants. Chilled yogurt drinks are available in Turkey, espresso and cold pasta in Italy. Teriyaki burgers are sold in Japan, vegetarian burgers in The Netherlands. McSpaghetti has become increasingly popular in the Philippines. McLaks (grilled salmon sandwich) are sold in Norway, McHuevo (poached egg hamburger) in Uruguay. In Thailand, McDonald's introduced the Samurai Pork Burger with sweet sauce. These are all examples of how McDonald's has adapted its product offer in international environments.

In a communications context, the maxim "brand globally, advertise locally" (Sandler and Shani, 1991) is the McDonald's promotional strategy. A further example of McDonald's acting locally was when in Beijing, China, the company's male mascot, Ronald, was paired with a female companion known as Aunt McDonald, whose job it was to entertain children. The Beijing McDonald's relies heavily on personal interactions with customers. In everyday operations, one or two public relations staff in each outlet are available to answer customers' questions. The whole courtesy issue is such a big thing in the Far East with the result that McDonald's has to pay particular attention to this (Vignali, 2001).

According to EIU (2004) survey, in recent years, MNCs have become much more enmeshed in local business networks in China than were ever the case before. This is the result of several developments: the desire of MNCs to localise supplies and so reduce the need for more expensive imports; the increasing confidence with which the more established MNCs approach the market; and the growth of China's own corporate sector.

Going local is a strategic option for MNCs since they started to invest in China in the 1980s. The parameters of the localisation have shifted. Previously, staff localisation was seen only as the most obvious way of cutting costs for doing business in China.

Now replacing expensive expatriates is one of a whole range of localisation options that MNCs are exercising in an effort to remain or become competitive. Borrowing from domestic banks, moving production facilities inland, sourcing inputs within China and expanding local product development – all these localisation strategies are being employed in an effort to narrow the cost gap. MNCs want to better understand and even shape local demand. But MNCs also want to match the cost structures of local companies, allowing them to compete on price without wrecking profit margins.

2.5.3 Human resource strategy

Meier, Perez, and Woetzel (1995) conducted a comprehensive study of MNCs' managerial practices in China. The study indicates that, to be successful in China, foreign firms have to go beyond the requirements of a good product and a well-developed strategy. MNCs have to cope effectively with complex government relations. They need to coordinate business units and multiple ventures in China efficiently in order to realize synergy; they need to manage joint ventures by assuming majority control; and most important of all, they need to understand Chinese culture, train and invest heavily in human resources.

Hu and Chen (1996) attempted to analyse some key factors that explain foreign joint venture performance in China. They put the emphasis of their study on critical human resource strategy impacting on foreign investment in China. They found that the performance of Sino-foreign joint ventures is more dependent on partner-related factors such as the number of partners and their commitment than it is on environmental related factors such as industry characteristics and business locations.

Wong and Maher’s (1997) carried a study based on two in-depth interviews of two major U.S. companies in China. They pointed out the strategy of sharing existing and relevant technology has many benefits for both parties, including increased market share, increased confidence among the Chinese partners in their Western counterparts, and the incentive of both parties to develop new technology to succeed what has been disclosed. They also found that a successful human resources strategy in China is to recruit the so-called "Overseas Chinese", because they are able to combine Western training with local understanding and sensitivity.

2.5.4 Brand strategy

Kotler (2003) identified that branding is a major issue in product strategy. A brand is complex symbol that can convey many levels of meaning- attributes, benefits, values, culture, personality, and user. Companies should strive to build a strong, favourable brand image. The most valuable brands have a brand equity that is considered an important company asset and that must be carefully managed. The best brand names suggest something about the product's benefits; suggest product qualities; are easy to pronounce, recognise, and remember; are distinctive; and do not carry negative meanings or connotations in other countries or languages.

Loke-Khoon (2005) noted that choosing the perfect Chinese name for the brand is a key strategy of cracking the China market. Companies are well aware of the power of brands and brand names. Strong brands can open new markets and increase share earnings while weak ones can forever close the door to opportunities in developing markets. For MNCs venturing into China, choosing and securing an appropriate local language trade mark is a crucial step. EIU (2004) survey revealed that MNCs are right to identify brand as one of their most important competitive strengths in China due to their uniqueness in product design and technological sophistication, as well as their western appeal to Chinese consumers.

2.5.5 Building trust and relationship strategy

Yang (1998) argued that top management's commitment is a critical factor for success. From the research, he found that the vision and commitment to China from CEOs of leading US and European MNCs are the most important driving force for their companies' long-term strategic position in China; because the CEO's commitment can be often translated into a powerful source of strategic action that is particularly important in making long-term investment decisions in China. A CEO's vision can help the company enter the country swiftly and build up market share quickly; and a CEO's personal commitment to China often contributes in developing strong relationship with the Chinese government whose role is crucial in present and future investment initiatives.

Bill Gates of Microsoft has viewed China as one of the most important markets for the company. ChinaDaily (2004) reported that Bill Gates himself visited China several

occasions in recent years and gave top priority to develop software for Chinese market. His long-term commitment to China and the publication in Chinese of *The Road Ahead* have put Microsoft products on every desktop computer in China. His good relationship with the Chinese government availed him to secure several big business deals.

As China continues to liberalise its economic and political regime, MNCs have to work within the constraints and requirements of that environment while leveraging the advantages they may possess in terms of size and resources, and their experience in the Chinese setting. Sanyal and Guvenli (2001) pointed out MNCs conduct business operations in a politicized and bureaucratic environment, and it is important to forge good relations with the Chinese government, use joint ventures and large sized investments, and maintain a long-term presence in the country.

Guanxi is used by leaders to adapt to changing organisational circumstances. As noted by Wall (1990) the importance of guanxi is wholly evident in Chinese business experience. Moral character can hardly be separated from the ability of adopting strategy to successfully make and manage guanxi (Wood, Whiteley & Zhang, 2002).
China will move inexorably toward a free-market economy during its growth stage. Competition will increase, and foreign free-market influence will support that process (Wong and Maher, 1997). The environmental change results in corresponding changes in a MNC's strategy so that the organisation attempts to maintain and hopefully enhance its competitive advantage.

2.6 Conclusion from the literature review

In the last few years China has emerged as one of the world's largest markets for the leading MNCs. Competition is intense, and the operational environment remains challenging. MNCs need to combine their international experiences with the country-specific strategies to address the China market. The development of China's economy has opened up new directions in which MNCs can respond to the challenges. MNCs have more opportunity to bring their sophisticated brand-building, integrated human resources strategy and marketing capabilities to interact in the Chinese market, and to localise production, markets and sourcing to lower costs. The emergence of a local market for mergers and acquisitions is allowing MNCs to buy out local competitors to accelerate its growth. China is no longer a market that MNCs should or can ignore, and executives' strategic thinking and planning are essential to the success of any business venture.

CHAPTER THREE: PROPOSITIONS

The propositions in this research flow from the literature review, and are discussed as follows:

Proposition 1: The Wholly Foreign-Owned Enterprises (WFOEs) is the preferred market entry strategy for MNCs in China.

The main options for market entry strategies are indirect exporting, direct exporting, licensing, joint ventures, and direct investment (Kotler, 2003). Previous research papers have shown different market entry strategies for MNCs investing in China. (Gross, 1995; Pan, 1996; Pan & Chi, 1999). However, recent studies for MNCs in China support that the most efficient market entry strategy is to establish WFOEs in China (Yang, 1998; MOFCOM, 2004)

Proposition 2: Organisational adaptation to the local environment is a critical strategic movement for MNCs in China.

This is derived from research conducted by Ohmae (1989), Taylor (1991), Sandler & Shani (1991), Czinkota & Ronnenken (1995), and Vignali (2001).

Proposition 3: Key success strategies for MNCs investing in China require the following:

- Build trust and develop good governmental network relationship ("guanxi")

  This was derived from research conducted by Sanyal & Guvenli (2001), Wall (1990), Wood, Whiteley & Zhang (2002), Yeung & Tung (1996), Pye (1992), and Tsang (1997).

- Effective and efficient cross-cultural management in human resource

  The research conducted by Hofstede (1980), Meier, Perez & Woetzel (1995), Hu & Chen (1996), Mintzberg, Ahlstrand & Lampel (1998), Lewis (2000), Vallaster (2001), and Yang & Lee (2002) confirmed this point.

- Create good Chinese brand name and image

  The information from Kotler (2003), EIU (2004), and Loke-Khoon (2005) verified this issue.

- A chief executive's long-term commitment and top management's buy-in

  This point was demonstrated by Yang (1998) and ChinaDaily (2004).

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Qualitative Research

The research problem required the author to identify the success strategies of MNCs investing in China. This research was qualitative and was conducted in the interpretive paradigm. The interpretive paradigm was chosen because it allowed for the development of an understanding for the situation which is studied in-depth, within Chinese specific context, acknowledging the role of the researcher in the process. Qualitative research is an inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem. The researcher built a complex, holistic picture, analysed words, reported detailed views of informants, and conducted the study in a natural setting (Creswell, 1998). Leedy & Ormrod (2001) stated that all forms of qualitative research have two things in common: the focus is on phenomena that occur in natural settings and the phenomena are studied in all their complexity and multiple facets. The author used both documentary evidence and qualitative interviews with three leading MNCs in China.

4.2 Interview Method

4.2.1 In-depth interview

Interviews are an essential source of the study evidence about human affairs (Yin, 1984). These human affairs should be reported and interpreted through the eyes of specific interviewees, and well-informed respondents can provide important insights into a situation. Interviews are very helpful to discover new insights.

The in-depth interview is a technique that is used in exploratory research where respondents are probed on topics in a relaxed environment to maximise the richness of the discussion and data collection (Creswell, 1998).

The author initiated in-depth interviews guided by a list of open-ended questions that focused on core themes, in which the researcher asked key respondents for the facts

of a matter as well as for the respondents' opinions about events. The researcher even asked the respondent to propose his or her own insights into certain occurrences, and used such propositions as the basis for further inquiry. An interview guide was constructed to ensure that all propositions were explored.

Advantages of the in-depth interview:
The researcher can shift focus as new data comes to light (Leedy & Ormrod, 2001).

Disadvantages of the in-depth interview:
The researcher, by nature of his or her presence, may alter what people say and how events unfold (Leedy & Ormrod, 2001).

Interviews provided a great deal of useful information. The researcher asked questions related to the following (Silverman, 1993):

- Facts, biographical information
- People's beliefs and perspectives
- Feelings
- Motives
- Present and past behaviours
- Standards of behaviour (i.e. what people think should be done in certain situations)
- Conscious reasons for actions or feelings

4.2.2 Interview sampling

Neuman (1994) argued that judgmental sampling is often used where a small number of cases are to be examined in depth, and where cases are to be selected on the grounds that are particularly informative.

The in-depth and semi-structured interviews were conducted with three leading multinational companies (Alcatel, Kodak and Siemens) in Shanghai on a one-to-one basis, because Shanghai is universally recognised as the economic centre of China and leading MNCs have a presence in Shanghai. The interviews were arranged based on personal contacts and social networks, so the MNCs were not chosen randomly. Each interview took about two hours and focused on the success strategies of MNCs in China.

The interviewees included CEOs, general managers that included expatriates and locals, financial executives, human resources managers, and strategic planning executives of MNCs (totally around 15 people). The people that were interviewed (their representative positions are indicated in Appendix B) provided a holistic view of the situation. Documentation provided by the interviewees has been included in the data collection process.

4.3 Data Collection

The richness of the context means that the study cannot rely on a single data collection method but will likely need to use multiple sources of evidence (Yin, 1993).

Six sources of evidence were the focus of data collection for the study: documentation, archival records, interviews, direct observations, participant-observation, and physical artifacts (Yin, 1984).

In addition to the attention given to these individual sources, there are three important principles of data collection. These include the use of: (1) multiple sources of evidence – that is, evidence from two or more sources, but converging on the same set of facts and findings; (2) a study data base – a formal assembly of evidence distinct from the final research report, and (3) a chain of evidence – that is, explicit links between the questions asked, the data collected, and the conclusions drawn. The incorporation of these principles into the study investigation will increase its quality substantially (Yin, 1984).

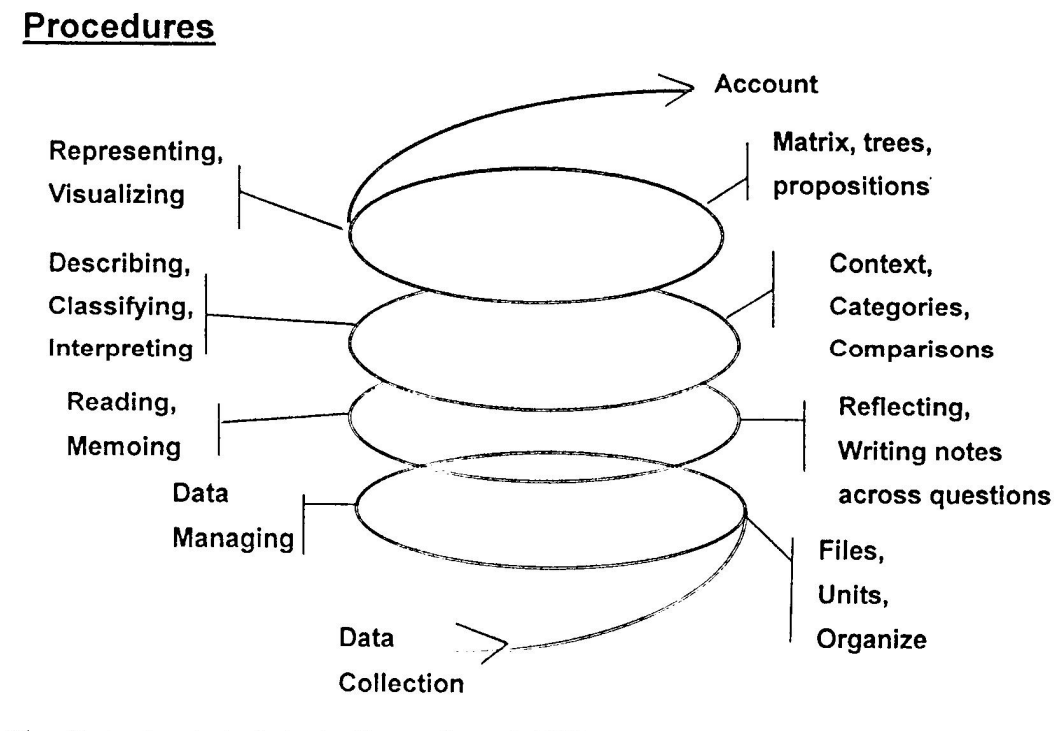
The context found within the study will be filed, including the information on the historical, economic and social factors that relate to the case. According to Leedy & Ormrod (2001) the context will not only assist in interpretation, but also enable others who read the research to draw conclusions to the extent to which the findings might be extrapolated to other situations.

4.4 Data Analysis and Interpretation

Analysing text and multiple forms of data presents a formidable task for the qualitative researcher. Creswell (1998) believed that the analysis process conforms

to a general contour. The contour is best represented in a spiral image, a data analysis spiral. As shown in the figure, to analyse qualitative data, the researcher engages in the process of moving in analytic circles rather than using a fixed linear approach. One enters with data and exits with an account or a narrative. In between, the researcher touches on several facets of analysis and circles around and around.

Figure 14 Creswell data analysis spiral



Source: Creswell (1998)

The analysis of the data was displayed mostly in network format, depicting the relationships between various elements that were uncovered during data collection phase. The networks mainly consisted of cognitive mappings indicating the relationships among the concepts, and using descriptive text to explain the various concepts (Miles & Huberman, 1994) and logical chains of evidence.

Leedy & Ormrod (2001:290) stated that the interpretation of the data is the essence of research. Since the interpretive paradigm was chosen in this qualitative research through the interview method, some of the interpretations occurred during the data collection phase, while many other interpretations occurred during the data analysis phase.

4.5 Validity and Reliability

Validity of the research report refers to the “accuracy, meaningfulness, and credibility” of the study as a whole (Leedy & Ormrod, 2001).

4.5.1 External validity

External validity refers to the extent to which generalisations into other areas can be made from the results of a specific study (Leedy & Ormrod, 2001).

Yin (1994) suggests that external validity might be established for even only a small domain to which the findings can be generalised. Rowley (2002) suggests that generalisation can be performed if the research design has been informed by theory and is therefore seen to add to theory-building.

Another view is used as the main method of countering potential problems with external validity. The research entails free access to and the use of multiple sources of data and the explicit statement of research questions.

4.5.2 Internal validity

According to Leedy & Ormrod (2001), internal validity refers to the extent which the researcher is able to draw accurate conclusions from the study. Therefore, internal validity means the extent to which the instrument allows inferences about the causal relationships between data elements.

There are various types of internal validity: construct validity, content validity, face validity and criterion-related validity (Leedy & Ormrod, 2001). Construct validity is considered more relevant and is discussed in detail.

4.5.3 Construct validity

Rowley (2002) explains construct validity as reducing subjectivity by linking the questions posed during data collection to the original research questions.

Yin (1994) suggests a design test for construct validity as the establishment of correct operational measures. Examples of such measures are the establishment of chains of evidence and by using multiple sources of data during data collection.

These issues are adhered to in the research process and for that reason construct validity is achieved as far as are possible within this research approach.

4.5.4 Reliability

Reliability is defined as the extent to which similar research conducted in future results in similar outcomes (Leedy & Ormrod, 2001). Since an in-depth interview guide is used and a comprehensive database is compiled, reliability is ensured where possible. However, given that the research was conducted in the interpretive paradigm, the role and interpretations of the researcher played a significant part in the final interpretations and even the initial observations. Similar findings by another researcher might therefore not result in exactly the same conclusions being reached. Although this might be considered a drawback, it could also be seen as adding to the richness of theory building.

4.6 Ethical Issues

All interviewees were briefed on the purpose of the study. They were provided with the researcher's contact details if they wished to later clarify anything or if they had any queries or questions regarding the research. Whenever possible and with permission from the interviewees, voice recordings were made and the interviewees were informed that once the recordings had been transcribed into texts, they would be destroyed. If the interviewee was uncomfortable with voice recording, only notes were taken during the interview. Given the sensitive nature of the research topic, interviewees were assured of absolute confidentiality when corporate strategies were discussed. The author confirmed that no identifying information or proprietary interests would be included in the report. Interviewees were told that they need not answer any question which they considered inappropriate, and were further assured that the interview material would be processed by the author for research purposes only.

CHAPTER FIVE: FINDINGS & ANALYSIS

5.1 Introduction

The results of this study are presented through a discussion of the research findings from the in-depth interviews in terms of the propositions. Relevant findings from the literature are included in the discussion. The detailed case studies of the three MNCs (Siemens, Kodak, and Alcatel) interviewed, are included as Appendix C, D, and E. These case studies were developed from the interviews and the companies' documentations, and provided further details of the MNCs operating in China.

To show context to the discussion style that has been used (qualitative research conducted in the interpretive paradigm using in-depth interviews), some important characteristics of the chosen method are listed below.

- The purpose of the research was to understand the challenges facing MNCs investing in China, and to identify potential success strategies for MNCs.

- The research focused on the studying and gathering information from the in-depth interviews with the senior management of three successful MNCs presently investing in China.

- No formal hypothesis testing, measuring of variables, or drawing of inferences from these well known and representative MNCs were conducted.

- The presentation of the interviews, the interpretation of the results, and the author's new findings are presented separately, but they are cross referenced.

- The role of the author in the interviews, observations and interpretations were intertwined with the activities themselves. Potential subjectivity was mitigated by the author not leading interviews and regularly confirming what specific statements meant.

- Although some prompting questions were developed for inclusion during the interview, the discussion was mainly directed into the areas of interest that arose during the interview. This assisted greatly in exploring the research topic; however the same aspects were not discussed with all the interviewees.

The specific results from the research and the author's new findings are discussed below.

5.2 Market Entry Strategies

Proposition 1: The Wholly Foreign-Owned Enterprises (WFOEs) is the preferred market entry strategy for MNCs in China.

5.2.1 No preferred market entry strategy

Major market entry strategies for MNCs in China include exporting, licensing and franchising, joint ventures, and wholly foreign-owned enterprises (WFOEs). Exporting involves a company selling its physical products which are manufactured outside the target country to the target country (Tallman and Shenkar, 1994). Licensing and franchising arrangements are non-equity associations between an international company and a party in the host country in which technology or management systems are transferred to the host party (Shane, 1994). Joint ventures and WFOEs entail direct investment in business sites in the target country. Joint ventures involve two or more organisations that share the ownership, management, risks, and rewards of the newly formed entity. Each partner contributes equity, plant and equipment, and technology. WFOEs entry alternative are subsidiaries in foreign country in which the parent company takes a 100 percent equity stake, has full ownership and sole responsibility for the management of the operation. WFOEs can involve either acquiring an existing business or investing in new facilities in the host country (Root, 1994).

During the interviews, Alcatel's Senior Executive of Strategy compared different companies in the telecommunications industry. He noted that the joint venture entry strategy worked particularly well for Alcatel. Alcatel's principal joint venture, Shanghai Bell, established with a subsidiary of the Ministry of Posts and Telecommunications, speedly became the country's leading supplier of fixed-line switching equipment - the core component of any telecoms network.

Nokia, Ericsson and Motorola have maintained a greater degree of independence. Nokia and Ericsson also entered the market through joint ventures but both have, in

general, been more successful in retaining greater control over their operations than Siemens and Alcatel. This is partly because they entered the market a little later but mainly because the high demand for their mobile infrastructure equipment could not be sourced by local companies, thus giving them stronger bargaining positions. For most of the past decade, Ericsson has been the most successful seller of mobile telecom infrastructure. Nokia has concentrated on handset production both for sale in China and for export to other markets.

Motorola, the US electronic chip and handset maker, took a different approach. Despite establishing itself early when it set up its first manufacturing facilities in Tianjin in 1992, it has largely managed to maintain its principal Chinese business as wholly foreign owned enterprise from the outset. Political astuteness was the key. The company forged strong ties at a central government level by promising technology transfer through the building of USD1bn semiconductor facility and at a local level by identifying itself closely with the Tianjin Economic & Technological Development Zone.

The President of Alcatel Shanghai Bell also discussed market entry strategy. He said in 2002, when Alcatel announced the amalgamation of its Chinese joint ventures into a new entity: Alcatel Shanghai Bell, in which it held 50% plus one share, and over which it has management control. The new company, which was set up shortly after the company relocated its Asia-Pacific headquarters from Australia to Shanghai in 2000, remains one of Alcatel's global research and development (R&D) centres.

In adjudicating MNCs' market entry strategies, an important consideration is the level of control the MNCs expect to have over the operation. Control has been defined as, "the ability to influence systems, methods, and decisions" (Anderson and Gatignon, 1986).

> "In general, when a company moves from licensing/franchising to joint venture to WFOE, the company's degree of control over the operations has increased. But ***there is actually no preferred market entry strategy for MNCs in China***, although the numbers of WFOEs were increasing in the recent years," commented a mobile communications' executive.
>
> A senior executive from Siemens said, "Some market entry strategies, such as exporting and licensing/franchising, are associated with low levels of control over

> operations and marketing, but are also associated with reduced levels of risk. In contrast, other entry alternatives such as joint ventures and WFOEs involve more control, but entail additional risks. Market entry strategies such as joint ventures and WFOEs are more complex and time-consuming than the other two alternatives, but probably yield better overall penetration into the Chinese market."

The reasoning of a marketing executive is that despite the general view that exporting is a low commitment form of market entry strategy, there can be a wide spectrum of commitment and control of the exporting companies, since some exporting arrangements (i.e. indirect exporting) simply involve selling to an intermediary such as an export trading company, while other arrangements involve forging relationships with distributors. Exporting involves production in the home country, while the other market entry strategies involve production in the host country. When a MNC approaches Chinese government about licensing, joint venture, or WFOE, the MNC acknowledges that it believes there are advantages associated with Chinese production capabilities that would not be afforded by exporting.

During the interview, an executive from Kodak was very upbeat about the norm of "***innovative approach like Kodak***".

For its commitment of billion-dollar investment, Kodak was the first MNC in China to adopt the foreign invested stock limited company as its market entry strategy. The Joint-Share company structure set up by the Kodak (China) Company Limited would enable the operation of an integrated company with production facilities in two provinces and a headquarters in a third, and consolidated accounts across the branches. Considerable operating flexibility was permitted, and the company was free to expand its operation country wide, the assets of other state-owned enterprises could be bought, and branch offices could be established.

> Kodak's Asia Region Vice President elaborated, "Compared with most JVs in China, the Chinese partners usually exercised greater control without holding majority stakes. Even if the foreign partner had the larger stake, the initial contract was often so restrictive that the venture couldn't change the scope of its business or acquire another company without the Chinese party's approval. Kodak's top management agreed that the unique and innovative venture structure would enable it to expand quickly and change directions easily to follow the market, while managing internal finance much like it would do elsewhere in the world."

From the interview, Kodak's Senior Executive of Corporate Strategy concluded that each market entry strategy has advantages and disadvantages which are discussed individually:

Equity Joint Ventures

An Equity Joint Venture (EJV) is a limited liability company in which the Chinese and foreign partners jointly invest in and operate the company. Profits and risks are shared according to the percentage of equity held by each partner. Minimum foreign investment is 25%. EJVs usually receive a tax exemption for the first two profit making years and 50% tax reduction for the following three profit making years.

EJVs have the following advantages and disadvantages from the MNCs' perspective:

Advantages

- EJVs laws and regulations provide a relatively complete structure of rules and procedures for establishing and operating a joint venture in China.
- EJVs enjoy significant tax incentives.
- EJVs can provide separate entities for selling to the domestic market.
- EJVs are usually included in the governmental plans for raw material allocations and may procure inputs at subsidised prices.

Disadvantages

- Negotiations for an EJV structure are usually protracted, and incur significant costs in the process.
- Foreign investors are restricted from withdrawing registered capital during the life of the EJV contract.
- Termination and liquidation of EJVs have only been vaguely addressed by statutes and regulations in China.

Contractual Joint Ventures

A Contractual Joint Venture (CJV) can take two forms. One is a limited liability entity with legal person status that closely resembles an EJV; the other is a business partnership in which the parties cooperate as separate legal entities and carry out their respective contractual obligations without establishing a joint management structure. There is no minimum investment required for CJV, and profits are shared

based on a ratio specified in the contract, not necessarily according to investment contributions. For CJVs where partners cooperate as separate legal entities, each party is taxed separately on their portion of profits earned.

Advantages

- More flexibility in structuring the assets, organisation, and management of the joint venture.
- Foreign investors can recover registered capital throughout the life of the contract.
- CJV can be established quickly to take advantage of short term business opportunities and then dissolved with minimal legal restrictions.

Disadvantages

- Detailed implementing regulations have not been officially promulgated.
- CJV may not have legal person status nor have limited liability if the company is judged to be undercapitalised by the State Administration of Industry and Commerce.

Wholly Foreign-Owned Enterprises (WFOEs)

Although there are examples of effective and long standing joint ventures in China, many MNCs expect to acquire majority control to enhance investment and productivity, as well as to protect their intellectual property rights. They also aspire to consolidate and control distribution and marketing in order to re-shape these links in the Chinese business environment. Seeking business control does not preclude joint ventures, but it does suggest that WFOEs mode is another feasible and effective market entry strategy and sometimes they should be strategic alliances, designed as the wonderful vehicles to achieve growth strategies.

The WFOE is a limited liability entity solely owned and operated by a foreign investor. In this scenario, the foreign investor receives all profits and assumes all risks. Usually the separate contracts are drawn up for land, utilities and labour between the WFOE and the relevant local authorities. WFOEs are taxed according to the Foreign Enterprise Income Tax Law.

The Ministry of Commerce of China (MOFCOM) in 2004 has officially published the new WFOEs regulation, the key aspects include: (MOFCOM, 2004)

- **Joint ventures no longer mandatory**. From 11th December 2004, WFOEs are permitted in retailing, wholesaling and trading.
- **Geographical restrictions abolished**. Foreign investors may set up WFOEs in any part of the country.
- **Minimum capital requirements drastically reduced**. Wholesale companies are required to have Rmb500, 000, down from Rmb80m; while retail companies must have Rmb300, 000, down from Rmb50m. There is no new capital requirement for opening stores: these can be opened as long as they comply with statutory planning.
- **Approval process simplified**. MOFCOM handles the process at the provincial level under certain conditions. MOFCOM has also simplified the actual application procedure by integrating approval of the company set-up and its feasibility study report into a single prescriptive.

In addition, WFOEs have the following advantages and disadvantages from MNCs' standpoint.

Advantages

- Foreign investor has tighter control of proprietary interests.
- WFOEs have exclusive management decision-making control; there is no need to compromise with local partners.
- WFOEs have greater freedom in terms of business strategy and HR procedures.
- WFOEs are exempt from 10% tax on dividends.

Disadvantages

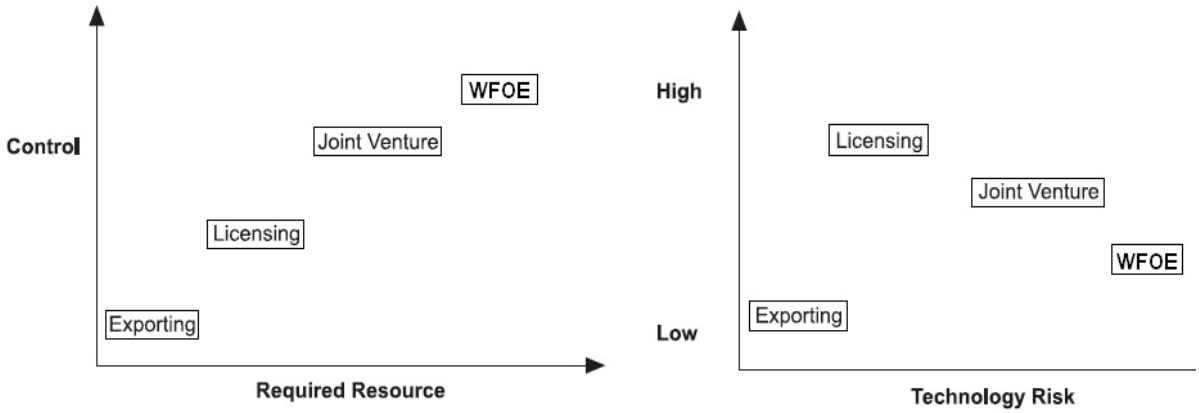
- There are few precedents to refer to during the negotiation and operation process.
- There are some difficulties in establishing the sourcing and distribution networks.
- There is no Chinese partner to assist with the problems of investment.
- There are strict foreign exchange requirements for WFOEs.

5.2.2 Important factors affecting market entry strategy choices

There are a number of market entry strategies for MNCs to pursue in China. Each strategy has its own pros and cons. A well-chosen entry strategy can enable a MNC to gain competitive advantage. In previous research, Maignan and Lukas (1997); Woodcock (1994) identified that market entry strategies could be differentiated according to three characteristics:

1, quantity of resource required
2, amount of control
3, level of technology risk

Figure 15 Relationships between three elements and market entry strategies



(Source: Maignan & Lukas, 1997; Woodcock, 1994)

From the interviews with the President of Alcatel Shanghai Bell, Senior Executive of Strategy of Alcatel Shanghai Bell, Executive Vice President of Siemens China, and CEO of Siemens Shanghai Mobile Communications, they concluded that the specific entry strategy a MNC chose would depend on the outcome of negotiations based on the relative bargaining power between the MNC and the Chinese government. Bargaining power assumes that both parties are desirous to negotiate an outcome that is in their long term best interests, and assumes that the MNC uses its ownership advantage as a source of bargaining power, while the host government relies on its control over market access (Kumar and Subramaniam, 1997). Globally, these two assumptions of bargaining power theory seem consistent with Chinese culture and business practices; it can be used as the theoretical basis for explaining MNCs' market entry strategies in China.

MNCs need negotiate with a variety of governmental agencies to accomplish all or part of their objectives. Thus, the bargaining power of the political and corporate entities in market entry strategic decision becomes a salient consideration (Fagre and Wells, 1982; Gomes-Casseres, 1990).

As mentioned by Alcatel Shanghai Bell's Senior Executive of Strategy, bargaining power initiates from the premise that a MNC has a natural preference for a high-control entry strategy, since this is the most desirable arrangement in terms of the company's long term ability to dominate the Chinese market. However, the MNC may be coerced to settle for a lower control market entry alternative if it has minimal bargaining power.

A senior executive from Siemens argued that the primary source of the Chinese government's power in the negotiation is its ability to control market access and to allot or withdraw incentives for the investment projects. Much of the MNC's bargaining power stems from ownership advantages that it possesses, such as the ability to employ local people and contribute to the Chinese economy. Based on this, the actual market entry strategy a MNC eventually adopts will depend on the relative bargaining power between the company and the Chinese government.

Deriving from the interviews with the President of Alcatel Shanghai Bell, Senior Executive of Strategy of Alcatel Shanghai Bell, Executive Vice President of Siemens China, and CEO of Siemens Shanghai Mobile Communications; the research identified the following factors which play the major roles in market entry strategic decision for the MNCs in China.

a.) The level of resource commitment required by the MNCs to the Chinese market

Resources are defined as "dedicated assets that cannot be re-deployed to alternative uses without cost" (Hill, Hwang and Kim, 1990: 118). Resources in this context could be either tangible resources such as plant and capital, or intangible resources such as market or operational know-how, managerial skills.

High resource commitment levels increase the stake of both parties. The MNCs want the opportunity to realise anticipated sales associated with a large capital

commitment, and the employment opportunities are often appealing to Chinese government. But it is unlikely that Chinese government would view a single investment as important enough to significantly alter its stake in negotiations, with the result that when the investment is of such a large scale that resource commitment is high, MNCs' bargaining power is reduced, and they will be less able to negotiate for a high control mode of market entry. In this situation, the MNCs might need to negotiate for a joint venture.

b.) The stake of Chinese government in attracting the foreign investment

Bargaining power suggests that the host country is likely to perceive its stake to be high when it has a need to attract foreign capital or technology in order to spur economic growth (Yan and Gray, 1994). When China perceives a compelling need to attract the foreign investment or Chinese government believes that it has a significant stake in attracting the venture, the MNCs will be more likely to be able to negotiate a full ownership market entry strategy. Alcatel's Senior Executive of Strategy said," The MNCs' ability to negotiate higher control is linked to the higher bargaining power of the company itself in negotiations."

c.) The perceived level of risk associated with the investment in China

This refers to the perceived uncertainty associated with the success of the investment in Chinese market, and can take the form of either the political risk associated with doing business in China, or the financial risk associated with operating the business.

> "When there is a high level of perceived risk, the number of alternatives available to the Chinese government is likely to be limited, because most MNCs will be very cautious when considering entry into the market. In this situation, the availability and attractiveness of alternatives have a strong influence on negotiations. Thus, a high level of perceived risk in China's business environment will improve the bargaining power of the MNCs, making them more likely to be able to negotiate a high control decision of market entry. The MNCs tend to adopt high control market entry strategy when they perceive the risk of doing business in China is high," commented a senior executive from Siemens.

d.) The intensity of competition for the MNCs investing in China

This point was perceived by the President of Alcatel Shanghai Bell.

> He said, ”When a new foreign investor is pursued by a number of different MNCs in the similar industry as competitors, the market entry alternatives available to new MNC will decrease. In competitive environment, Chinese government would be less likely to make concessions to any individual MNC.”

Since many MNCs are desirous to view the implementation of global strategies as essential to their success, they may find themselves in competitive situations in which they are highly motivated to enter the Chinese market, but need to bargain in order to gain entry due to the presence of competitors. Hence, there seems to be an inverse relationship between the intensity of competition for the foreign investment and the MNCs’ choice of a high control market entry strategy.

There are many different regions in China at various level of sophistication. Similarly, there is not only one market entry strategy in China. The MNCs having lesser market knowledge may attempt to reduce the strategic risk by entering Chinese market through licensing agreements or joint ventures. Meanwhile, other MNCs may follow WFOEs market entry strategy in order to acquire entire business control to enhance investment and productivity, as well as to protect their intellectual property rights. To be successful in today’s dynamic global business environment, MNCs need analytically review and possibly combine various elements of entry strategies for particular market conditions.

5.3 Localisation Strategy

Proposition 2: Organisational adaptation to the local environment is a critical strategic movement for MNCs in China.

> "Going local is a strategic option for MNCs. Previously; staff localisation was seen as the most obvious way of cutting costs for doing business since MNCs started to invest in China in the 1980s. Now replacing expensive expatriates is just one of a whole range of localisation strategies which MNCs are exercising in an effort to remain competitive," commented Asia Region Vice President of Kodak.

Borrowing from domestic banks, moving production facilities inland, sourcing inputs from within China and expanding local product development, all these localisation strategies should be employed in an effort to reduce operational costs. MNCs need to better understand and even shape local demand to remain competitive in the Chinese business environment.

> The Executive Vice President of Siemens China said, "In recent years, MNCs have become much more embedded in local business networks in China than was ever the case before. This is the result of several developments: the desire of MNCs to localise supplies and so reduce the need for more expensive imports; the increasing confidence with which the more established MNCs approach the market; and the growth of China's own corporate sector."

5.3.1 Localising inputs procurement within China

This idea is shared by Alcatel's General Manager of Fixed Network Group and Executive Vice President of Siemens China. MNCs are seeking to reduce costs by localising input procurement. Domestic supply companies share the cost advantages enjoyed by their finished goods producing counterparts, as well as having the incentives to sell quality inputs to foreign companies. Building a positive and strong relationship with MNCs could advantage further business in the future, and not just from the original customer. Being able to claim a customer relationship with a prominent MNC will assist a local company win the trust of others. This illustrates that local companies should not be thought of exclusively as competitors but as valuable business partners.

5.3.2 Localising production facilities in China

MNCs are also employing a localisation strategy to address the demand side of their businesses, because the recent convergence of the target markets, MNCs are not only seeking to sell to the more affluent cities. MNCs have also been taking advantage of increased incomes and a much-improved infrastructure to move beyond the eastern seaboard to the market in the less-developed inland areas, and to expand a national presence.

Localisation in established cities requires more effort but can still be rewarding. The areas first favoured by MNCs - Shanghai, Beijing and Shenzhen across the boundary from Hong Kong - are becoming more affluent and thus more expensive.

> Alcatel's Executive Vice President of Domestic Service and Marketing said, "With the improvements in the road network, however, it is possible to find cheaper locations in which to base operations that are still within relatively easy reach of these urban hubs. For example, while being just a couple of hours' drives away from Beijing, costs remain relatively low in Tianjin. The same is true of the string of cities stretching from Ningbo to Wuxi that lie close to Shanghai, and large bands of the Pearl River Delta surrounding Shenzhen. All these are the most obvious choices."

5.3.3 Localising research and development in China

> The President of Alcatel Shanghai Bell noted, "Alcatel Shanghai Bell is committed to being China's global telecommunications technology powerhouse, providing best-in-class, comprehensive communications solutions to customers worldwide. We relocated the Asia-Pacific headquarters from Australia to Shanghai in 2000, and built one of new global research and development (R&D) centres in Shanghai. Because of the localisation of R&D, Alcatel is now busy involving in Chinese telecommunications development of new technical standards, and has the flexibility to react quickly to the changes for both technology and the preference of customers in the Chinese market."

> "Grand announcement of localisation of R&D is also a strategic movement to be successful. Large MNCs know that being seen to transfer technology and

> expertise is one way of winning the favour of powerful government officials," commented the Chairman of Siemens Shanghai Mobile Communications. "Although skilled labour costs are rising rapidly, they remain lower than in Western Europe or the US."

Nowadays, the large MNCs are not only moving lower level developments or on-the-ground R&D presence, but also locating their sensitive research activities in China. For example, China's massive telecoms market is not just of local but of global importance. Siemens has established the global headquarters for R&D of voice-centric phones in Beijing. It is in partnership with the China Academy of Telecommunications Technology and a local telecoms company, DaTang, has played a key role in developing China's own 3G telecoms standard. Alcatel has taken the localisation theme even further. Alcatel Shanghai Bell has become one of Alcatel's global R&D centres, with the French MNC giving the joint venture full access to its worldwide technology base, including patented products. Alcatel's goal, according to its senior executive vice president for China, is to be in a position to capture and export new telecoms technology coming from within China, rather than merely importing existing trends from other countries. This is no doubt the brilliant sound to the ears of officials in China in which transforming the country from a follower of trends to a setter of trends has been a specific aim of the Chinese government.

5.3.4 Think globally, act locally

Nearly all the top executives talked about the global village.

> "At the start of the new millennium the world's economies appear to be becoming more integrated: trade is expanding, capital markets have sprung up in developing and transition economies, tourism is increasing and new technologies have linked the farthest corners of the world. Globalisation is a phenomenon that penetrated the entire human life on a worldwide basis. Information Technology made globalisation feasible; while liberalisation of the world's commercial and political spheres made it reality. In short, we should think globally and act locally," stated the Senior Executive Vice President of Siemens.

A global mindset means that we scan the world from a broad perspective, always looking for unexpected trends and opportunities that may constitute a threat or an

opportunity to achieve our personal, professional, or organisational objectives. (Rhinesmith, 1994)

Alcatel's Senior Executive of Strategy said, "Successful MNCs shall see the entire world and are able to adapt their global thinking to the local contexts." Since globalisation involves customising the corporate strategies for different areas of the world according to cultural, regional and national differences to serve specific target markets; it is important to follow up the concept of "think globally and act locally". MNC need ensure that its structure fits in with the international environment, while at the same time, having internal flexibility to implement its strategic goal in the Chinese local market.

Proposition 3: Success strategies for MNCs investing in China require the following:

- Build trust and develop good governmental network relationship ("guanxi")
- Effective and efficient cross-cultural management in human resource
- Create good Chinese brand name and image
- A chief executive's long-term commitment and top management's buy-in

5.4 GuanXi Strategy

Building and developing good government network relationship ("guanxi") is a requirement for a successful strategy for MNCs in China.

> Kodak's Senior Executive of Corporate Strategy stated, "In China, guanxi is a basic concept, in personal and social behaviour. Generally speaking, guanxi means good connections and nice relationships. It is one of the sources for sustainable competitive advantage for the MNCs doing business in China. It is the good friendship with implications of continued exchange of favours, which need to be developed, cultivated and expanded to the individual, interpersonal, organisational and social level."

In 1993, Kodak appointed the former CEO of Motorola, George M.C. Fisher, as the company's CEO. Fisher was the first outsider to run Kodak in its 116 year history. Under his leadership, Kodak refined its corporate strategy by focusing on emerging markets growth, particularly the rapidly developing Chinese market. Shortly after he took over as CEO of Kodak, Fisher established contact with Zhu Rongji, the former premier of China. Zhu's blessing from central government proved crucial to Kodak's establishment in China.

In March 1998, Kodak unveiled a plan to develop the Chinese market using a USD1.1 billion strategy, one of the five largest investments ever made by a US firm in China. This billion-dollar project was originally conceived by George Fisher, former CEO of Kodak, and then handed over to David Swift, chairman and president of the Kodak's Shanghai-based Greater China Region. The billion-dollar project was on an immense scale: to transform China into the photo-film manufacturing global hub.

Kodak's Asia Region Vice President confirmed some of the key success elements for the one-billion-dollar project as follows:

- Former CEO Fisher's good network relationship convinced the Chinese central government that Kodak was very serious about China. Former premier Zhu Rongji's personal commitment and high level central government involvement, led to the success of the project.

- Fisher's previous role as the CEO who brought Motorola to China, established himself as very credible to the Chinese leadership. Fisher's successful introduction of Motorola into China as a win-win strategy for both company and country greatly facilitated the 1998 negotiation process with Kodak.

Antonio M. Perez joined Kodak as President and Chief Operating Officer in April 2003, and was elected to the Board of Directors in October 2004. In May 2005, he was elected Chief Executive Officer and on January 1, 2006, he became Chairman of the Board (Kodak China, 2006). Mr. Perez is leading the digital transformation of Kodak, aimed at delivering innovative digital products and services to consumer and commercial customers in the fastest growing segments of the imaging industry. He is also a member of International Consultative Conference on the Future Economic Development of Guangdong Province, an advisory body for the Governor of Guangdong, China. As mentioned by Kodak's Senior Executive of Corporate Strategy, Perez's role in International Consultative Conference helped Kodak to build trust and develop strong relationship with Chinese government.

> According to a mobile communication's executive, "The Chinese economy is being transformed from a centrally planned one to a market oriented one. MNCs have to operate in an increasingly competitive market according to the rule of economic efficiency. However the cultural and structural factors in China, the central government decision makers still control access to a wide range of business opportunities. Coupled with the legal infrastructure, guanxi becomes a popular way and essential informal connection to solicit favours from the authorities and gain approval for accessing the financial, physical, human and organisational resources. ***Guanxi is morally binding, and trust and credibility are its important ingredients.*** Chinese culture requires the establishment of trust, especially with foreigners, before personal involvement is contemplated. Openness, directness, and frankness in the West may be viewed as indicators of good intentions; in the East, preference is given to cooperation and humbleness."

> "In western working environments, friendship and business are treated as separate aspects that do not necessarily work well together. In China, favours are accepted in nearly all working environments," commented a senior executive from Siemens China.

Once guanxi had been established, the benefits will follow, including the smooth running of business operations, information about government policies, amenable administrative approvals, and the success of business negotiations in China.

The research identified that Schindler & Thomas' (1993) recent study about five dimensions that underlie the concept of trust was applicable to MNCs in China.

- Integrity: Honesty and truthfulness
- Competence: Technical and interpersonal knowledge and skills
- Consistency: Reliability, predictability, and good judgement in handling situations
- Loyalty: Willingness to protect and save face for a person
- Openness: Willingness to share ideas and information without reservation

> Regarding the industry comparison, Alcatel's Senior Executive of Strategy stated, "Siemens and Alcatel, sought to become closely involved with the government. They are both familiar operating in a static environment because of their respective national backgrounds; Ericsson, Nokia and Motorola, by contrast, are more free market in both origin and outlook. Familiarity in dealing with government officials has helped Siemens and Alcatel win lots of businesses".

An executive from Alcatel pointed out ***building guanxi needs patience and perseverance***. It is important to exert influence at different levels – with central ministries in Beijing, government bodies at the provincial and local levels. It is considered a priority for MNCs to establish, develop and maintain the good relationship directly with the central government in Beijing. In this case, the guanxi is likely to be valuable for sustainable competitive advantage in helping the success, because it approaches the top echelons and cannot be easily copied by the other company. Guanxi in the Chinese business context enables global business leaders to respond more appropriately.

> "***Establishing a social guanxi maybe easy, but it takes time to develop its affection side or emotional commitment, which is a key determinant of the***

> ***quality of guanxi,***" according to CEO of Siemens Shanghai Mobile Communications, "For the Chinese culture, an old friend is very different from just a friend. Thus, MNCs that have been in China for a long time are likely to enjoy an edge over their competitors. ***The ability to develop and maintain guanxi will make 'success breeds success'***. Historical good practice translates into a favourable initial stock position of a resource, which in turn facilitates further resource accumulation. Similarly, existing guanxi facilitates the creation of new guanxi. It refers to the quality of relationships between people or organisations and focuses on mutual assurance, understanding and obligations between two parties."

Kodak's Senior Executive of Corporate Strategy also mentioned that guanxi could be disrupted by something as simple as staff mobility. To reduce the mobility of guanxi is to enhance and encourage formalising the good relationship between the two parties by signing some agreement or memorandum of understanding, and to ensure and strengthen the organisational credibility by CEO's long term commitment to China.

5.5 Cross-cultural Management in HR Strategy

Effective and efficient cross-cultural management in human resource is a requirement for a successful strategy for MNCs in China.

The General Manager of Siemens Communications Group, raised several issues in the cross-cultural management of the global workplace during the interview:

- How to build trust among team members scattered around the world who have never meet,
- How to implement strategies for sharing information for national electronic infrastructures using different languages,
- How to motivate employees with different work ethics ranging from individualistic, classical western-style attitudes toward work, to paternalistic attitudes, to "state-will-take-care-of-me" socialist individual mindset,
- How to schedule team conference among the members, who live in different time zones,
- How to get things done on time by adhering to deadlines when some people don't care about the exact deadline and whose time perspective is different from ours.

An organisation's human resource policies and practices represent important forces for shaping employee behaviour and attitudes (Robbins, 1998). Human resources are as important as, if not more than, financial resources. The global corporation increasingly needs managers who have experience in diverse cultures and who are sensitive to the challenges of international operations. It is important to say that most MNCs senior managers in China recognise that cultural differences do affect managerial performance. ***"The ability to adapt to the cultural differences in a foreign assignment is important to managerial success,"*** stated Director of Human Resources of Siemens. According to his opinion, the effective and efficient cross-cultural management in human resources will increase employee commitment, loyalty, and satisfaction by clearly communicating the organisation's goals and future strategies, providing employees with growth experiences, offering financial assistance to enhance their knowledge and skills.

The HR Director of Siemens proposed the executive who subscribes to global involvement is expected to:

- Have a global perspective,
- Seek out for similarities among the various elements of the world, such as people and their habits,
- Exploit the commonalties to discover differences, and
- Use the knowledge gained from the global arena to design and execute strategies that will maximise the benefits to all stakeholders.

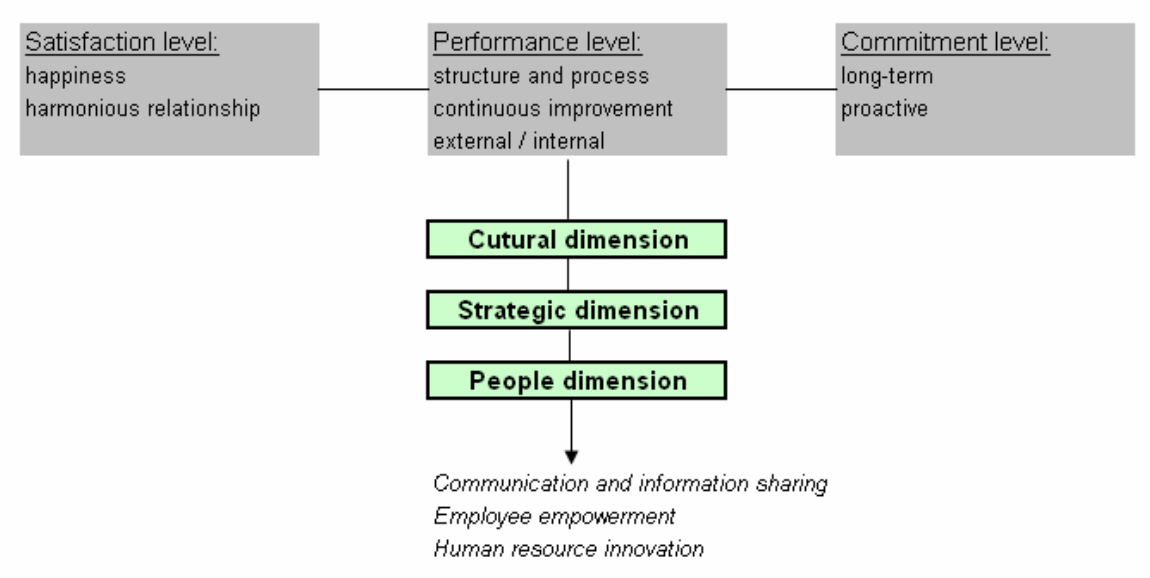
A Kodak executive noted that one of the biggest challenges facing Kodak is to identify and develop, at the required pace, capable and qualified managers who not only have a China specific background to understand local consumers and businesses, but also have international experiences to equip them to compete in the global market. MNCs require staff that can both understand immediate operational issues and also undertake long term strategic planning required to make the company's products and services more competitive.

> According to Kodak's Senior Executive of Corporate Strategy, "Chinese culture is predominantly influenced by Confucianism, which emphasises the value of education, a desire for accomplishment and an obligation to family. It advocates a common set of presumptions and values. It encourages people to work hard, be responsible, knowledgeable and help others but places a lower emphasis on personal advancement. Personal relationships are more valued by the Chinese people than work ethics. To the Chinese, the true meaning of life lies in simple life and harmonious social relationships."
>
> "The demand and responsibility of the workplace relationships come before the task achievements, so maintaining peace and harmony in hiring, firing and recruiting staff is very important," said HR Director of Siemens.
>
> An executive from Alcatel said, "***Managing culture and HRM alignment to help build a customer-focused and market-driven organisational strategy is the critical success factor for MNCs in China.*** More specifically, Alcatel need to invest in employee skill development, especially individualised training to fit the employee's learning style, executive succession, and leadership development; design performance and reward practices to support business priorities; encourage

Chinese cultural experiences; incorporate technology for developing and planning HR strategy."

A senior executive from Siemens elaborated, "Since HR capability building is so important, we have found it necessary to employ very senior HR managers who have system-thinking mindset to establish China-wide policies on recruitment, compensation, training, and development."

Figure 16 System perspective thinking for human resource management



(Source: Siemens China company internal report, 2005)

- Need to find the way to link the strategy to the individual employee.
- Stress the importance of a carefully thought out selection and hiring process; identify competent candidates and accurately match them to the task.
- Ensure employee commitment, invest in training and development, link customer-focused behaviours with rewards, and manage international cultural differences.
- HR managers require a high level of understanding of the complexity, fragility, and uncertainty nature of the customer-focused and market-driven strategy, and put the efforts to reach for it.

A crucial success strategy for MNCs is the ability to shape a distinctive and unique Chinese corporate culture which embodies the core values that have made the companies successful operations globally. Interviews with the top executives in China indicated that those MNCs which were able to develop unique corporate ethos

were likely to succeed in hiring the best managers and in retaining their most competent employees.

> The Chairman of Siemens Shanghai Mobile Communications concluded, “If a MNC employed someone who didn’t understand China, who was not willing to cooperate with the intimate human relations, and who was not sensitive to Chinese culture, the business would be doomed to failure.”

5.6 Effective Marketing Strategy

5.6.1 Create good Chinese brand name

Operating within a highly competitive global economy is an exacting task and brands of all shapes and sizes are looking to the overall brand experiences as the key point of differentiation and competitive advantage. According to Kodak's Senior Executive of Corporate Strategy, bringing a brand-centric mindset into the daily life of a business is a complex undertaking. Brands that focus on the process without paying real attention to the people and culture behind it could fail. Managing the blend of local and global identities become very important. Choosing the appropriate Chinese characters for the brand name, which is consistent with MNCs global brand recognition, is a successful strategy for winning the China market.

Kodak's Asia Region Vice President informed another key success factors for the one-billion-dollar project in China as follows:

- Kodak is the leader in the industry. Its brand image is number one in China with a good track record.

- Kodak's first mover advantage provided it with extra Chinese support and its high profile nature provided an extra incentive to ensure the investments were profitable.

> Alcatel's Executive Vice President of Domestic Service & Marketing mentioned, "We are well aware of the power of brand names. Strong brands can open new markets and increase the share earnings for more opportunities. Choosing the perfect Chinese name for the brand is a key part of winning the Chinese market."
>
> Alcatel's Senior Executive of Strategy remarked, "The first issue we faced when registering a local language trade mark in China was selecting a phonetically accurate phrase that presented positive connotations in Chinese. We wanted to choose a phrase that was closely linked with our business, and was consistent with our global brand recognition and reputation. Using the same Chinese trade mark consistently and uniformly throughout Chinese speaking societies, such as the Mainland China, Hong Kong, Taiwan and Singapore; will help us cut costs in

labelling, advertising and other marketing activities. It also helps us build a stronger brand presence."

Alcatel developed a Chinese brand name 阿尔卡特, "A Er Ka Te", which means "number one and special" in Chinese. It sounds similar to its own foreign language name, and it also makes the reference to the brand's superior function and good quality.

A good example of a clever brand name is Coca-Cola 可口可乐. The company chose the characters, pronounced "Ke Kou Ke Le" in Mandarin which means "to fill with joy, happiness in the mouth". Pepsi 百事可乐 followed the similar trend when they translated their Chinese brand name as "Bai Shi Ke Le", meaning "everything makes you happy". The Chinese characters used by Kodak 柯达 "Ke Da" (reliable and express), Canon 佳能 "Jia Neng" (excellent ability), and IKEA 宜家 "Yi Jia" (very suitable and favourable for the family), all have very positive connotations.

Another clever branding strategy is the Chinese name chosen by database and business application MNC Oracle 甲骨文. Its pronunciation "Jia Gu Wen" sounds nothing like Oracle but can be translated as "writing on a tortoise shell". The Chinese practice of writing and recording on shells dates back more than 3000 years and it seems the most advanced way of storing information and fortune telling.

A senior executive from Kodak concluded that the best Chinese brand names create an image of the product's quality and value; are easy to pronounce, recognise, and remember; are perceived by Chinese customers as their friends; and do not carry negative meanings or connotations in the Chinese language.

5.6.2 Effective brand communication is essential

The CEO of Siemens Shanghai Mobile Communications stated, "Although the Chinese market is still relatively new, it is certainly not easily negotiable and market difficulties are often underestimated both in the more abstract area of marketing and effective brand recognition. On the one hand, doing things right in Chinese circumstances should help MNC maintain and increase its market share.

On the other side, managing to implement marketing on brand communication should give MNC the best chance of succeeding."

The Executive Vice President of Siemens identified the following:

- Brand communication. For a MNC, it typically means coming in at the top with a premium name and then moving down into the middle segments with lower priced variants. In China, branding strategies have to be different, especially in the lesser developed cities and rural markets, where price remains the major criterion for the purchases. It is possible that the development of brand communications, particularly in the mass media, will ensure the brand acceptance by the consumers.

- China is a brand building market. Do not be tempted to go down guerrilla warfare which implies the waging small, intermittent attacks to harass and demoralise the opponent and eventually secure permanent footholds. These tactics may achieve rapid results but they probably will not prove sustainable.

- Develop a corporate strategy focused on Chinese brand-name-building and long term brand communication marketing, not short term sales.

- The truly innovative and exciting experiential brand communication will enhance the MNC's reputation in China.

- Work on developing consumer insights: What do Chinese customers want? How is the different from other markets? How can it be capitalised?

"Most of these observations are little more than common sense. But the trick is in the application; and the importance is to get a few key things right initially rather than trying to do everything at once," added Executive Vice President of Siemens.

As Kotler (2003) indicated that the most valuable brands have a brand equity that is considered an important company asset and that must be carefully managed. A brand is essentially a company's promise to deliver a specific set of benefits and services consistently to the buyers. High brand equity provides a number of competitive advantages:

- The MNCs will have more leverage in bargaining with business partners because customers expect them to carry the brand.
- The brand will offer the MNCs some defence against price competition because the brand holds the high perceived quality.
- The MNCs will launch the extensions more easily because the brand name carries high credibility.

5.6.3 Emotional marketing is a strategic movement

Kodak focused on “Two-E & Two-T” strategy in China. These are “extension” and “expansion”, as well as “total solution” and “total satisfaction”. (Kodak China, 2004a)

> According to Kodak’s Senior Executive of Corporate Strategy, “the successful MNCs have become increasingly aware of the need to create value for their customers in the form of satisfactory experiences - managing the total customer experience. The clues that make up the customer satisfactory experience fit into two dimensions. The first concerns the actual value of the goods or services; the second concerns the emotions and includes the sights, tastes, and textures of the goods or services. MNCs shall manage the emotional component of experiences with the same rigidity they bring to the management for the value of goods and services.”

The way to begin the effort is by talking to customers about their experiences in order to gain an in-depth understanding of the consumer requirements; then developing and enhancing the customer experience, and keeping customers to feel recognised, reassured, and engaged.

> Kodak’s Asia Region Vice President said, “The emotional component is acting as a bridge between the customer satisfaction and customer loyalty, because emotional bonds between companies and customers are very difficult for competitors to copy. MNCs are more efficient and effective when they combine value and emotional benefits in their product range.”

5.7 Chief Executive's Long-term Commitment

According to Kodak's Senior Executive of Corporate Strategy, ***"Chinese culture determines the leader's individual role is more important than team-work spirit."***

> "There can be no doubt that the success of a MNC depends largely on the quality of its leadership. The quality of a MNC's leadership determines the quality of the MNC itself. Successful leaders anticipate change, vigorously exploit opportunities, motivate their followers to higher levels of productivity, correct poor performance, and lead the MNC toward goal attainment," commented Alcatel's Senior Executive of Strategy.
>
> Kodak's Asia Region Vice President elaborated, "Owing to the static growth in the photo-film markets of North America, Europe, and Japan, Kodak's former CEO Fisher, foresaw substantial investment in emerging markets as the only means by which Kodak could continue to develop its business model and his bold corporate strategy focused specifically on the Chinese market. Since the photography business was highly characterised by volume and price consideration, local production in what was becoming one of the world's most competitive manufacturing environments would greatly reduce Kodak's costs. Fisher knew that China was the place to be in. Under Fisher's leadership, Kodak became inspired to create a competitive advantage by serving its Chinese customers in a world-class way. Fisher's personal long-term commitment to China convinced the Chinese central government that Kodak was very serious about doing business in China; and this drove the successful one-billion-dollar project in China."

Why is leadership so important to a MNC's success? An executive from Alcatel proposed that the answer lies in the need for coordination and control. The MNC in itself is a coordination and control mechanism which is governed by rules, policies, and authority hierarchies, all of which facilitate coordination and control. Leadership contributes toward integrating various job descriptions, coordinating communication between organisational sub-units, monitoring activities, and controlling deviations from standard. No amount of rules and regulations can replace the experienced leader who has the ability to make rapid and decisive decisions.

> According to Siemens' Executive Vice President, "the national culture is certainly an important factor determining which leadership style will be most effective." The Chairman of Siemens Shanghai Mobile Communications commented, "In Chinese culture, personal relationships seem to be more valuable than teamwork values. Although leadership is increasingly taking place within a team context, the challenge for MNCs is to find the appropriate executive who is an effective leader as well as having an intimate with knowledge of Chinese culture. Effective leader must have the ability of mastering the balance of knowing when to leave the team alone, and when to intervene. The development of strength based organisational culture begins with strong and positive leadership, which will yield high performance and profitability."

Interviews with the President of Alcatel Shanghai Bell, Alcatel's General Manager of Fixed Network Group, Alcatel's General Manager of Mobile Network Group, Alcatel's General Manager of Private Network Group, Kodak's Asia Region Vice President, and Chairman of Siemens Shanghai Mobile Communications, all suggested that the following leadership style is the successful strategy for MNCs to adopt for doing business in China.

The successful executives should combine two key aspects. In the first instance, they should be employee oriented leaders, who emphasise interpersonal relations, take a personal interest in the needs of their subordinates, and accept individual differences among members. Similar conclusion was noted by Cartwright (1960). In the second instance, they should be generally considered consistent and unwavering in their decisions. These two aspects when combined, will result in higher productivity and greater job satisfaction, better motivation and increased profitability.

According to the interviews with top executives, the author derives and summarises the key characteristics of successful executives of MNCs in China as follows:

- Self-confidence: having complete confidence in one's judgement and decision-making (Preffer, 1992).
- Charisma with emotional intelligence: being more flexible and adaptive in response to stress and change; and better able to develop strong working relationships to gain respect and trust.
- Inspiration: be a good communicator; provide, articulate and convey a strong sense of vision in understandable ways.

- Unsurpassed personal commitment, willing to take on risks and have strong corporate vision; seek out and appreciate the positive aspects of difficult situations.
- Emphasise interpersonal relations; give individualised consideration to employees.
- Environment sensitivity, be able to make realistic assessments of the environmental constraints and resources needed to achieve goals.

As excellent leadership was crucial in giving Siemens a sustained boost in the Chinese market, Dr. Richard Hausmann was appointed as President and Chief Executive Officer of Siemens Ltd., China on January 1, 2005 to develop local operations into a cornerstone of Siemens global business. Hausmann brought with him a proven track record in successfully growing the Siemens medical solutions business globally and in China through a particular focus on customer benefits, network relationship, innovation, and cost competitiveness.

> "It is truly a privilege to be a part of China's future development," said Hausmann. "I am very committed to drive the growth of our local organisation and together with our local partners and customers build lasting partnerships for joint success." (Siemens China, 2005)

According to Alcatel's Senior Executive of Strategy, the CEO's long-term commitment can be translated into a powerful source of strategic action that is particularly important when making investment decisions. CEO's role is an important factor in clarifying the MNC's strategic objective in China and subsequently building up the market share quickly.

> A senior executive from Kodak stated, "A CEO's personal long-term commitment often contributes to developing strong relationships with the Chinese government which is critical for subsequent investment directions; since the involvement of CEOs in the strategic formation and implementation in building up the market is highly appreciated by the Chinese government and will be conducive to further successful negotiations."

5.8 Other Findings

The interviews and discussions with the leading MNCs have also identified the following strategies for successful business development in the Chinese economy.

5.8.1 Establish a "China Centre"

According to Alcatel Shanghai Bell's President, China is now a fulcrum for telecoms markets globally, in which there is not only a considerable domestic appetite for telecoms technology but also where global products have an increasingly important node of efficiency. This makes the strategy of Alcatel, as a foreign equipment maker, in China extremely important for its global success.

> Alcatel's Senior Executive of Strategy commented, "***China is not simply a large emerging market; it is the globally pre-eminent market. Establishing a single and strong 'China Centre' with a clear mandate to lead strategy development and implementation will help achieve the effective coordination of external relationships and investment decisions.***"

Siemens China's Executive Vice President argued that presenting a consistent and coordinated approach to China's powerful bureaucracy is important, since there is still a top-down allocation of strategic resources controlled by the central government. Chinese governors and ministry officials do not appreciate having to deal with multiple delegations from the same MNC. Kodak's Asia Region Vice President said, "We have found that Chinese officials respond well if they are aware of the overall scale and purpose of our commitment to China, not just through unit-by-unit initiatives."

According to Alcatel's Senior Executive of Strategy, government relations and negotiation support are two key aspects of business development for the large MNCs.

> "***During the negotiation process, it is important in the Chinese culture to start first with key principles and to follow these later with the details, usually not focus on the toughest issues first.*** If a mutual understanding could be established early based on the principles, then success would be sure to follow.

> Chinese usually skirt the toughest issues in favour of establishing a common foundation," elaborated Kodak's Senior Executive of Corporate Strategy.

Having the China Centre's coordination with Chinese authorities, especially with central and provincial government officials, ensures that MNCs deliver consistent corporate messages at every level.

> Alcatel's Senior Executive of Strategy commented, "China Centre can arrange occasional and effective top-to-top meetings to keep strong mutual benefit ties, further learn about business opportunities and policy development, and communicate corporate interests. China Centre enables the MNC to integrate the control of different business units and guarantee the strategy implementation."

From the interviews, Siemens China's top executives noted that the large MNCs are now realising the importance of focusing international expansion in selected priority countries, and making huge efforts to build a long-term business relationships in those markets. China also calls for such an approach, which can be achieved through consistent and smooth corporate coordination. A strong "China Centre" will be essential in this respect.

Deriving from the interviews with top executives of Alcatel, Kodak and Siemens, "China Centre" should have some common objectives:

- Articulate the clear corporate vision for the MNCs in China and be responsible for developing the overall China strategy.
- Participate and integrate Chinese operations into the MNCs' global decision making.
- Set up business development support functions, including managing government relations and negotiation.
- Realise synergies by coordinating different business units inside the MNCs.
- Led by a powerful chief executive in China.

5.8.2 One strategy does not fit all

As one of the biggest emerging markets, China's enormous population and rapid increase in consumer spending have attracted many MNCs. According to Kodak's Senior Executive of Corporate Strategy, the misconception of China as a homogeneous market often leads to difficulties in assessing market demand and enacting effective strategies.

> Kodak's Senior Executive of Corporate Strategy said, "In reality, the consumers from various regions are significantly different from one another in terms of purchasing power, attitudes, lifestyles, media use, and consumption patterns."

> Siemens China's Executive Vice President stated, "Experienced and successful MNC, such as Siemens, knows that the same offering won't work everywhere in China, and one strategy does not fit all. MNCs need understand and adapt to the local market conditions, then enact effective and sustainable marketing strategies."

China is geographically enormous – over 1,300 million people spread over a vast land area. In the last two decades, the Chinese government has reformed the economy, encourged market forces, and opened one industry after another to foreign investors. As the admission to the World Trade Organisation (WTO) in 2001, China has reduced tariffs, revised customs laws, and strengthened intellectual property protection. Global companies such as Coca-Cola and Kodak have established significant corporate presence in China with multiple production sites and distribution networks that can reach even the most remote parts of the country (Yan, 1998).

While residents in China's coastal areas and major cities are increasingly more affluent, people in rural areas are still living a subsistence type of life style. Following the "open door" policy, coastal areas of China were the first to attract outside investment and have benefited the most from economic reforms. However, the vast interior provinces are lagging behind in economic development.

According to Alcatel's Senior Executive of Strategy, in China there are large geographic areas with significant regional disparities in economic development, market infrastructure, distribution channels, and consumer purchasing power, as well as multicultural consumer groups. This often poses some difficulties for MNCs to

adopt a national uniform approach to the local markets. As MNCs continue to increase their stake in China, understanding of regional differences, the diversity among consumers, and its implications for marketing strategies are essential for success in the smooth expansion and efficient operations.

Through the interviews with top executives of Alcatel, Kodak, and Siemens, the author derived the regional differences of China as follows:

Figure 17 China's conglomerated markets explained by regional differences



(Source: McKinsey Global Institute, 2006)

Regional markets in the South and East of China - centred respectively in Hong Kong and Shanghai represent China's most prosperous markets. They are more advanced economically and have more affluent consumers than hinterland provinces. People in these regions are well informed and sophisticated, and are the pioneers for the rest of China.

- South China was the first to attract foreign investment with its four original special economic zones, and has become very outward oriented. In recent years, it has embarked on transforming itself from labour intensive operations to high tech manufacturing. Guangdong has become more integrated with the

economy of Hong Kong. Kodak China (2004a) pointed out the consumers in this area, about 7 percent of the China's population, are among the most prosperous in China. They have long been exposed to new and luxury Western brand goods and tend to emphasise conspicuous consumption (Ariga, 1997).

- East China, around the mouth of the Yangtze River, consists of the municipality of Shanghai and the provinces of Zhejiang and Jiangsu. This regional market is highly urbanised. The most prosperous in Chinese history, this region is productive in both agriculture and industries. It is China's industrial powerhouse, boasting more than 30 percent of the country's industrial output. Known as the "head of the dragon," Shanghai is the industrial, commercial and financial centre of China and the gateway to the 200 million consumers in East China. Shanghai is also the regional cultural nucleus, well known for holding the aspiration of having the best amenities and consumer goods to enhance the quality of life. People in this regional market are the most innovative and cosmopolitan, setting trends in fashion and lifestyles.

- North China, including Beijing, is historically the geopolitical base of China. Close to the country's centre, with access to key government agencies, this region is making tremendous investment in industries such as computer network technology and pharmaceuticals. Beijing, as the capital city of China, represents the culture of North China – attaching great value to the Confucian doctrines of hierarchy, stability and control. People here are relatively conservative.

- Central China is the heartland of China with heavy emphasis on agriculture. This region is relatively less developed due to its landlocked location. In recent years, the provinces in this region have been trying to energise their economies and catch up with coastal areas. With limited purchasing power, consumers in this region largely follow the trends in major metropolitan and coastal areas.

- Southwest China, headed by the new municipality of Chongqing, is expanding its economic base. Its subtropical forest in the far south is as exotic as the Shangri-La, attracting a huge influx of tourists every year. With rich

endowment of natural resources and better transportation infrastructure, this region has great potential for the consumer market. Many of the Chinese ethnic minorities reside in this area, making it the most culturally diversified region of China. Relatively isolated from other parts of China, people here have a slower lifestyle and are less exposed to foreign products and services.

- Northeast and northwest of China remain the untapped markets which are still waiting to be explored. Northeast China is reliant on heavy industries such as mining and machinery manufacturing. In the far north of China, this region has the longest winter, limited agricultural output, and little variety in available food products. People here are still struggling with the remnants of the old command based economy and have been slow in reforming to an open market.

- Among the high mountains and expanding desert, Northwest China has the largest geographic area, but very limited arable land and the least developed economy. It is relatively backward and poor, and lags far behind those developed areas and even further behind the western countries.

According to a mobile communication's executive, although China's increasing openness, integration into the world economy and government effort to close the regional gaps, local market disparities in the country are still persistent. Discrepant local income, various cultures and lifestyles, and diverse consumption patterns result in different levels of consumer responsiveness to marketing efforts. The distinctive characteristics of people in different regions can assist MNCs in determining the appropriate target market. Depending on the product category and its price, MNCs can estimate the effective size of the target market and introduce a more representative marketing mix.

> Kodak's Senior Executive of Corporate Strategy said, "People in prosperous coastal cities and major metropolitan areas are considered the trendsetters and opinion leaders for the rest of China. This location allows MNCs to identify the upcoming consumer trends in a timely fashion and respond to the changing needs of consumers rapidly and cost-effectively. The successful MNCs showed that they have constantly monitored their progress, evaluated and modified their strategies as their businesses expand and prosper."

According to a senior executive from Alcatel, when the MNCs attempt to move beyond coastal areas into inland regions, to expand the local markets, the accurate forecasting of demand potential as well as the implementation of viable strategies is critical to maintaining competitive advantage. Just as the famous Chinese military strategist Sun Tze said over 2000 years ago, “Never engage in battles without good preparation.” (Wee, 1996). The interviews revealed that the MNCs need take cognizance that income and wealth have a direct impact on demand for most products in the less developed and untapped markets. It may take longer and require more resources for the MNCs to penetrate the inland regions and achieve investment return.

> Alcatel’s Senior Executive of Strategy stated, “Therefore the joint venture entry strategy with strong local partners may help MNCs to reduce the risks and improve performance in these less developed markets.” “When the MNCs decide to enter these regions, effective strategies such as product introduction, media planning, advertising appeal, and distribution intensity are needed to be considered carefully before escalating costs jeopardise the company’s long term prospects in China,” added Alcatel’s Executive Vice President of Domestic Service & Marketing.

> According to Alcatel’s Executive Vice President of Domestic Service & Marketing, “Depending on the product category and available resources, MNCs may employ the differentiated strategy targeting several regions at the same time to deliver a line of products at different quality and price points appealing to the segments. MNCs shall focus the overall market trend while paying attention to the regional differences.”

Through the interviews with top executives of MNCs, the author strongly agreed with Prahalad and Lieberthal (1998) argument: “the MNCs’ decisions must be based on intimate knowledge of the marketplace and consumers instead of intuition”. MNCs should focus on enhancing the value to local customers, identify the best practices by leveraging their experiences and knowledge in China and adopt more effective and diversified approaches to the Chinese market. MNCs should develop a realistic understanding of opportunities and risks in each regional market and to devise sustainable strategies that contribute to long term superior performance.

Almost all the executives during the interviews emphasised the fact that ***“China is so important and strategic for us; we have to be in China”***.

Alcatel Shanghai Bell's President said, "Investing in China is a long-run strategic game." Thus, MNCs need to strike a balance between a global orientation and local conditions so that they can maximise market coverage, minimise risk exposure, and optimise their overall performance for sustainable success in China.

CHAPTER SIX: CONCLUSION

6.1 Value of the research

As China's economy and business landscape have been transformed fundamentally over the past years, so too are MNCs thinking differently about China. China is becoming the world's most important emerging market with particular Chinese characteristics, thriving on globalisation. It is essential for MNCs to effectively engage in China's strategies and perfect their strategic alliances in mission statements.

A number of previous studies have focused on the MNCs' management decisions and the complexities of MNCs investment in China. This paper has attempted to make significant contributions to the MNCs' business practices in China and to the published literature. While some of the successful strategies in this paper confirmed earlier research, others are presented as being author originals.

6.2 Results of proposition 1 analysis

Reject Proposition 1: The Wholly Foreign-Owned Enterprises (WFOEs) is the preferred market entry strategy for MNCs in China.

Contrary to proposition 1, the author found that there was actually no preferred market entry strategy for MNCs in China. Some market entry strategies, such as exporting and licensing/franchising, are associated with low levels of control over operations and marketing, but are also associated with reduced levels of risk. In contrast, other entry alternatives such as joint ventures and WFOEs involve more control, but entail additional risks. Joint ventures and WFOEs are more complex and time-consuming than the other two alternatives, but probably yield a better overall penetration into Chinese market.

Despite the general view that exporting is a low commitment form of market entry strategy, there can be a wide spectrum of commitment and control of the exporting

companies. This is because some exporting arrangements simply involve selling to an intermediary such as an export trading company, and involve forging relationships with distributors. Exporting involves production in the home country, while the other market entry strategies involve production in the host country. When a MNC approaches the Chinese government about licensing, a joint venture, or WFOE, the MNC acknowledges that it believes there are advantages associated with Chinese production that would not be afforded by exporting.

The research findings identify the following four factors which play a major role in market entry strategic decisions for the MNCs in China:

a) The level of resource commitment required by MNCs to the Chinese market
b) The stake of Chinese government in attracting the foreign investment
c) The perceived level of risk associated with the investment in China
d) The intensity of competition for MNCs investing in China

There are many different regions in China at varying levels of sophistication, and as a result, there is not only one market entry strategy in China. The MNCs having lower market knowledge may tend to reduce the strategic risk by entering Chinese market through licensing agreements or joint ventures. Meanwhile, other MNCs may follow WFOEs market entry strategy in order to acquire entire business control to enhance investment and productivity, as well as to protect their intellectual property rights. To be successful in today's dynamic global business environment, MNCs need to analyse and combine different market entry strategies to fully penetrate the Chinese market.

6.3 Results of proposition 2 analysis

Accept Proposition 2: Organisational adaptation to the local environment is a critical strategic movement for MNCs in China.

Local interaction is a strategic option for MNCs. Borrowing from domestic banks, moving production facilities inland, sourcing inputs from within China and expanding local product development, are all localisation strategies that are employed in an effort to reduce operational costs.

Research has shown in recent years that MNCs have become much more embedded within local business networks in China than previously. This is the result of several developments, including: the desire of MNCs to localise supplies and so reduce the need for more expensive imports; the increasing confidence with which the more established MNCs approach the market; and the growth of the Chinese own corporate sector. As a result, the organisational adaptation to the local environment is a critical strategic movement for MNCs in China.

6.4 Results of proposition 3 analysis

Partially accept Proposition 3: Key success strategies for MNCs investing in China require the following:

- Build trust and develop good governmental network relationships ("guanxi")
- Effective and efficient cross-cultural management in human resource
- Create good Chinese brand name and image
- A chief executive's long-term commitment and top management's buy-in

Building and developing good government network relationships ("guanxi") is a requirement for a successful strategy for MNCs in China. The effective ability to develop and maintain guanxi will make "success breeds success". Historical good practice translates into a favourable initial stock position of a resource, which in turn facilitates further resource accumulation. Similarly, existing guanxi facilitates the creation of new guanxi. It refers to the quality of relationships and focuses on mutual assurance, understanding and obligations between the contracting parties.

Appreciation of Chinese culture and HRM alignment to help in building a customer-focused and market-driven organisational strategy is the success factor for MNCs in China. A success strategy for MNCs deals with shaping a distinctive and unique Chinese corporate culture which embodies the core values that have made the companies successful operations globally. MNCs' HRM needs to strike a balance between accommodating China's cultural diversity, along with the tendency to stress the differences between China and the West, and in promoting strong employee identification with their own management style and values.

Choosing the appropriate Chinese characters for a brand name, that is easy to pronounce and recognise by Chinese customers; does not carry any negative meanings or connotations, and is consistent with the MNCs global brand recognition, is a successful strategy for winning the Chinese market.

The national culture is certainly an important factor determining which leadership style will be most effective. The research suggests that within Chinese culture, individual role, such as leadership, is more valued and important than team work. The leader's long-term commitment can be translated into a powerful source of strategic action that is particularly important in making investment decisions in China. A CEO's personal long-term commitment often contributes to developing strong relationships with the Chinese government which is critical for subsequent investment directions; since the involvement of CEOs in the strategic formation and implementation in building up the market is highly appreciated by the Chinese government.

The research also identified some **new findings** on successful strategies for MNCs in China: establishing a "China Centre" and adopting diversified corporate approaches to the Chinese markets.

Establishing a single and strong MNC's "China Centre" with a clear mandate to lead strategy development and implementation will help achieve the effective coordination between external relationships and investment decisions.

Since Chinese consumers from various regions are significantly diverse in terms of purchasing power, attitudes, lifestyles, media use, and consumption patterns; the experienced and successful MNCs know that a single strategy does not apply to all. Successful MNCs have focused on enhancing value to local customers, identifying the best practices by leveraging their experiences and knowledge in each regional market and by adopting more effective and diversified approaches to the Chinese market in order to devise sustainable strategies that contribute to long-term superior performance.

For these reasons, the author has partially accepted proposition 3.

6.5 Implications for MNCs in China

This research was based on the large body of literature and business practices dealing with MNCs within the Chinese market, which was used in framing the research propositions, designing the interview schedule, structuring the data collection and in data analysis.

The author adopted qualitative research techniques conducted in the interpretive paradigm, using in-depth interviews with three successful leading MNCs in China. The research concluded with the key findings and useful guidelines for potential investors.

The research found that appropriate market entry mode, adaptation to local environment, developing guanxi to build trust and credibility, cross-cultural management in HR, creating good Chinese brand name, effective brand-communication and emotional marketing, top leader's long-term commitment, and establishing a "China Centre", as well as diversified corporate approaches to Chinese markets are successful strategies for MNCs investing in China.

In reference to the dynamic investment environment and on-going economic, social, and political transformations in China, the MNCs should realise that it is quite difficult to come up with one single formula to facilitate all the successful strategies in China. One single strategy does not fit all. The MNCs should develop strategies that combine global strategic perspectives with China's specific cultures and business environments to be successful for their operations in China.

6.6 Suggestions for further research

This research focused on the existing MNCs investing in China with a basis of current Chinese business environment, and identifying the success strategies for the MNCs. Although all the interviewees held executive and managerial positions, the research findings have still provided useful and practical strategic information for MNCs investing in China.

The research has therefore laid a foundation for developing:

- a quantitative questionnaire survey for MNCs in China in the future,
- a method for looking at other industries,
- a means of performing longitudinal studies,
- a way to compare the correlation between MNCs' financial performance and their strategies.

God bless!

REFERENCES

Aaker, J.L. & Sengupta, J. (2000). Additivity versus attenuation: The role of culture in the resolution of information incongruity. *Journal of Consumer Psychology*, 9(2), p. 67

Alcatel (2004), *Alcatel Sustainable Development Report*, year 2004

Alcatel (2005a), *Alcatel (China) Internal Report & Mission Statement*, year 2005

Alcatel (2005b), *Alcatel Shanghai Bell Annual Report*, year 2005

Alcatel (2006a), *http://www.alcatel.com/about/*
[Accessed on 26 April, 2006]

Alcatel (2006b), *http://www.alcatel-sbell.com.cn/alcatel_china/index_english.htm*
[Accessed on 26 April, 2006]

Anderson, E. & Gatignon, H. (1986). "Modes of foreign entry: a transaction cost analysis and propositions", *Journal of International Business Studies*, Vol. 17, No.1, p. 1-26

Ariga, M., Yasue, M. & Wen, G.X (1997). "China's Generation III: viable target market segment and implications for marketing communication", *Marketing and Research Today*, p. 17-24

Barney, J. (2002). *Gaining and sustaining competitive advantage*. New Jersey, Pearson Education Inc.

Bond, M.H. (1998). Finding universal dimensions of individual variation in multinational studies of values. *Journal of Personality and Social Psychology*, 55, p.1009-1015

Brandenburger, A.M. & Nalebuff, B.J. (1995). "The right game: use game theory to shape strategy", *Harvard Business Review*, July-August, p.57-71

Cartwright, D. & Zander, A. (1960). *Group Dynamics: Research and Theory*, 2nd edtion, Elmsford, NY: Row, Paterson.

Chandler, A.D. (1962). *Strategy and Structure*, Cambridge, MA: MIT Press

ChinaDaily (2004). "Bill Gates to Visit China", http://www.chinadaily.com.cn/english/doc/2004-06/14/content_339313.htm [Accessed on 15 October 2005]

Christensen, C.R., Andrews, K.R., Bower, J.L., Hamermesh, G., and Porter, M.E. (1982). *Harvard Business Policy: Text and Cases*, 5th Edition, Homewood, IL: Irwin, p. 164

Creswell, John W. (1998). *Qualitative Inquiry and Research Design: Choosing among five traditions*. Sage Publications.

Czinkota, M, Ronnenken (1995). *International Marketing*, 2nd ed, Dryden Press, Chicago, IL.

Davis, A.S. (1997). "Handling uncertainty: do managers in the People's Republic of China, the US, and the UK differ?", *Academy of Management Executive*, Vol. 11, No. 1, p. 121-2.

Dinges, N., and Baldwin, K.D. (1996). Intercultural competence: A research perspective. In D. Landis and R.S.Bhagat, (Eds.), *Handbook of intercultural training*, 2nd edition. Thousand Oaks: Sage Publications. p. 106-123.

Duffey, T. (1999). Developing a Cultural Perspective in Community mediation, *Mediation Magazine*, Autumn, p. 37

Dymsza, W.A. (1972). *Multinational Business Strategy*, McGraw-Hill, Inc. p. 205-220

Economist Corporate Network, (2004). "China Retail and Distribution: Changes for the better", Industry Report, *The Economist*

Economist Intelligence Unit (EIU), (2004). “EIU white paper: Multinational Companies in China”, *The Economist*, Hong Kong

Fagre, N. & Wells, L.T. (1982). "Bargaining power of multinationals and host governments", *Journal of International Business Studies*, Vol. 13, No.3, p. 9-23

Gomes-Casseres, B (1990). "Firm ownership preferences and host government restrictions: an integrated approach", *Journal of International Business Studies*, Vol. 21, No.1, p. 1-21

Gross, A. (1995). “China Market Entry Strategies”, Pacific Bridge, Inc. *http://www.pacificbridgemedical.com* [Accessed on 09 September 2005]

Hill, C.W., Hwang, P. & Kim W.C. (1990). “An eclectic theory of the choice of international entry mode”, *Strategic Management Journal*, 11, p. 117-128

Hofstede, G. (1980). *Culture’s consequences: International differences in work-related values*. Newbury Park, CA: Sage

Hofstede, G. (2001). *Culture’s consequences: Comparing Values, Behaviours, Institutions and Organizations across Nations*, second edition, Thousand Oaks, CA: Sage

Hofstede, G. (1993). *Cultures and Organisations: Software of the Mind*, Chapter 1, McGraw-Hill, p. 5

Hofstede, G. (2005). *Cultures and Organisations: Software of the Mind*, Revised and Expanded 2nd Edition, McGraw-Hill

Hu, M.Y. and Chen, H. (1996). “An empirical analysis of factors explaining foreign Joint Venture performance in China”, *Journal of Business Research*, New York, Vol. 35, Issue 2, p. 165-173

Kaplan, Robert S. & Norton, David P. (2001). *The Strategy Focused Organization*: How Balanced Scorecard Companies Thrive in the New Business Environment, Harvard Business School Press

Kay, J (1993). *Foundations of Corporate Success*, Oxford University Press, Chapter 3.

Killing, J.P. (1983). *Strategies for Joint Venture Success*, Croom Helm Ltd, Provident House, Beckenham

Kodak China, (1998). Kodak's China Moment, *Asiaweek*, 01-May-1998

Kodak China, (2004a). *Kodak (China) Company internal survey 2004*

Kodak China, (2004b). Kodak in China:Not Black-and-White, *China Daily*, 10-May

Kodak China, (2005). *Kodak (China) Company sustainable and development report*

Kodak China (2006), *http://wwwcn.kodak.com/CN/zh-cn/corp/corp_home.jhtml* [Accessed on 26 April, 2006]

Kolb, D.A., Rubin. I.M., McIntyre J.M. (1973). *Organizational psychology: an experiential approach*, Prentice Hall

Kotler, P. (2003). *Marketing Management*, 11th Edition, Prentice Hall

Kotter, J.P. (1995). "Leading change: why transformation efforts fail", *Harvard Business Review*, March- April, p. 59-67

KPMG, (2004). *China Investment Analysis*: SCI China and Hong Kong

KPMG, (2005). China: "Intellectual Property Rights - Protecting assets in the information, communications and entertainment market", *Industry Report exclusively for KPMG China and Hong Kong*

Kumar, V. & Subramaniam, V (1997). "A contingency framework for the mode of entry decision", *Journal of World Business*, Vol. 32, No.1, p. 53-72

Leedy, P.D. & Ormrod, J. E. (2001). *Practical Research: Planning and Design*. New Jersey: Merrill Prentice Hall

Lewis, G (1999). *Strategic Management, Australian and New Zealand, concepts, context, and cases*, second edition, Prentice Hall, Chapter 5

Lewis, R.D. (2000). *When Cultures Collide*, Nicholas Brealey Publishing

Loke-Khoon, T. (2005). Winning the Chinese name game, *Managing Intellectual Property*, London: May 2005.

Lu, L., Robin, G., & Kao, S.F. (2001). Cultural Values and Happiness: an East-West Dialogue, *Journal of Social Psychology*, August, Vol 141, Issue 4, p.477

Maignan, I. & Lukas, B.A (1997). "Entry mode decisions: the role of managers' mental models", *Journal of Global Marketing*, Vol. 4, p. 7-22

McCarthy, J (1975). *Basic Marketing: A Management Approach*, Irwin, Homewood, IL, p.98

McKinsey Global Institute (2006). *Focus on China*, MGI

Meier, J., Perez, J., and Woetzel, J.R. (1995). "Solving the Puzzle: MNCs in China", *The McKinsey Quarterly*, 22 March

Miles, M.B. & Huberman, A.M. (1994). *Qualitative Data Analysis*. 2nd edition. Thousand Oaks, CA: Sage

Ministry of Education of China, (2004). http://www.moe.edu.cn/
[Accessed on 09 September 2005]

Mintzberg, Henry (1987). "The Strategy Concept I: FIVE Ps for Strategy", *California Management Review*. Berkeley: Fall 1987. Vol. 30, Issue. 1; p. 11

Mintzberg, H., Ahlstrand B., and Lampel J. (1998). *Strategy Safari*, FT, Prentice Hall

MOFCOM (2004). http://www.mofcom.gov.cn/
[Accessed on 09 September 2005]

National Bureau of Statistics of China, (2004). http://www.stats.gov.cn/ [Accessed on 09 September 2005]

Neuman, W.L. (1994). *Social Research Methods: Qualitative and Quantitative Approaches*. 2nd edition. Boston: Allyn and Bacon

Neumann, John von & Morgenstern, Oscar (1944). *Theory of Games & Economic Behaviour*

Newbiggin, L. (1986). *Foolishness to the Greeks* p.3

Newman, K.L. & Nollen, S.D. (1996). Culture and Congruence: The Fit Between Management Practices and National Culture, *Journal of International Business Studies*, 27(4), p.753-778

Ohmae, K (1989). "Managing in a borderless world", *Harvard Business Review*, May/ June, p.152-61

Pan, Y.G. (1996). "Influences on foreign equity ownership level in Joint Ventures in China", *Journal of International Business Studies*, 27(1), p.1

Pan, Y. and Chi, P.S.K. (1999). "Financial performance and survival of multinational corporations in China", *Strategic Management Journal*, 20, p. 359-374

Porter, M.E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*, New York: Free Pess

Porter, M.E. (2005). *Reinventing Strategy*: the New Learning, Winning competitive strategies, Kuala Lumpur, Malaysia, 12th July

Power, D.J., Gannon, M.J., McGinnis, M.A., and Schweiger, D.M. (1986). *Strategic Management Skills*, MA: Addison- Wesley, p. 37- 38

People's Republic of China, Government
http://www.govonline.cn/frontmanger/index.jsp
[Accessed on 09 September 2005]

Prahalad, C.K, & Lieberthal, K (1998). "The end of corporate imperialism", *Harvard Business Review*, Vol. 76, No.4, p. 68-79

Preffer, J. (1992). *Managing With Power*, Harvard Business School Press, Boston, p. 194.

Pye, Lucian, (1992). *Chinese commercial negotiating style*, Quorum Books, New York

Rhenman, E. (1973). *Organisation Theory for Long-Range Planning*, London: John Wiley

Rhinesmith, S.H. (1995). Open Door to a Global Mindset, *Training and Development,* Vol. 49, Issue 5, p. 34

Robbins, Stephen P. (1998). *Organizational Behavior*, 8th edition, Prentice-Hall International

Root, F.R (1994). *Entry Strategies for International Markets*, Lexington Books, Washington, DC.

Roth, K. and Ricks, D.A. (1994). “Goal Configuration in a Global Industry Context” *Strategic Management Journal*, 15, 1994: p.103-120

Rowley, J. (2002). Using case studies in research, *Management Research News*, 25(1), p. 16-27.

Sako, Mari. (1992). *Prices, Quality and Trust: Inter-Firm Relations in Britain and Japan*. Cambridge, UK: Cambridge University Press

Sandler, D.M, Shani, D (1991). "Brand globally but advertise locally? An empirical investigation", *International Marketing Review*, Vol. 9 No.4, p.18-29

Sanyal, R.N., Guvenli, T. (2001). “American firms in China: Issues in managing operations”, *Multinational Business Review*, Fall

Schein, E.(1985). *Organisational Culture and Leadership*

Schindler, P.L. & Thomas, C.C. (1993). “The Structure of Interpersonal Trust in the Workplace,” *Psychological Reports*, October 1993, p. 563- 573

Shane, S (1994). "The effect of national culture on the choice between licensing and foreign direct investment", *Strategic Management Journal*, Vol. 15, No.4, p. 627-42.

Siemens China (2005). *Siemens China company internal report*, year 2005

Silverman, D. (1993). *Interpreting Qualitative Data: Methods for Analysing Talk, Text and Interaction*, London: Sage

Stockport, G (2000). “Developing skills in strategic transformation”, *European Journal of Innovation Management*, Volume 3, Number 1, p.50

Tallman, S.B. & Shenkar, O (1994). "A managerial decision model of international cooperative venture formation", *Journal of International Business Studies*, Vol. 25, No.1, p. 91-113.

Taylor, W (1991). "The logic of global business", *Harvard Business Review*, March/ April, p.90-105

The Chinese culture connection (1987). Chinese values and the search for culture-free dimensions of culture. *Journal of Cross-cultural Psychology*, 18, p.143-164

Thomas, Pollock et al (1999). "Global strategic analysis: Frameworks and approaches." *Academy of Management Executive* 13(1), p. 70-82

Tsang, Eric. (1997). “Can guanxi be a source of sustained competitive advantage for doing business in China?” *Academy of Management Executive*, 12(2), p. 64-73

Vallaster, C. (2001). “Strategy making by multicultural groups: it works if leadership is effective”, *Asia Pacific Journal of Marketing and Logistics*, 13, 3, p. 19

Vanhonacker, W. (1997). “Entering China: An Unconventional Approach”, *Harvard Business Review*, 75(2), p.130 – 140

Vignali, Claudio (2001). “McDonald’s: think global, act local – the marketing mix”, *British Food Journal*, Vol. 103, No. 2, p.97 – 111

Wall, G. (1990). “Managers in the P.R.C.”, *Academy of Management Executive*, Vol. 4 No. 2, p. 19- 32

Waterman, Robert H (1982). “The seven elements of strategic fit”, *Journal of Business Strategy*, Boston, Winter 1982. Vol. 2, Issue 3; p. 69

Wee, Chow-Hou et al. (1996). *Sun Tze: War and Management*. Addison-Wesley Publishing Company, Singapore & New York, p. 17

Wong, Y.Y. and Maher, T.E. (1997). “New key success factors for China's growing market”, *Business Horizons*, May-June edition, Vol. 40, Issue 3, p. 43-52

Wood, E., Whiteley, A. & Zhang, S. (2002). “The cross model of guanxi usage in Chinese leadership”, *Journal of Management Development*, Vol. 21 No. 4, p. 263-271

Woodcock, C.P. et al. (1994). "Ownership-based entry mode strategies and international performance", *Journal of International Business Studies*, Vol. 25, No.2, p. 253-274

WTO (2004). *http://www.wto.org/english/res_e/statis_e/statis_e.htm*
[Accessed on 17 September 2005]

Xing, W.J. (1998). “Shifting Gears: With ambitious government plans struggling to make an impact, the auto sector is facing a major restructuring”, *http://www.chinabusinessreview.com/public/9711/xing.html*
[Accessed on 09 September 2005]

Xinhua, (2005). “China's biggest bank reports 20 percent jump in 2004 profits”, business section on 07th January 2005
http://english.people.com.cn/200501/07/eng20050107_169910.html
[Accessed on 09 September 2005]

Yan, A. & Gray, B (1994). "Bargaining power, management, control, and performance in United States-China joint ventures: a comparative case study", *Academy of Management Journal*, Vol. 37, No.6, p. 1478-517

Yan, R (1998). "Short-term results: the litmus test for success in China", *Harvard Business Review*, Vol. 76, No.5, p. 61-75

Yang, John Z. (1998). “Key success factors of multinational firms in China”, *Thunderbird International Business Review*, Nov/ Dec 1998, Vol. 40(6), p.633

Yang, J.Q. & Lee, H. (2002). Identifying Key Factors for Successful Joint Venture in China, *Industrial Management & Data Systems*, 102/2, pp.98-109

Yeung, I.Y.M and Tung, R.L (1996). “Achieving business success in Confucian societies: the importance of guanxi”, *Organisational Dynamics*, 25:2, p. 54-65

Yin, Robert K. (1984). *Case study research: Design and methods*. Sage publications.

Yin, Robert K. (1993). *Applications of case study research*. Sage publications.

Yin, Robert K. (1994). *Case Study Research: Design and Methods, Applied Social Research Methods Series Volume 5*, Second edition, Newbury Park: Sage.

Appendix A: Interview questions

Name of Multinational Company: _____

Name of Interviewee: _____
Position of Interviewee: _____
Date: _____

Section 1: How do you scope your operations to do successful business in China?

Section 2: What is your opinion on China's current business and investment environment?

a.) Do you think whether or not the business climate in China is conducive to new businesses wanting to invest in China?
b.) In your opinion, what is the key benefit of investing in China?
c.) Have you currently faced any problems regarding investment issues within China?

Section 3: In your opinion, what kind of strategies do you think MNCs shall adopt to do business successfully in China?

a.) How do you perceive the Chinese culture? Do you think cultural differences play an important role in the business operation?
b.) In setting up a business in China, would you recommend a wholly foreign-owned enterprise or joint venture? Please elaborate.
c.) What do you think of Shanghai as an investment destination for MNCs?
d.) How do you perceive the Chinese government's overall policy which regard to new investors? How do you think it will influence the performances of MNCs in China? Have any regulations impacted the performance in your industry?
e.) Do you think it is important to build a good relationship with the government?

f.) In your opinion, how should your marketing change?

g.) How is the efficiency and effectiveness of communication between parent company and subsidiaries within global scope? Is there any conflict? How do you deal with it?

h.) Do you think CEO personal long-term commitment is a success strategy for MNC in China?

Section 4: Have you got any other ideas for strategies or factors that will have an impact on multinational company in China?

Appendix B: Interview roster

Alcatel Shanghai Bell:

Mr. Gerard Dega	President
Mr. Xu Zhiqun	Senior Executive Vice President -Strategy & Technology
Mr. Chen Weidong	Executive Vice President -Domestic Service & Marketing
Mr. Yao Jinming	General Manager -Fixed Network Group
Mr. Teng Songlin	General Manager -Mobile Network Group
Mr. Guan Jingzhi	General Manager -Private Network Group

Eastman Kodak Company:

Ms. Ying Yeh	North Asia Region General Manager, External Affairs, Asia and Vice President
Mr. Weldon Chen	Senior Executive for Corporate Strategy

Siemens China:

Mr. Peter Weiss	Executive Vice President & General Manager of Siemens Communications Group
Ms. Jill Lee Ghim Ha	Senior Executive Vice President & Chief Financial Officer
Mr. Wilfried Meyer	Regional Compliance Officer & Director of Human Resources

Siemens Shanghai Mobile Communications:

Mr. Xu WeiHu	Chairman
Dr. Fan ZhiJian	CEO

The following appendices were compiled by the author based on both the information generated during the interviews and on related documentation that was provided by the interviewees.

Appendix C: Siemens in China

Figure 18 Siemens (China)



(Source: Siemens China, 2005)

1. Twelve-Point Program for Profit and Growth in China

China is a key strategic market for Siemens. Major events like the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai and Asian Games in Guangzhou will be a further stimulus. To participate in this growth and develop all opportunities offered by the Chinese market, the company formulated a future-oriented program called “Twelve Points for Profit and Growth in China” launched in May 2004. ***Key pillars of the strategy are further market penetration, ambitious growth plans for the company’s Operating Groups, the increased use of China’s talent potential and an expansion of China’s role in the Siemens global value chain.***

World class services, total solutions, and asset management initiatives, as well as customer focus programs in order to intensify customer relationship in China, have been successfully completed.

With its “Twelve-Point Program for Profit and Growth in China” launched in May 2004, Siemens boosted business results in fiscal year 2004. The company’s China operations showed substantial growth rates and gains in market share. New orders

increased 34 percent from 31.3 billion RMB to 41.8 billion RMB. In the same period, sales climbed from 30.1 billion RMB to 38.4 billion RMB. Local manufacturing, engineering, R&D, software development and purchasing activities were also substantially expanded.

“Our Twelve Point Program for Profit and Growth in China is becoming a real success. Overall we gained market share and proved that we can win against both the global and local competition.” stated Dr. Heinrich von Pierer, president and Chief Executive Officer of Siemens AG (Siemens China, 2005).

One of the major growth drivers was the company’s further penetration of the market by building up its localised network offices. In 2004, Siemens added 11 new locations to bring its total number of regional offices to 38 and also strengthened all existing key locations to be even closer to its customers. Under the Siemens “one umbrella” the company also initiated more than 40 projects to provide best-in-class, technically integrated systems and complete solutions in a variety of infrastructure and industrial fields.

China is not only a key strategic market for Siemens, but also offers many advantages the company seeks to utilise in a way that is mutually beneficial. To sustain Siemens innovation leadership, the company’s local R&D and software development centres have been substantially expanded. This included building up a global R&D centre for broadband technology and an application-oriented research centre for information and communications, automation and automotive technologies.

As excellent leadership is crucial in giving Siemens a sustained boost in the Chinese market, Dr. Richard Hausmann was appointed President and Chief Executive Officer of Siemens Ltd. (China) on January 1, 2005 to develop local operations into a cornerstone of Siemens global business. Hausmann brought with him a proven track record in successfully growing the Siemens medical solutions business globally and in China through a relentless focus on customer benefits, network relationship, innovation and cost competitiveness. “It is truly a privilege to be a part of China’s future development,” said Hausmann. “I am very committed to drive the growth of our local organisation and together with our local partners and customers, build lasting partnerships for joint success.”

2. Siemens in China: a full-coverage diversified strategy

Siemens is one of the worlds largest electrical and electronics companies, and one of the most well-known and respected corporate citizens in China. This is not surprising given Siemens long history of co-operation dating back to 1872, and the company's China operations are fast emerging as a cornerstone of the Siemens' global business. All business segments of Siemens are active in China including Information and Communications, Automation and Control, Power, Transportation, Medical, Lighting as well as Household Appliances.

Siemens is an integral part of the Chinese economy and a reliable, committed and trustworthy partner of China actively contributing to major infrastructure developments and industrial modernization. Siemens has provided a power supply that is affordable, efficient and environmentally compatible, public transport that is fast, save and high capacity, communication that is reliable, speedy and cost efficient, medical facilities that aid in rapid, accurate and effective diagnosis and treatment as well as automation solutions for every branch of industry to increase productivity, profitability and competitiveness.

At the end of Fiscal year 2004 total long-term investment exceeded RMB 8.5 billion, and sales reached RMB 38.4 billion. To further increase local market penetration, the company planed to expand its network of regional offices to 60 in the medium term. With a workforce of over 35,000 people, Siemens is one of the largest foreign-invested employers in China. The company’s excellent reputation attracts and retains some of the best talent in the market. In 2004, Siemens recruited some 4,000 new staff into its local operations and in 2005 another 5,000 people to help reach the company’s ambitious growth targets in China and enable the local operations to become a more significant part of its global value chain.

Siemens Communication is the only provider that offers a full-range portfolio, from devices for end users to complex network infrastructures for enterprises and carriers as well as related services. The company's strong position in GSM mobile network infrastructure was further expanded in 2004 with contracts for China Mobile and China Unicom. Siemens also entered the Chinese GSM-Railway market in December 2004. Siemens is also the frontrunner in tomorrow's technology and is the only manufacturer that offers both variants of the third-generation UMTS mobile technology W-CDMA and TD-SCDMA.

Siemens Communication's extensive fixed line networks portfolio comprises of Internet Protocol (IP) convergence solutions for voice and data, a comprehensive range of products and systems for broadband access, and optical transport networks, and furthermore Siemens is a leader in China's enterprise network business. HiPath, the Siemens Enterprise Convergence Architecture, enables companies to further develop their existing voice and data networks through convergence over IP to more effectively manage communication cost and achieve better return on investment. In 2004, Siemens became the dominant player in the hotel market and signed in excess of 50 contracts with 4 and 5 star hotels. The company also achieved a breakthrough in the metro and light rail industry by providing Open Transport Networks for the Shanghai Transrapid, metro lines in Shanghai, Guangzhou, and the light rails in Tianjin and Chongqing.

The Automation and Drives Group is a major player in industrial automation providing Totally Integrated Automation (TIA) and Totally Integrated Power (TIP) solutions to the Chinese process and manufacturing industry. The Group's products and services for the metallurgy, petrochemical, glass, cement, water processing, food and beverage production and packaging industry combine innovation and strong customer focus with reliability, quality and high efficiency. In 2004, it won the largest contract in China to date valued at 280 million RMB with Shanghai Zhen Hua Port Machinery Company. The Group is a market leader with number one positions in production automation, machine-tool controls and large drives. In July 2005, the Automation and Drives Group opened a new Logistics Coordination Centre in Shanghai's Songjiang High-tech Park to streamline the ordering process for both local and global customers and reduce delivery time so as to better meet customer requirements.

Siemens Industrial Solutions and Services Group (I&S) is a leading provider of industrial systems, services and sector-specific IT solutions for metals, paper, marine, oil & gas and petrochemical industries and intelligent traffic systems. In 2004 I&S strengthened its dominant position in China's metal and paper industries, and strengthened its leading position in providing services to the metals industry and established the "Siemens Metals Service Centre" in Shanghai.

Siemens Building Technology (SBT) provides total building solutions designed to achieve high productivity by ensuring safety and comfort in a secure work

environment as well as reducing maintenance costs during the life cycle of the building. The Group's products, systems and services include building management systems for controlling heating, ventilation and air-conditioning, fire protection as well as security solutions for intrusion protection, access control and video surveillance. In January 2004, SBT signed a contract to provide extra-low voltage systems to the Citigroup Tower, a prominent feature on the Shanghai skyline.

Siemens Power Generation (PG) Group is a committed partner to China's power industry for highly efficient and environmentally friendly power plants and related services. Together with its Chinese joint venture partners, PG is in the number one position for large-capacity, advanced steam power plants. In October 2004, PG made a breakthrough in the Chinese gas turbine market, when the Group in a consortium with Shanghai Electric Corporation secured orders to supply nine gas turbines for four combined-cycle power plants in China. As a product, system, solution and service provider, the Siemens Power Transmission and Distribution (PTD) Group is active on all fields of power transmission and distribution in China, and works to ensure reliable and efficient transmission and distribution of power from the generating source to the consumer. The Group's innovative technology minimizes energy losses when electrical energy is transmitted over long distances.

In the transportation business segment, both Siemens Transportation Systems and Siemens VDO Automotive provide products and systems designed to satisfy people's needs for greater mobility combined with environmental compatibility, improved performance and enhanced productivity.

Siemens Transportation Systems (TS) is one of the leading international suppliers to the Chinese railway industry. As a single source supplier and system integrator, the Group provides signaling and control systems, traction power units, as well as rolling stock for mass transit on regional and main line services. Extensive experience in project management and forward-looking service concepts complement the Group's portfolio. Early in 2004, Shanghai's Transrapid went into commercial operations and in July of the same year witnessed the one-millionth passenger aboard the train. In May 2004, TS opened the first development centre for mass transit signalling systems in Shanghai. In December 2004, TS celebrated a major breakthrough, when the Chinese Railway Ministry awarded Siemens an order for 180 double locomotive units worth approximately 3.8 billion RMB.

Siemens VDO Automotive provides innovative electrical, electromechanical and electronic systems, modules and components to China's booming automotive industry to enhance driving safety and comfort as well as engine performance and emission control. The Group's product portfolio includes car body electronics, engine and drive management systems, induction, fuel and emission control components, infotainment systems, driver information systems as well as safety and chassis electronics. Its customers comprise of China's leading automotive manufactures including Shanghai VW, Shanghai GM, Ford and Honda. Siemens VDO has a dominant position in the automotive airbag market and maintained its number one position in the car radio and instrument panel market segment.

Siemens Medical Solutions Group, renowned for its innovative strength, high quality services and complete solutions, is one of the leading suppliers to China's healthcare industry. The Group assists customers achieve tangible, sustainable, clinical and financial outcomes. In order to keep all installed systems in excellent operation and provide customers with the most timely and convenient technical support, the UPTIME service centres in Beijing and Shanghai can remote control and maintain Siemens equipment in hospitals nationwide, around the clock.

Siemens is a well known and respected household name in China's home appliance market. Bosch Siemens Household Appliances (BSH) manufactures and markets refrigerators and front loader washing machines throughout China. These home appliances are market leaders in China amongst international brands and recognized for their high quality and innovation. A comprehensive after sales services network provides fast and effective services, resulting in customer satisfaction and brand loyalty.

3. Siemens' long history in China

1872 Pointer telegraphs exported to China.
1899 Siemens constructed China's first electric tram line in Beijing.
1903 Siemens built power plants, a steelworks, a hydroelectric power plant and China's first high voltage line.
1904 First representative office in China.
1914 Renamed Siemens China Company, Shanghai, with numerous sub-offices.

1920 Major orders for the building of power stations in Shanghai, Harbin, Nanjing, and Guangzhou.
1922 Siemens China Co. became a Limited Liability Company.
1930 Siemens China Co. is Siemens largest company outside Europe.
1974 First major order for the supply of steam turbines.
1978 Siemens exhibition “Electrical Engineering and Electronics” in Shanghai.
1982 Siemens representative office in Beijing opened.
1985 Memorandum of Comprehensive Cooperation between Siemens and China’s machinery, electrical and electronics industries with respect to technology and know-how transfer.
1986 Contracted to supply computer systems to Chinese universities; training of Chinese specialists in Munich.
1994 Siemens Ltd., China founded.
1999 Fifteen machine transformers ordered for the Three-Gorge Project on the Yangtze, the largest dam in the world.
2003 The Transrapid is used commercially for the first time on the Shanghai Pudong Airport route.

4. Ten business principles adopted by SSMC

Dr. Fan listed ten business principles used by Siemens Shanghai Mobile Communications Limited as follows:

1. We measure ourselves only by best-in-class
2. We actively manage our business
3. We fulfill our forecasts and don’t accept surprises
4. We manage our assets strictly – cash is a premium
5. We reward success and promote people
6. We position our company as the employer of choice
7. We communicate openly and directly
8. We outpace our competition
9. We generate an outstanding return for our shareholders
10. We act with a best-in-class attitude

“A decade has slipped by almost unnoticed since Siemens Shanghai Mobile Communications Ltd. (SSMC) was founded. As I look back at what we have achieved

in the past 10 years, I am pleased to see that SSMC has become a role model in the Chinese telecommunication field, and I am especially proud of our unstoppable growth over several consecutive years and of our rocketing export volume." commented by Mr. Xu, the Chairman of SSMC.

"However, China's accession to the World Trade Organisation will undoubtedly open the market further and advance globalisation. As the number of mobile phone users keeps growing, the entire market is moving upward to a level that imposes higher standards for technology, product performance, added value and services. Competition will become fiercer and more intense as more players, both from home and abroad, join the heated contest. With SSMC's outstanding infrastructure, constant innovation, attractive products, and excellent human resources, we are confident that we can consolidate the market leadership. All these factors will help SSMC to recognise the changes in the market than others and improve productivity substantially."

5. Siemens China: Think globally, Act locally

Most of the top executives commented on the global village. Globalisation is a phenomenon that has permeated the entire business and social spectrum on a worldwide basis. Information and technology, the combination of computers and telecommunications, has made globalisation feasible; while liberalisation of the world's commercial and political regimes has made it reality. People should have global perspective yet still be able to react in the local context. "In short, think globally and act locally." stated Ms. Lee, Senior Executive Vice President of Siemens.

Globalisation can be summarised as follows:

- World: the economic interdependence of countries through increasing volume and variety of cross-border transactions in goods and services and international capital and technology.
- Country: interlinkages between a country's economy and the rest of the world.
- Industry: the degree to which a company's competitive position within the industry in one country is inter-dependent with that in another country.
- Firm: the extent to which a company has spread its assets and revenue base in various countries.

- People: the extent to which consumers' buying habits have converged, and the extent to which executives and managers have a global mindset and practice globalism.

Globalisation is reshaping, not only the macro level of economic life, but also personal aspects, including where, when, and with whom we perform our daily work. At every level, from the personal to team, corporate, and MNCs, in every region of the globe, the new economic order is opening new opportunities by tearing down the boundaries that kept people apart from one another and limited the possibilities for interaction, cooperation, collaboration, and personal, national, and global economic growth.

6. Cultural factor is so important in HR

Mr. Weiss, General Manager of Siemens Communications Group, raised several issues of the global workplace for cross-cultural management:

- How to build trust among team members scattered around the world who have never meet,
- How to implement strategies for sharing information for national electronic infrastructures using different languages,
- How to motivate employees with different work ethics ranging from individualistic, classical western-style attitude toward work, to paternalistic attitudes, to "state-will-take-care-of-me" socialist individual mindset,
- How to schedule team conferences among the members, who live in different time zones,
- How to get things done on time by adhering to deadlines when some people don't care about the exact deadlines and whose time perspective is different from ours.

Mr. Weiss pointed out that technology does help us get in contact with one another, even though most of the time we may not understand one another. However, it is becoming evident that the new technology must be supplemented with considerations of such culturally influenced human attitudinal and behavioural attributes as openness, tolerance for ambiguity, acceptance of other people's values,

attitudes, and behaviour, experimentation, determination, and the desire to continuously learn from one another.

The interview also revealed the HR manager's difficult task of choosing candidates for global involvement. As Mr. Meyer, Director of Human Resources in Siemens, put it "The important thing is to achieve a balance: combine the local knowledge with global touch". Because the importance of the multicultural nature of international business, Siemens always takes into account the cultural aspects of the approaches to foreign business management. Siemens proposed the executive who subscribes to globalisation is expected to:

- see the world as a whole,
- search for similarities among the various elements of the world, such as people and their habits,
- exploit the commonalties to discover differences, and
- use the knowledge gained from the worldwide search to design and execute strategies that will maximise the benefits to all local and global stakeholders.

Appendix D: Kodak in China

Figure 19 Eastman Kodak (China)



(Source: Kodak China, 2006)

1. Eastman Kodak Company

With the slogan "you press the button, we do the rest," George Eastman put the first simple camera into the hands of a world of consumers in 1888. In so doing, he made a cumbersome and complicated process easy to use and accessible to nearly everyone.

Since that time, the Eastman Kodak Company has led the way with an abundance of new products and processes to make photography simpler, more useful and more enjoyable. In fact, today's Kodak is known not only for photography, but also for images used in a variety of leisure, medical, business, entertainment and scientific applications. Its reach increasingly involves the use of technology to combine images and information, creating the potential to profoundly change how people and businesses communicate.

Just as Eastman had a goal to make photography "as convenient as the pencil," Kodak continues to expand on the premises that images touch people's daily lives.

The company ranks as a premier multinational company, with a brand recognition in virtually every country.

Eastman Kodak Company, formerly the Eastman Dry Plate Company, was founded by George Eastman in 1880 in Rochester, New York. Three years later, Eastman startled the photography trade with the announcement of film in rolls, with the roll holder adaptable to nearly every plate camera on the market, and by doing so, Kodak made photography available to all.

In comparison to the developed world's markets for photo-film, growth of the Chinese consumer photo-film market was impressive. In 1994, China was Kodak's 17th largest photo-film market, and by 2003, China had risen to the second place, trailing only the USA in market share.

"Some day China will be the largest photo-film market in the world and the potential for sustained long-term growth is enormous. Kodak's corporate strategy focused increasingly on the growth potential in China. We are ready to work with our Chinese friends to 'Take pictures, further'." stated Ms. Ying Yeh, Chairman and president, North Asia Region General Manager.

Kodak is the leader in helping people take, share, print and view images - for memories, information, and entertainment.

With worldwide sales of $13.5 billion in 2004, the company is committed to a digitally oriented growth strategy focused on the following businesses: Health Imaging - supplying the medical and dental industries with traditional and digital imaging-information products and services, as well healthcare IT solutions and services; Graphic Communications - offering on-demand colour and black and white printing, wide-format inkjet printing, high-speed, high-volume continuous inkjet printing, as well as document scanning, archiving and multi-vendor IT services; Digital & Film Imaging Systems - providing consumers, professionals and cinematographers with digital and traditional products and services; and Display & Components - which designs and manufactures state-of-the-art organic light-emitting diode displays as well as other specialty materials, and delivers imaging sensors to original equipment manufacturers.

2. Kodak's early involvement in China

George Eastman, the founder of Eastman Kodak Company, was very aggressive early on through his programme of international expansions, beginning in Europe. In 1905, he transferred one of his key export managers to set up trade with China. Initially only a mercantile trading relationship was established, and the goods were shipped from Rochester to distribution companies in Shanghai. In 1927, an office was established in the Bund area of Shanghai, and with other companies not having a significant market presence, Kodak became the only major supplier of photographic equipment and services in China.

Kodak re-entered the China market by signing a consignment contract in 1978, shortly after China began to re-open to the outside world. In the early 1980s, Kodak took advantage of the representative offices to gain exposure to the Chinese market and build solid relationships. The first step implemented by Kodak was an aggressive marketing campaign to increase the number of film distribution centres, and to drive Kodak Express to be identified with quality finishing. The initial stage of Kodak's business strategy involved technology transfer. In 1982, Kodak was asked by Xiamen authorities, with the support of the central government, to undertake a specific technology transfer project in the Special Economic Zone of Xiamen. The contract was signed in 1984.

3. A localised strategy for a different market

Kodak management concluded early in 1994 that its business model for China was not sustainable into future. By shipping products through the Hong Kong regional company to the Chinese distributors, Kodak was too far removed from its customer base. As a result of uncertain business conditions, disjointed distribution channels and lack of infrastructures, Kodak outlets would hold excess stock of photographic paper, which would often spoil in the high temperature and humidity environment. The representative offices were relatively powerless to improve the situation.

Kodak grew increasingly concerned about the erosion of its brand equity as a result of quality concerns that were beyond their control. And to improve the situation, Kodak initially identified areas where changes could be made to provide better service to customers within the trading model.

Kodak improved its distribution system as well as the quality of the photo finishing at Kodak Express outlets. A system to monitor the quality of the outlets was also implemented to improve the brand image of Kodak and regain customer loyalty and trust.

Up until 1993, the business model of using Hong Kong as a gateway into China remained virtually unchanged. Kodak maximised the success of this business model by becoming more aggressive, competitive, and market oriented. The investments in the representative office structure within China began to pay off and provided funds for future expansion. However, Kodak realised that the business model did not provide it with any distinctive competitive advantage, and without a structural change in the business model, Kodak's success could be easily emulated by competitors.

Acting on the objective to provide the best quality service to customers, Kodak became convinced that it needed to be directly involved in domestic manufacturing and marketing of photo-film and related products. Kodak would benefit the most in an environment where its customers and suppliers viewed the company as a truly local player as well as a market leader. Kodak sought a business model in which the Chinese central government would view it as a long-term partner in aiding China's economic progress.

4. Kodak in China: Build trust, develop good relationship with top government, and CEO's long-term commitment

Kodak's strong position in China stems from its US$380m investment in 1998, when it bought three loss making state-owned film makers, one based at Xiamen in Fujian, one at Shantou in northern Guangdong and one at Wuxi. As part of that deal, which also included a commitment to invest a further US$700m by the end of 2003, the Central Government undertook to exclude other foreign film makers from setting up film production facilities in China for three years.

Up until the early 1990s, most Chinese were familiar with only generic state brand cameras and photo-film. Kodak's brand was established with the older generation from the 1920s; the younger generation acquired high awareness of Kodak in the

1980s. By 1997, China had three major photo-film brands: Kodak, Fuji, and the local brand Lucky.

In 1993, Kodak appointed the former CEO of Motorola, George M.C. Fisher, as the company's CEO. Fisher was the first outsider to run Kodak in its 116 year history. Under his leadership, Kodak refined its corporate strategy to focus on the growth of markets and in particular the rapidly expanding Chinese market. In 1997, David L. Swift, who was sponsored by Kodak to obtain an MBA from Harvard Business School through full-time study in Boston, Massachusetts, and thereafter was appointed as the chairman and president of Kodak's Greater China Region.

Fisher's passion for the Chinese market, together with his long-term commitment leadership, had led him to realise, before moving to Kodak, one of the most successful foreign direct investment projects in China – Motorola's investment in China. Shortly after took CEO at Kodak, Fisher established contact with Zhu Rongji, the former premier of China. Zhu's blessing from central government proved crucial for Kodak's expansion initiatives in China.

Owing to the static growth in the photo-film markets of North America, Europe, and Japan, Fisher foresaw that substantial investment in emerging markets as the only means by which Kodak could continue to develop its business. And as a result, his bold corporate strategy focused specifically on the Chinese market. Since the photography business was highly characterised by volume and price consideration, local production in what was becoming one of the world's most competitive manufacturing environments would greatly reduce Kodak's input costs. Under Fisher's leadership, Kodak became inspired to create competitive advantage by serving its Chinese customers in a world-class way.

In March 1998, Kodak unveiled a plan to attack the Chinese market using a USD1.1 billion strategy – one of the five largest investments ever made by a US firm in China. This billion-dollar project was originally conceived by George Fisher, former CEO of Kodak, and then handed over to David Swift, chairman and president of the Kodak's Shanghai-based Greater China Region. ***The billion-dollar project was on an immense scale with the explicit intention to make China the photo-film manufacturing hub worldwide.***

5. A unique approach of doing business in China

To achieve optimum results from its one-billion-dollar strategy, Kodak had to move quickly, although it had a first mover advantage in the China market. Firstly, there was the 2001 deadline by which time the Chinese government's ban on additional foreign investment in photo-film manufacturing would be lifted. Secondly, China had made steady progress toward entry into WTO which would oblige China to slash 62% import tariff on the imported colour film.

Kodak agreed to acquire assets from Shantou Era Photo Material Industry Corporation and Xiamen Fuda Photographic Materials Company through Kodak (China) Company Limited. Simultaneously Kodak also agreed to acquire assets from a third photographic enterprise, Wuxi Aermei Film & Chemical Corporation through Kodak (Wuxi) Company Limited. Each of the existing Chinese companies received shares in the appropriate company, and Kodak took management control of all the companies. This unique approach to doing business in China provided a possible glimpse into the future of foreign investments in China. The prospect of such control in such a promising market came as a relief after almost half a decade of tough negotiations with central government ministries and agencies. Kodak (Xiamen) mainly manufactures colour films and colour papers, Kodak (Shantou), medical and industrial X-ray films, and Kodak (Wuxi), photochemicals.

Kodak, was in fact, the first foreign company in China that was permitted to set up a foreign invested stock limited company as its market entry strategy. The Joint-Share company structure adopted by the Kodak (China) Company Limited would enable the operation of an integrated company with production facilities in two provinces and a headquarters in a third, with consolidated accounts across the branches. Considerable operating flexibility would be permitted: the company was free to expand its operation anywhere in the country, the assets of other state-owned enterprises could be bought, and branch offices be established.

In China, effectively using "guanxi" is the key to maximising business success. Guanxi ties to the key ministries and local governments are essential to ensure the necessary resources and services are available. In the photo-film industry, Kodak worked with the Ministry of Chemical Industry (MCI), the Ministry of Internal Trade (MIT), the Ministry of Light Industry (MLI), and the Ministry of Machine Industry (MMI). It also dealt with the State Economic & Trade Commission (SETC), the Ministry of

Foreign Trade & Economic Cooperation (MOFTEC), and the State Planning & Development Commission (SPDC).

Kodak's 1998 deal showed how much leverage a company could get if it was willing to approach the government for support. Since the late 1990s, the government's direct involvement in business has declined markedly; moreover, now that China is a member of the World Trade Organisation, such a discriminatory practice as restricting entry to another company in the same industry would be considered indefensible.

Kodak's management concluded the key success factors for the one-billion-dollar project as follows:

- ***Fisher's CEO long-term commitment and good network relationship convinced the Chinese central government that Kodak was very serious about China. Former premier Zhu Rongji's personal commitment and high level central government involvement in bringing Kodak to China led to the success of the project.***

- ***Fisher's previous role as the CEO (who brought Motorola to China) established him as very credible to the China's leadership. Fisher's successful introduction of Motorola to China as a win-win strategy for both company and country, greatly facilitated the 1998 negotiation process with Kodak.***

- ***Kodak is the leader in the industry. Its brand image is number one in China with a good track record.***

- ***Kodak's new venture structure – foreign invested stock limited company - would enable it to expand quickly and change directions easily to follow the market, while managing internal finance much like it would do elsewhere.***

- ***Kodak's first mover advantage provided it with extra Chinese support, and its high profile nature provided an added incentive to ensure investment quality.***

- ***In the Chinese culture, it was very important to start first with key principles and to follow these later with the details. If a mutual understanding could be established early based upon the principles, then success was sure to follow.***

6. Kodak's further penetration strategy

Antonio M. Perez joined Kodak as President and Chief Operating Officer in April 2003, and was elected to the Board of Directors in October 2004. In May 2005, he was elected Chief Executive Officer and on January 1, 2006, he became Chairman of the Board of Directors. Mr. Perez is leading the digital transformation of Kodak, aimed at delivering innovative digital products and services to consumer and commercial customers in the fastest-growing segments of the imaging industry. He is also a member of International Consultative Conference on the Future Economic Development of Guangdong Province, China, an advisory body for the Governor of Guangdong, China.

Eastman Kodak took a major step towards dominating China's photographic film market when in October 2003 it reached a US$100m agreement with Lucky Group to buy 20% of Lucky Film, the company's Shanghai-listed arm, offering cash, technology and equipment as payment credits.

The deal concluded after years of negotiations, arising not least from internal divisions within Lucky's managerial ranks over whether it should tie up with Kodak or Japan's Fuji. Some executives in the company favoured Fuji on the grounds that it was weaker than Kodak, which in turn would allow Lucky to exercise control and to keep its own brand, while others supported Kodak because of its strength in China and its more advanced technology. Fortunately, the Kodak deal prevailed.

In March 2004, Kodak established a disposable camera plant in Xiamen, which transformed the coastal city into the world's largest disposable camera production facility and is capable of producing 100 million disposable cameras annually. It is expected that in excess of 90 percent of these will be exported to the United States, Japan and Europe.

7. Kodak's specific China strategies

Localised Marketing Strategy

As the world's largest imaging producer, the US-based Eastman Kodak continues to commit itself to both traditional and digital businesses in China, although its global strategy has shifted to digital products in line with international trends.

Kodak focused on “Two-E & Two-T” strategy in China. These are extension and expansion, as well as total solution and total satisfaction.

Kodak’s management team believes China is a diversified market, with different consumer patterns, and therefore a local strategy should be adopted. The strategy in China is part of Kodak’s global strategy, as developing the customers of traditional cameras is cultivating the future customers of digital products.

Kodak's survey indicates currently only 30 percent of Chinese families have cameras, while the percentage for rural areas is far behind the national level. In China, the per capita consumption of film was less than one roll in 2003, compared with the three rolls per person annually in developed countries. In more developed regions, such as Shanghai, Guangzhou and other eastern coastal cities, the popularity of digital cameras is on a par with the USA and Japan.

In 2001, Kodak divided China into two sales regions: The first region, which includes developed cities, would focus on promoting digital products; and the second region, in the secondary cities, towns and vast rural areas in the country's central and western provinces would develop the traditional business with more than a billion people.

There are three distinct market strategies for Kodak’s future growth in China: the consumer business (cameras and imaging), the healthcare (medical imaging) area and the commercial (film/movie) use. All of these include both digital and traditional products.

Kodak Corporate Responsibility Principles

a) Kodak conducts its business activities to high ethical standards.
b) Kodak respects internationally accepted legal principles, and is compliant with the laws of countries in which it does business.
c) Kodak is committed to sound corporate governance. In this regard, the Company's diverse, independent Board of Directors has adopted publicly available governance principles.
d) Kodak conducts its business activities in an environmentally responsible manner.
e) Kodak respects the privacy rights of its employees, customers, and suppliers.
f) Kodak promotes a work environment of equal opportunity for all employees, and treats its employees in a non-discriminatory manner.
g) Kodak is committed to employing a diverse work force, and to building and maintaining an inclusive work environment.
h) Kodak maintains a safe and healthy work environment.
i) Kodak respects its employees' workplace right of association.
j) Kodak will not establish or maintain a business relationship with any supplier if Kodak believes that the supplier's practices violate local laws or fundamental principles relating to labour standards or environmental protection.
k) Kodak is sensitive to the economic development priorities of the developing countries in which it does business.
l) Kodak maintains a philanthropic program that reflects its global corporate goals in community development, recruitment, technology access, business opportunity, and quality of life.

R&D Worldwide

Behind all Kodak products lie the wealth of expertise in and the deep commitment to research and development in imaging science, technology and is innovating to make the complex simple.

Shanghai Product Development Centre (PDC) was established in 1998. The mission of PDC is to become a shared centre of excellence for software development to drive Kodak digital business growth in the region, and global market. In the past few years,

PDC has developed very strong links with other business units, products and services. PDC has developed and co-developed cover consumer, professional, entertainment, medical, and commercial markets. PDC is now an integral part of global development workforce of business units, and a part of Engineering and Design Centre.

Kodak is now focusing on “InfoImaging” which combines both image science and information technology, - essentially, communications through pictures.

People-focused corporate culture

All the people at Kodak work from a set of core values, and their personal conduct allows for an environment that is free from inappropriate pressures and diversions.

- Show respect for the dignity of the individual. And in the process, we value and champion our human differences. This helps us maintain the diversity of our workforce.
- Uphold uncompromising integrity. We demonstrate honest, ethical behaviour in all transactions, placing the success of our business and its people ahead of any personal gain.
- Give and receive unquestionable trust. We work in an environment in which we can trust one another and share information freely, thereby doing our jobs to the very best of our abilities.
- Prove and maintain constant credibility. By consistently delivering on our commitments, we earn the credibility of those around us.
- Support continual improvement and personal renewal. Varied opportunities for individual learning and growth allow us to achieve the world-class expectations of our publics.
- Recognise and celebrate achievement. We welcome opportunities to openly celebrate individual and team achievements, and congratulate those contributing to Kodak's success.

Appendix E: Alcatel in China

> "With one of the most complete and targeted technology portfolios, a global presence, a diverse clientele, controlled costs, and successful internal restructuring, our Group has all the elements essential for consolidating its leadership position on the communication technology market." --- Serge Tchuruk, Chairman and CEO of Alcatel (Alcatel, 2005a).

Alcatel develops and integrates technologies, applications, and services to offer innovative global communication solutions. These solutions enable telecommunication carriers, Internet access providers, companies, and public administrations to deliver the multimedia services to their customers, and build a user-centric broadband world, which is Alcatel's vision of how networks and applications should evolve to broaden the lives of users.

These high value-added services are made possible by technological innovation and a strong position on the fixed, mobile, and specialised communications markets. Alcatel is a world leader in broadband access and optical transmission, a recognised player in new generation mobile networks and IP technologies, a pioneer of video software application development, and an integrator of satellite telecommunication solutions and signalling networks for transport solutions. Because of its technology portfolio and integration capabilities, Alcatel is able to offer its customers a unique range of services.

With sales of EURO 13 billion and 58,000 employees in 2005, Alcatel operates in more than 130 countries. Alcatel is the world DSL leader, with a nearly 38% cumulative market share, having shipped over 80 million DSL lines. It is number one in global optical networking with 15% market share. As a pioneer in digital switching, Alcatel has the world's largest digital line installed base, approximately 380 million. It has also become a leading supplier of Triple Play and IPTV solution, which is transforming old-fashioned telephone networks into multimedia, voice, data, and image distributors. As a market leader in broadband solutions worldwide, Alcatel is defining the standard for the new converged world of mobile service delivery. In the space sector, Alcatel has long enjoyed the number one position in telecommunications satellites.

In response to continuously evolving customer needs, research, development, and the anticipation of new telecommunications trends represent a key driver of growth for Alcatel, which has invested around 13% of its sales revenue in R&D.

In order to increase the efficiency of these investments, Alcatel has chosen to place its research centres near the principal global markets: in Europe (Anvers, Marcoussis, Stuttgart), in North America (Dallas, Ottawa), and in Asia (Shanghai).

Alcatel thus leverages the innovation potential and the creativity of the regions in which it is operates.

There are two chief missions for R&D. One is inventing and building new telecommunications technologies, the other is a continued effort to improve product performance which means to extend product life, continuously reduce their cost, improve performance, and thereby their competitiveness.

For over ten years, Alcatel has been committed to reconciling economic development and social and environmental responsibility. To assist this process, the Group has codified its values and ethical principles in a set of codes and charters, created organs, and set up controls in order to ensure conformance, and an organisational structure designed to coordinate actions being taken.

Figure 20 Alcatel's business thoughts



(Source: Alcatel website, 2006a)

1. Alcatel In China

- A global communications solutions provider

Alcatel's global mission is to leverage its leading position in fixed and mobile broadband networks, applications and services, to help its partners and customers build a User-Centric Broadband world.

A User-Centric Broadband world is based around what the user wants to do, when and how the user wants to do it. Service providers will have to deliver simplicity in a complex world by presenting the user with single authentication and a single profile.

- Unique presence in China

Alcatel has been operating in China for more than twenty years, and has invested more than USD1 billion in the country. During the time, Alcatel has played a pioneering role in the development of the Chinese telecommunications industry. Along the way, Alcatel has made a number of bold decisions and achieved a number of “firsts” for a multinational company operating in China that evidence a strong commitment to the China telecommunications market and unwavering confidence in the country's long term future.

In 1983, Alcatel invested in Shanghai, making it the first foreign-invested enterprise in China's telecommunications industry, and promoted the introduction of advanced digital switching technology to China at a time when the country was just beginning to reform its economy.

In 2000, as China began to integrate itself more fully into the global economy and globalisation became an important part of the country's agenda, Alcatel decided to establish its Asia Pacific Regional Headquarters in Shanghai, becoming the first multinational company to take such a step.

- Alcatel's Chinese flagship company

In 2002, at a time when China was intent on globalising its telecom industry and making it more market-oriented, Alcatel and the Chinese government established Alcatel Shanghai Bell, in which Alcatel effectively holds more than 50% stake. As part

of the arrangement Alcatel agreed to make its worldwide technology base and research and development programs available to Alcatel Shanghai Bell, a ground breaking step given the fact the company was not wholly owned by Alcatel.

2. Alcatel Shanghai Bell – China's global telecommunications technology powerhouse

Alcatel Shanghai Bell was the first foreign-invested company limited by shares in China's telecommunications industry, with Alcatel holding 50% of the shares plus one, and Chinese entities holding the remainder. By leveraging the Alcatel group's international resources, Alcatel Shanghai Bell is ideally positioned to be China's global telecommunications technology powerhouse.

As the leading telecommunications equipment and total solutions provider in China, Alcatel Shanghai Bell offers total telecommunications solutions to its customers. Its business includes: network infrastructure solutions, which upgrade the performance of customers' networks and reduce their operating costs; total network service solutions, from design and deployment to operation and maintenance; application-based solutions, aimed at developing new businesses and applications for end users.

It boosts extensive sales networks in China and overseas, sophisticated R&D capability attuned to global information technology developments, and an advanced manufacturing centre. All aimed as serving both domestic and global markets.

As a global leader in communications integration and service solutions, Alcatel Shanghai Bell is committed to the rapidly growing private communications and service market. Service operation support systems, integrated network operations and maintenance systems play important roles in the operation and maintenance of telecommunications networks. End-to-end solutions, such as communications systems for the rail transportation and natural gas industries, allow private network customers to concentrate on their core business by eliminating their concerns about communications deficiencies.

Alcatel Shanghai Bell's core strength derives from its unique character – considered by customers as a truly local supplier and at the same time a

multinational company that takes advantage of Alcatel's global presence and has full access to Alcatel's worldwide technology resources.

Figure 21 Alcatel Shanghai Bell's core competence



Source: Alcatel (China) mission statement, 2005a

3. HR Vision for One Company

Alcatel states its commitment to invest in the "lifelong learning and professional development" of its employees. The HR strategy to achieve this goal led to the ambitious transformation program called "HR Vision for One Company", which aimed at facilitating the career development of employees all over the world.

Alcatel recognises that the success of HR program depends on the effectiveness of its communication. In 2004 a steering team made up of HR and internal communication specialists was established to represent the HR teams of the major countries and all three business regions (Europe, Asia Pacific and North America).

With a presence in 130 countries, Alcatel encourages cross-cultural and cross-national exchanges. Fostering employee mobility helps to drive personal and professional development as well as better meet the demands of a global customer base. It reinforces international mobility and cultural diversity within management teams.

3.1 Adapting training to employee and business needs

Alcatel University is a global network of higher learning training centres that provides educational opportunities for employees and customers. The mission of Alcatel University is to capitalise on the company's global resources to provide high-quality, state-of-the-art training, whether virtual or face-to-face.

Through the Learning Management System, employees now have access to 2100 individualised learning titles.

3.2 A commitment in action

With respect to social matters, the Group has focused on developing a dynamic and responsible human resources policy, founded on skill management and dialogue. Alcatel contributes to efforts to reduce the digital divide, by making its technologies and its expertise available for improving access to information in developing countries and isolated regions in developed countries. It has invested in the communities where it is based, through community development projects in education, health and culture.

- Assignment or termination of partnerships for businesses that did not have the critical size or whose activities were too far removed from Alcatel's core business.

- Acquisition of technology companies to complete the Group's technology portfolio for target market niches.

- Network management services for operators and integration of associated employees.

- The stock option plan implemented by Alcatel to attract and retain the best talents.

3.3 “Overseas Chinese” recruitment strategy

Alcatel Shanghai Bell adopted the so-called “Overseas Chinese” recruitment strategy. The overseas Chinese are able to combine western competitive training with local understanding and cultural sensitivity. Young, bright, career-minded, eager-to-learn Chinese managers now represent an important part of the top management. Alcatel believes that in a Confucian oriented society, it must focus on cross-cultural management and provide caring guidance and motivation to its people.

4. People and Values

Alcatel Shanghai Bell believes that the people are its most valuable asset. A key component of its long-term strategy is to support the employees' development. At the same time, it is committed to supporting the community and fulfilling its responsibilities as a good corporate citizen. There are four core values set by top corporate strategy, which are also the keys to its sustainable development and success – customer focus, innovation, team work, and accountability.

Customer focus has always been the philosophy of Alcatel Shanghai Bell. It leverage the global marketing network, leading technology, complete product line, powerful manufacturing platform and quality engineering services to satisfy customer needs to build a lasting strategic partnership and maximise value for them.

Innovation is the driver of sustainable development in Alcatel Shanghai Bell. Innovation thrives at every level of the company, including senior management, marketing, R&D and production. It fosters employees' efforts to exercise initiative and develop the foresight needed to anticipate change. It encourages employees to question everyday assumptions and respond aggressively to challenges.

Teamwork and collective wisdom are highly valued by Alcatel Bell. Internal coordination and external cooperation are the foundation of its success. Internally, it promotes the concept of internal customers, encouraging teamwork across functional departments to provide excellent service to its ultimate customers. Externally, it believes that the customers are its strategic partners and that it can grow and prosper only by working together. Alcatel believes that sincere cooperation promotes effective thinking, and it also believes that teamwork produces great innovation.

Accountability is part of every employee's day, part of everything Alcatel does. Alcatel Shanghai Bell sets performance targets and evaluation metrics so every individual has clearly defined roles and responsibilities. It also motivates the employees to fulfil their obligations, to continuously learn, and to develop their careers by giving their best to customers and the company.

5. Industry comparison

China today is a telecoms superpower. Never before has a country added so many telephone subscribers in so short a time, or raised its telecom density so rapidly. In the early 1980s Chinese authorities were confronted with a weak communications infrastructure: the fixed-line telephone network was pitiful; there was no mobile network; very few fax machine systems, and there was no Internet or email. Today, the situation could not be more different. By the end of 2003, there were more than 250 million fixed-line telephones, 290 million mobile subscribers, and well over 50 million Internet users. Together, mobile and fixed-line subscriptions have grown from one subscription per ten people to more than one in three in the past five years. From being a nation with virtually no connectivity at all, China is today the world's largest market for both fixed-line and mobile telephony, and is a prodigious and lucrative market for foreign telecommunication equipment manufacturers.

How has the transformation been possible? China has driven telecoms-infrastructure investment through state owned service providers, at the same time throwing open the doors to foreign direct investment (FDI) in equipment manufacturing. In both security and development terms, central planners in the Chinese government, regarded the telecommunication industry as a strategic sector. The deal on offer was explicit: market access in return for technology transfer. China was able to roll out its telecoms networks at an extraordinary high speed with the help of the MNCs. Notably Alcatel in Shanghai for fixed-line switching, Siemens, Motorola and Ericsson for analogue mobile networks, joined later by Nokia for digital ones. The government also aided the process by offering financing for expansion and integration.

China has done remarkably well out of this, and all telecoms foreign companies earned billions of dollars in revenue annually. Their success, especially the major equipment makers, which include Alcatel, Siemens and the US-based Cisco Systems, has arisen from the phenomenal amounts China has spent on developing its telecoms system. According to a telecoms research company, Pyramid Research, in the five years between 1999 and 2003, China spent USD70bn on its telecoms infrastructure, a significant proportion of which was used to purchase equipment made by foreign-invested multinational companies.

A notable feature of the big five, Motorola (USA), Nokia (Finland), Ericsson (Sweden), Siemens (Germany) and Alcatel (France), is the different strategies employed to enter and build their positions in China.

Siemens and Alcatel, sought to become closely involved with the government. They are both familiar operating in static environment because of their respective national backgrounds; Ericsson, Nokia and Motorola, by contrast, are more free market in both origin and outlook. Familiarity in dealing with government officials has helped Siemens and Alcatel in the early days with joint venture arrangements.

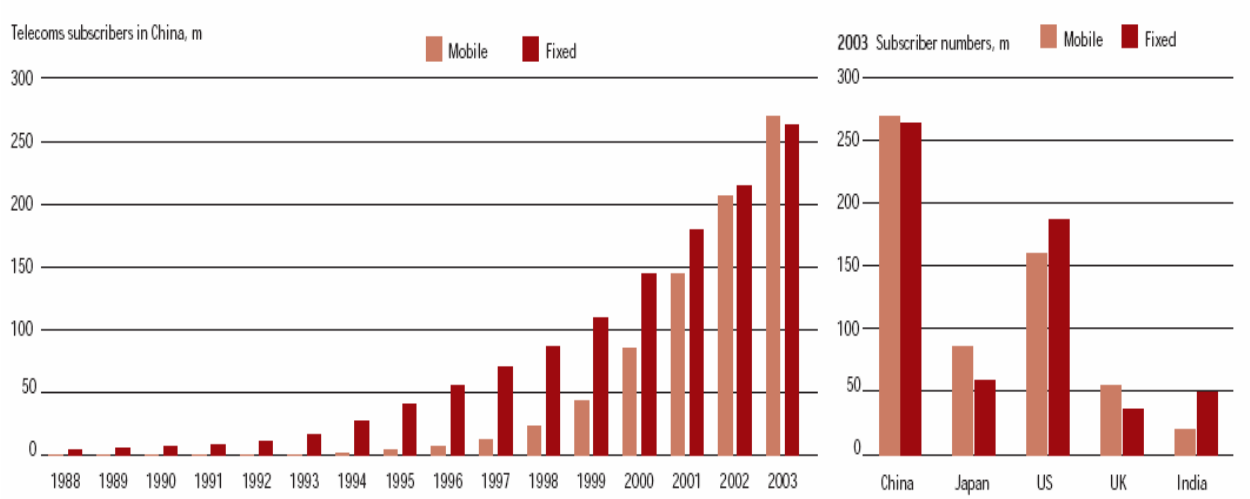
Siemens and Alcatel adopted strategies aimed at establishing themselves by demonstrating a commitment to technology transfer and localisation of manufacturing operations.

For Alcatel, the strategy worked particularly well in its first few years. Its principal joint venture, Shanghai Bell, established with an arm of the Ministry of Posts and Telecommunications, quickly became the country's leading supplier of fixed-line switching equipment - the core of any telecoms network.

Nokia, Ericsson and Motorola have maintained a greater degree of independence. Nokia and Ericsson also entered the market through joint ventures but both have, in general, been more successful in retaining greater control over their operations than Siemens and Alcatel. This is partly because they entered the market a little later but mainly because the high demand for their mobile infrastructure equipment could not be met by local companies, thus giving them stronger bargaining positions. For most of the past decade, Ericsson has been the most successful seller of mobile infrastructure. Nokia has concentrated on handset production both for sale in China and for export to other markets.

Motorola, the US chip and handset maker, took a different approach. Despite establishing itself early where it set up its first manufacturing facilities in Tianjin in 1992, it has largely managed to maintain its principal China business as wholly foreign owned enterprise from the start. Political astuteness was the key. The company forged strong ties at a central government level by promising technology transfer through the building of USD1bn semiconductor facility and at a local level by identifying itself closely with Tianjin Economic & Technological Development Zone.

Figure 22 Telecoms subscribers in China



Source: Alcatel (China) internal report, 2005a

6. Integrate China to the global strategy

In addition to the large and lucrative domestic market, the MNCs' China facilities are becoming more embedded in their global production and supply networks. If measured on net value, China is probably one of the most strategic markets in the world.

As domestic competition intensifies, and price pressures rise, and as Chinese players move into the world market, foreign equipment makers must focus on remaining cost competitive and further integrating their Chinese production and research and development facilities into global supply chains.

Alcatel anticipates moving additional production facilities into China. Increasing turnover will lower costs, so allowing it to be more competitive in both the local and international markets.

China is now a fulcrum for telecoms markets globally, in which there is not only a prodigious domestic appetite for telecoms technology but where global products increasingly have an important node of efficiency. This makes the strategy of Alcatel, as a foreign equipment maker, in China extremely important for its global success. ***China is not simply a large emerging market; it is the globally pre-eminent market.***

7. A deep control strategy

The principal strategy by the MNCs to the rise of Chinese competitors has been a move to increase control over their operations, both to be better positioned to meet the threat that local competitors pose, and to restrict one of the basic reasons for their emergence: the leakage or appropriation of technology.

In 2002 Alcatel announced the amalgamation of its China joint ventures into a new entity, Alcatel Shanghai Bell, in which it held 50% plus one share, and over which it has management control. The new company, which was set up shortly after the company relocated its Asia-Pacific headquarters from Australia to Shanghai in 2000, is also one of Alcatel's global research and development (R&D) centres.

Siemens, in early 2004, similarly bought its way to a majority stake and management control in its main telecoms-related joint venture. It also injected new investment to upgrade its product technology.

Siemens and Alcatel both look to be continuing their close collaboration with state-owned entities, seeing the advantages for sales of being identified with the development of China's own telecoms industry as outweighing other issues such as technology leakage. Alcatel Shanghai Bell is similarly committed to helping China develop indigenous technological capabilities. The venture is one of Alcatel's global R&D facilities; it has access to all of the worldwide technical knowledge base, including proprietary technologies patented by the company.

8. Create a good Chinese brand name

MNCs are well aware of the power of brand names. Strong brands can open new markets and increase the share earnings for more opportunities. Choosing the perfect Chinese name for the brand is a key part of penetrating the Chinese market.

"The first issue we faced when registering a local language trade mark in China was selecting a phonetically accurate phrase that presented positive connotations in Chinese. We wanted to choose a phrase that was closely linked with our business, and was consistent with our global brand recognition and reputation. Using the same

Chinese trade mark consistently and uniformly throughout Chinese speaking societies, such as the Mainland China, Hong Kong, Taiwan and Singapore; will help us cut costs in labelling, advertising and other marketing activities. It also helps us build a stronger brand presence." concluded by the senior executive of strategy in Alcatel.

Alcatel handled the Chinese brand name issue very carefully with legal professionals, branding and marketing experts, and with translators. It also balanced against its historical and continually changing business needs, since the Chinese name has associations with wisdom and longevity.

Alcatel planned ahead to develop a comprehensive Chinese trade mark strategy and to register and protect these important intangible assets with the Chinese authorities.

Alcatel developed a Chinese brand name 阿尔卡特, which means "number one and special" in Chinese. It sounds similar to its own foreign language name, and it also makes the reference to the brand's nice function and good quality.

9. Alcatel's marketing-driven strategy

The broadband explosion is fuelled by demand for more end-user services. New end-user services in both the fixed and mobile network environments will drive continued telecommunication growth. As a leading telecommunication solutions provider, Alcatel Shanghai Bell demonstrates its leadership by communicating the vision of how broadband and mobile services will benefit people's lives and the economy at large.

The 2005 corporate marketing strategy based on the "smile" theme, the new visuals illustrate the user-centric broadband marketing vision, with "Broaden your life" as the corporate signature.

Each marketing step focuses on end-user satisfaction in an everyday or business situation rather than on devices or technologies.

Figure 23 Alcatel's marketing-driven strategy



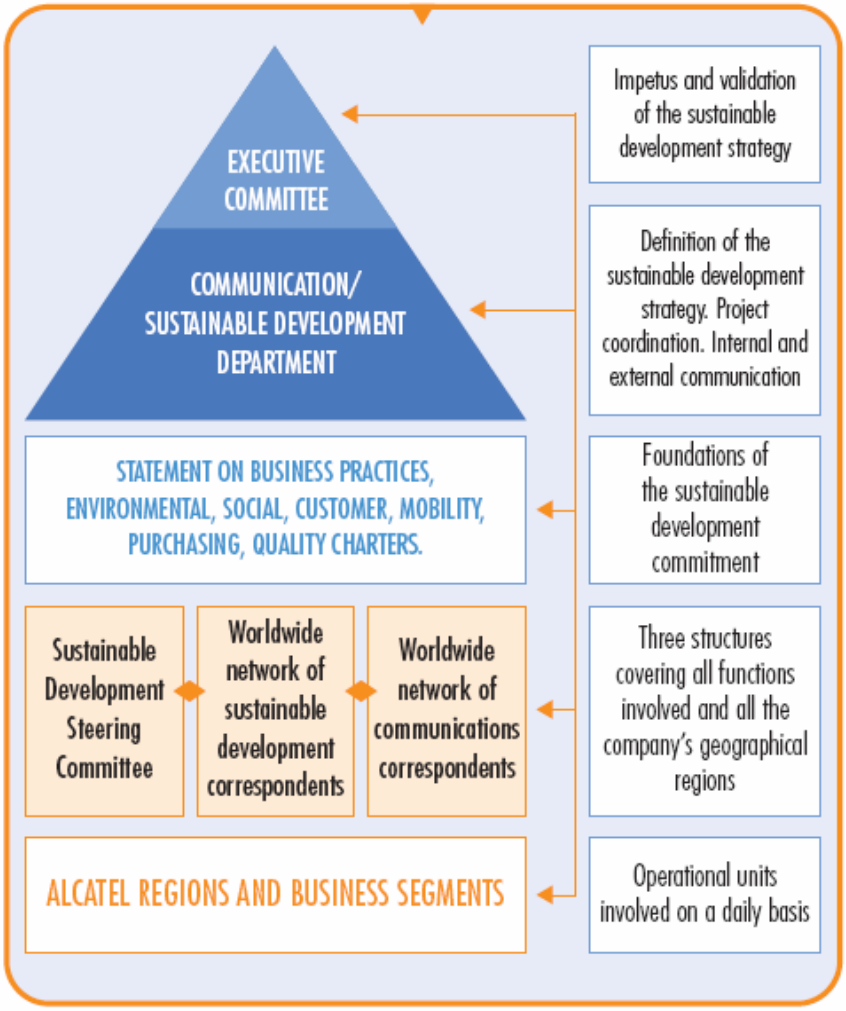
(Source: Alcatel Shanghai Bell Annual Report, 2005b)

10. Sustainable development organisation

The Sustainable Development Steering Committee is made up of representatives from different departments: Human Resources, Environment, Global Risk & Insurance, Purchasing, Quality & Customer Relations, Audit, Investor Relations, Legal, Research & Innovation, Digital Bridge, Public Affairs, Marketing, and Communications. Each department relies on its own network to make sure that objectives are met within its area of responsibility.

At a corporate level, the sustainable development team is an important part of Corporate Communications. This central team works in close collaboration with the Steering Committee and a network of sustainable development correspondents around the world.

Figure 24 Alcatel's sustainable development



(Source: Alcatel Sustainable Development Report, 2004)

Alcatel Shanghai Bell is committed to being China's global telecommunications technology powerhouse, providing best-in-class, comprehensive communications solutions to customers worldwide.

With strong integration capability, and global resources, Alcatel Shanghai Bell is moving forward to deliver user-centric broadband network solutions, to help service providers match unique needs of individuals and provide personalised services no matter the device and place.

China-based research and development, aligned with the global advanced technologies, contributes a great to the core competencies of Alcatel Shanghai Bell.

The company is playing a leading role in Alcatel's global R&D projects in broadband access, NGN, 3G and optical. Meanwhile it also focuses on leading-edge research and innovation to make itself a step forward in future telecom market.

With the manufacturing excellence, Alcatel Shanghai Bell is fully integrated with Alcatel's global manufacturing system. Using the world-class facility, it supplies substantially and timely not only to the domestic market but also globally.