Recruiting and Managing Managers in China: Supply and Demand Case Studies

by

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Submitted to the Alfred P. Sloan School of Management
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ABSTRACT

Although having a good human resource strategy is essential to any business anywhere, a good HR strategy is particularly critical for business endeavors in China. Studies for this thesis focus on how foreign companies in China deal with HR issues at the managerial level. Through interviews and case studies, I compare and contrast specific HR strategies adopted by a set of different foreign investors in China. By examining the successful and less successful aspects of these strategies, I hope to enhance the understanding of managerial HR issues in China, thereby contributing to the overall understanding of business management in China.

This thesis consists of four chapters. In *Chapter One*, I discuss how China's economic and social legacies from the command era have created a unique business environment that poses great challenges to the management of managerial HR. Relevant social and cultural barriers are examined to identify their roles in these challenges. I also discuss the options a firm has in recruiting managers in China, and present a background report on management education in China.

Chapter Two takes a closer look at the managerial HR market from the demand side. It studies three different managerial HR management models based on three very different strategies. A set of case reports based on company research and interviews are presented to provide detailed account of the HR strategies adopted by these firms in different industries. Companies studied in these cases include those from the United States, Japan, Taiwan and South East Asia.

Chapter Three examines the supply side of the managerial job market in China by studying an international MBA program initiated by the MIT Sloan School of Management. I compare the teaching, curricula and administration of the program with those of its American counterparts. I also describe the challenges and career prospect faced by the Chinese students in the program.

In *Chapter Four*, I summarize the lessons learned from the cases studied, and make some general and specific recommendations based on some good practices I have observed. Lastly, I suggest some short-term and the long-term outlooks for managerial HR in China to conclude this thesis.

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Table of Contents

Chapter One – Introduction: Managing Managers in China

"The three key things to remember in doing business in the mainland are people, people and people."

- Tim Healy, Asiaweek

To many firms in China, having enough good managers to manage their operations is often a major business concern. China's rapid growth in the past ten years has led to the emergence of a large number of big and small enterprises in the country, and that in turn has created a critical shortage of business managers. When good managers are not available, firms compromise by having understaffed management, or by hiring managers who are otherwise not qualified. This eventually results in mismanagement of resources, decline in product quality and overall business deterioration.

This introduction looks at some major human resource challenges faced by companies that try to hire or retain their managers in China, particularly from the perspective of foreign firms. It will also discuss the options these firms have when they try to decide who they should employ to manage their businesses. Lastly, a brief history of management education in China is presented in the last section of this chapter as background information for the supply-side case study in *Chapter Three*.

1.1 Challenges and Barriers

Although local Chinese firms are as hard hit as foreign firms are by the short supply of managerial talent, foreign companies are usually bigger victims of business mismanagement due to the language and cultural barriers they face in China. On the other hand, there are also some social phenomena in

China that pose business challenges to both local and foreign firms alike. The cases studied *in Chapter Two* and *Chapter Three* will highlight some of these barriers and challenges found in actual business environment.

The following subsections describe some unique but widespread phenomena found in the managerial job market in China. These phenomena often dictate the human resource policies of firms operating in China and directly affect their organization and competitiveness.

1.1.1 Critical Shortage of Managers

According to a 1997 article in Far Eastern Economic Review[1], Asia will face a critical shortage of more than 3 millions managers by the year 2000. Although this figure may need revision in light of the recent economic crisis in the region, the shortage of professional business managers will no doubt continue to haunt most of the Asian economies, albeit to a smaller extent. Among the Asian countries, China's shortage is most severe. Managers reportedly accounts for less than 3.8% of the workforce in China, compared to 8.9% in the more industrialized countries like Japan, South Korea and New Zealand. Following are some of the factors that contribute to the scarcity in managerial talent.

<u>Strong Demand</u>

As mentioned earlier, much of the strong demand was caused by the rapid economic growth in the past decade. It was estimated that there are 250,000 to 300,000 foreign companies and joint ventures operating in China today[2]. China itself has about 400,000 state-owned enterprises (SOEs). If each of these operations needed just one professional manager, the demand is 700,000, far more than what is available today.

<u>Legacy of Socialism</u>

Unlike other developing Asian countries where generations of managers learned from experience and observation, the old socialist system and command economy left China with generations of managers who lack the mindset and knowledge of market economy. They were trained to manage factories and

[1] Alkman Granitsas, Trish Saywell, "Managing, Barely", Far Eastern Economic Review, August 28, 1997
[2] Helen Johnstone, "Lesson in Supply and Demand," Asian Business, June 1, 1997

steel mills by output volume with little consideration of efficiency and profitability. It will be many years before China can cultivate a new generation of managers with the proper market economy mindset.

Severe Brain Drain

Since the early eighties, China has been losing many of its most brilliant scientists, engineers and managers to the more developed countries where better education and career opportunities are much more available. Tens of thousands of Chinese students and professionals are attracted to countries like the U.S. and Singapore every year by better living, learning and working conditions and few of them return. Many MBA students in the top American business schools, for example, prefer to work on Wall Street than in Hong Kong. David Xu, an MBA student at Sloan with a PhD. degree in Microbiology from Columbia University, spoke of his 49 classmates from the University of Science and Technology China (USTC) in Anhui Province. Forty-five of them, and himself, are currently studying or working in the United States, and they sometimes refer to their alma mater as "**U**nited **S**tates **T**raining **C**enter".

Lack of Education Resources

China only started its first MBA programs in 26 universities in 1991. Although these programs started small (for example, the School of Economic and Management of Tsinghua University in Beijing admitted only 14 students in 1991), they have been growing rapidly to cope with the huge market demand. Besides rapid expansion of the existing management schools, the State Education Committee is also trying to increase the supply of local business managers by setting up business and management programs in more university. In 1997, MBA programs were introduced in 25 more universities, doubling the number of universities offering graduate level management education.

Despite the effort to grow the local management education, there are still far fewer places than applicants for these courses. Every year, more and better-qualified candidates are competing for a limited number of places as these programs gain popularity among the local business communities. On the average, only 25% of those who applied were admitted, and the acceptance rate at the top programs are often much lower. For example, the China Europe International Business School in Shanghai only accepted 5% of its applicants in 1997. While the National MBA Education Supervisory Committee is going all out to grow these management programs, it is limited by the scarcity of qualified business lecturers and suitable teaching materials in China. It was estimated that training 10 lecturers for each of the 26 new business schools could take up to 10 years.

1.1.2 Training and Poaching

When qualified managers cannot be hired from the market, some firms choose to send their local employees to management training courses. Large multinationals that need hundreds of managers often consider management training as their most important long-term investment in China. While some firms send their staff to regular MBA programs locally or overseas, others prefer to use less costly executive training programs that last only months or even days. A few far-sighted firms even set up regular in-house programs to systematically train their managerial candidates on leadership and management skills.

For smaller companies that cannot afford to invest in training, "poaching" trained managers from other firms becomes an attractive alternative. They use high salaries, fancy job titles, big bonuses and other fringe benefits to lure qualified managers away from their competitors and neighbors. As a result, those who were willing to invest in training before become reluctant to do so, fearing their trained managers may leave before they could reap the benefits of their investment. Others continue to train, but do so with much caution. Nabisco, for example, went to the extent of stopping the issuance certificates to their Chinese employees who have completed training courses so that they cannot use them in future job interviews.[3]

The end result of poaching is a vicious cycle in the managerial job market: poaching discourages training, and that shrinks the pool of qualified managers. Shortage worsens as a result, and firms are forced to resort to more headhunting. On the other side of the game, employees have to be rewarded every time they job-hop, and that causes pay packages to steadily spiral up, encouraging even more job-hopping. In 1997, for example, executive pay was growing at as much as 20% per year in China, compared to only 7% in Hong Kong.

[3] Tim Healy, "Mainland Lessons", Asiaweek, February 14, 1997

1.2 Hiring Options

For foreign firms looking to hire managers in China, what options do they have? To most of them, the two most significant factors that enter into the hiring equation are the candidate's qualification and nationality. The adequacy of a candidate's qualification depends on the specific post. Many firms require formal management education, for example an MBA degree, or extensive management experience, or both. For some positions, prior management experience in China would definitely help.

As for nationality, an employer may choose from many different categories, each with their own advantages and disadvantages. The main groups include non-Chinese expatriates, local Chinese, overseas Chinese, and company managers in other Asian countries who are ethnic Chinese. John Quelch of Harvard Business School cautioned against seeing these as completely distinct categories. Rather, he recommended that the company recognizes a continuum between the pure local national and the pure expatriate, and that the company creates human resource databases containing relevant information. Wah Hui Chu of Monsanto suggested measuring each candidate's "headquarters credibility" and their "local knowledge," recognizing that both are important for senior managers to succeed in China.[4]

1.2.1 Non-Chinese Expatriates

Chinese managerial practices in their current state of development are generally insufficient to run a western-owned firm efficiently and profitably. The management skills and mindset inherited from China's command era may paralyze a market-oriented firm. In such cases, foreign managers who understand a business intimately are essential in the start-up stage when a firm first invests in China. While western managers may not be ideal for China in the long run due to language and cultural difficulties, they may be essential to the initial success of a firm's operation in China. Besides, having good access to the top management at headquarters may well be a critical success factor of an offshore operation. Bringing in expatriate managers who have strong relationship with the foreign headquarters may be essential for the respect and credibility they bring.

[4] "*Who's The Boss? A Group Of Experts Debate A Crucial Question: Who Should Run The Overseas Operation*?" Wall Street Journal, September 26, 1996

Beside cultural and language shortcomings, the main disadvantage of having western expatriates in China is the "hardship pay" they command. An average expatriate at Hoechst, for example, costs US$300,000 per year for salary, housing, children's education and other benefits. To this, the expenses for interpreters and drivers must also be added. A local employee may cost just 10-20% of this amount.[5] Despite the high cost, some expatriates may only last a few months in China for many feel compelled to leave when they find the culture shock to great to bear.

Some have the opposite problem. They feel that no subsequent assignment back home or anywhere else in the world could possibly match the breadth of their responsibility and the exhilaration of their China experience. Consequently, they choose not to return, but to remain in the region, trading on their regional skills rather than their professional credentials. This is usually perceived as a heavy loss to the firms that send them to China.

All in all, sending expatriate managers to China is not considered a good option in today's business climate. They are perceived as expensive and ineffective. In fact, most foreign companies prefer to have Chinese to manage their businesses in China. Cesar Bacani of Asiaweek has the following advice for the western expatriates: "But don't count on staying in China for a long time. Think of it this way: more than 1 billion Chinese want your job."[6]

1.2.2 Overseas Chinese

To many foreign firms, hiring overseas Chinese is the best option for their managerial recruitment in China. The obvious reason is the Chinese language and cultural background this category of managers have. Most of them speak Mandarin and at least one other Chinese dialect, and they grew up under the deep influence of Chinese culture and traditional values. Such background and language skill allow them to assimilate easily into the Chinese community in China and that greatly facilitates communication in the daily operation of a firm. Sharing the same cultural heritage and language with the local employees also allows the overseas Chinese managers to command trust and gain respect quicker and easier.

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[5] "*Who's The Boss?*" Wall Street Journal, September 26, 96

[6] Cesar Bacani, "Becoming a Foreigner", Asiaweek, February 14, 1997

Another attractive quality of the overseas Chinese managers is their strong business sense. Many of them are citizens of Hong Kong (which was considered "overseas" not too long ago, and it still is in many aspects), Taiwan, Malaysia, Singapore, Thailand and Indonesia, others are from the U.S., Australia and other western countries. The overseas Chinese population in these places are well respected for their entrepreneurial spirits and their ability to accumulate wealth through hard work, savings and strong survival instinct. To many employers, such qualities make them good managers in China.

Overseas Chinese managers are also valued for the proficiency in English. Many of them come form countries with long British colonial history, and they learn English as their second or third language at their very early school age. In fact, many of them grow up in societies where English is used as the official business language. Their good English allows overseas Chinese managers in China to communicate easily with the overseas headquarters of western firms.

Since they are foreign nationals, most overseas Chinese command the same expatriate pay packages as their western counterparts. They are therefore not considered a less costly alternative compared to the western expatriates, but rather an option that provides more "bang for the buck."

1.2.3 Chinese Nationals From Abroad

Another option to consider is Chinese nationals studying or working abroad, especially those who reside in the home country of the firm concerned. This may be a good or bad recruitment tactic, depending on the background of the candidate and his/her experience. The obvious strength of this option is that by hiring a Chinese person who is familiar with the company's home country, the employer gets the best of both worlds: someone who understands Chinese language and culture, and someone with western language and cultural exposure.

Unfortunately, the recruiter cannot take the above assumptions for granted. He/she should research how long the candidate has been away from China to judge if the much desired country knowledge does indeed still exist, and find out the candidate's attitude about returning home. "Some of these candidates find the business culture [in China] unfathomable because they left long ago. At the same time, their local co-workers often are quickly dismayed by the newcomers' foreign ways and resent them and their high pay packages.... For their part, the managers find themselves caught between two cultures and often torn by divided loyalties. Their blood ties make them keenly aware of the need to adapt to local business customs... but [that may lead them to] alienate the home office."[7]

One possible solution is to offer "cultural translators" to managers who have been away a long time. For example, Amoco Corp., Alltel, and Avon offer cross-cultural training to ethnic expatriates. Another solution, according to Wang & Li Asia Resources, a California-base recruitment firm, is to place ethnic Chinese "who aren't expecting special privileges and who realize they need to fit in immediately" in order to prevent the development of cliques and potentially damaging resentment.[8]

However, many returning Chinese managers today expect to be treated as corporate employees who happen to be in China, rather than Chinese employees who are likely to make their career with the firm in China only. They have been exposed to multinational career paths, opportunities and rewards when they were abroad, and they want to be part of the corporate game. Today, they are scarce enough in number to walk away confidently from any company that is not willing to fulfill these expectations.

1.2.4 Local Chinese

To last option discussed here is hiring local Chinese managers and providing them with the appropriate managerial training to supplement their inherent shortcomings, if any. The best justification to hire this category of managers is of course their local knowledge and their local business network. For the same level of experience and academic credential, they also cost many times less than the expatriate managers.

On the other hand, foreign managers may find it difficult to select effective local managers due to language difficulty. When interviewing Chinese candidates, western managers have a tendency to equate good use of English and westernized behavior with good managerial skills. They may also take for granted that a local person must have the political, cultural, and social skills to be effective locally, which may or may not be the case. It is particularly important for a foreign interviewer to keep in mind that a well-connected manager does not always make a good manager in China. There is more to

[7] "*Management: Is Transfer To Native Land A Passport To Trouble*?", Wall Street Journal, June 3, 1996
[8] "*Management: Is Transfer To Native Land A Passport To Trouble*?", Wall Street Journal, June 3, 1996

management in China than being able to pull a few strings and being able to speak fluently in the local dialect.

Among the local Chinese, there are two further choices: experienced managers or fresh graduates from universities. Experienced managers can be headhunted from the SOEs or other companies in the neighborhood. They usually cost more than the new management graduates to hire, but they can be productive from day one, provided they do not have some desirable old work habits to "unlearn". On the other hand, the young graduates are particularly attractive because of their university education, and their ability to learn quickly. Most of them have not learned the "SOE mindset" and can therefore be trained to accept market economy concepts with relative ease, especially if they were graduates from one of the few local MBA programs in China.

1.3 Management Education in China

1.3.1 Introduction

As China opened its door to foreign investments in recent years and as Chinese enterprises began to venture out to the global market, it has become increasingly clear that a good supply of local managers is essential to the well being of China's economic future. As a result, professional management education took center stage in the economic reform process and became a priority item in the Chinese education system. "In order to build a socialism with Chinese characteristics, we need a large pool of economics and management talent. They know the basic principles of market economy, are familiar with its operation, and at the same time have a good understanding of Chinese enterprises," said Zhu Rongji, the newly elected premier of China and Dean of Economic and Management School of Tsinghua University in Beijing (Appendix 1). At a more personal level, Zhu expressed his concern and expectation for management education in China when he visited Tsinghua's business school in 1994. "If only each of you can set straight a Chinese enterprise, I see hope in our country," he told the business school students during a dialogue with them.

To assess the demand in the managerial job market in China, the Economic and Trade Commission (ETC) of China did a "leadership quality" survey on large- and medium-size state-owned enterprises in 1995. The survey reported that 77.2% of state-owned factory managers or deputy managers were university-degree holders, and 68% hold degrees in sciences or engineering. "However, very few of these managers had formal management training or know how to manage professionally," said the report. In October the same year, the ETC set a specific target for the schools of management in China: they were expected to eventually produce five thousand professional managers for the country per year.[9]

In fact, MBA education in China began as early as 1988 when a special committee, known as the National MBA Education Supervisory Committee, was formed by the State Education Commission to study the feasibility of offering MBA programs in Chinese universities. Between 1988 and 1989, the

[9] Source : "Working Towards an Excellent Chinese MBA Education," http://www.em.tsinghua.edu.cn/docs_c/mba/cmcc.htm

committee studied foreign MBA programs, investigated local demand, and evaluated the capabilities of local institutions in conducting MBA programs. In 1990, a detail proposal for MBA education was submitted to and approved by the parliament. Included in the proposal were details on admission criteria, curriculum design, training methodology and degree requirements. In 1991, nine major universities were selected to launch a pilot batch of MBA programs in China. By 1993, the total number of pilot MBA programs increased to 26. At the same time, resources were pooled among these universities to put together a set of national guidelines and standards for various aspects of a Chinese MBA education. A nationwide database was also set up to collect and to maintain Chinese case study materials for teaching and research purposes. The first batch of less than 200 local Chinese MBA students graduated from the pioneer classes in 1994. In the same year, 1800 new MBA students in search of better career were admitted to the fast expanding MBA programs to begin their management education[10].

In the years that follow, continuing efforts were made to ensure sufficient good students, teaching resources and financial support were channeled to the new Chinese MBA programs. A national task group continued to improve the content and expand the capacity of MBA education in China. In 1997, an addition of twenty-five institutions was authorized to offers MBA programs in China, making the total MBA programs fifty-one nationwide. In the same year, a total of 10,982 candidates enrolled to sit for the MBA entrance examination, "surprising even the most optimistic MBA educators."[11]

"When the MBA program was first introduced in 1991, most people did not know what an "MBA" was. Some even confused it with "NBA", the American National Basketball Association," said Mr. Zheng Shao-Lian, Dean of Fudan University's School of Management in Shanghai. Today, getting an MBA has become the gateway to success for many ambitious young people in China. Every year, more and more applicants compete for the very limited number of spaces in the MBA programs. In 1997, for example, only ten percent of some one thousand applicants for Fudan University's MBA program were accepted. The primary concern today is the lack of qualified teaching resources and facilities to run more MBA programs in order to satisfy the fast increasing market needs.

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[10] The MBA program of Tsinghua University in Beijing, for example, only graduated 14 and 19 MBA students in 1994 and 1995 respectively. By September 1997, 284 new MBA students were admitted.

[11] Source : "News On-Line", School of Economics and Management, Tsinghua University (http://www/em.tsinghua.edu.cn/docs_c/committee_1/nmbac4.htm)

1.3.2 Admission Criteria

Compared to a typical MBA program in the West, Chinese MBA programs do have some unique Chinese characteristics due to the socialist environment in which they operate. A standardized national examination was introduced nationwide in 1997 to admit students to the various MBA programs. According to the "Application and Admission Guideline" published on the Tsinghua University homepage, prospective MBA students who wish to sit for the standardized entrance examination must satisfy the following conditions:

- The candidate must support the leadership of the Chinese Communist Party; willing to serve in the modernization of socialism; have good conduct and be law-abiding;

- The candidate, depending on his/her prior academic qualification, must have the following minimum work experience:

Academic Qualification	Minimum work Experience
Undergraduate degree holders	3 years
Vocational school diploma holders	5 years
Graduate degree holders	2 years

- The candidate must not exceed forty years of age.

- The candidate must be in good health, as certified by the standard medical examination.

- An employed candidate must obtain an official approval from his/her employers to attend the program. Other candidates must present proof of residency issued by the local government or work unit (*danwei*) responsible for their personnel files.

Standardized MBA Entrance Examination

Due to lack of experience in conducting MBA programs, much inconsistency was found among the 26 pilot programs in the early years of MBA education in China. Not only were there large discrepancies in curriculum content and teaching quality, the admission criteria varied considerably among programs offered by different universities. In order to achieve an acceptable level of consistency in the admission process, the State Education Committee, the Academic Degrees Committee of the State Council and the 26 universities concerned formed the National MBA Entrance Examination Research Center to develop a standardized MBA entrance examination. The new examination, known as the GRK ("*Guanli Ruxue Kaoshi*" or "Official Entrance Examination"), was designed to both reflect Chinese characteristics and meet international standard. The first GRK was introduced to the applicants seeking admission in 1997.

The GRK examination for MBA programs in China can be thought of as equivalent to the Graduate Management Admission Test (GMAT) in the graduate school admission process of the American system. However, the Chinese standardized examination covers a wider range of subjects and is therefore a much longer test for the prospective MBA students. The 1997 GRK consists of five 3-hour written examinations for the following subjects: Political Studies, Foreign Language (English, Japanese or Russian), Mathematics, Management, and Language & Logic. While the respective universities set the examination questions for Political Studies, a national MBA examination committee centrally set questions for all other subjects.

"The standardized entrance examination is in fact a very good element in China's MBA education," said Mr. Philip Kwok, the Program Liaison for MIT Sloan School of Management in Hong Kong. "Since having an MBA degree has become such a lucrative qualification in China, there was always a fear of "backdoor admission" for unqualified students. For example, some rich or politically connected parents may try to secure places for their children through bribery or political influences. With the GRK and its transparent administration, those who are truly qualified can now compete fairly for a much sought-after place in their target MBA programs. That ultimately helps to preserve fairness and high quality in the entire system."

Unlike the American system, Chinese MBA candidates have to decide which two universities to apply to before the entrance examination, and they have to sit for the examination in their first-choice university. The MBA admission committee of each university is free to set up its own criteria to admit its pool of candidates based on their first-round GRK results. The minimum acceptable GRK score for each program and the selectivity of the second-round process depend on the size of the candidate pool and the available resources of a given MBA program. Short-listed candidates usually have to go through a series of interviews, or even more written examinations before the final admission decisions are made. The discrepancy between the more popular programs and the less popular ones remain quite high. For example, the most popular Fudan University MBA program attracted 965 candidates in 1997, whereas only 65 candidates chose to compete for a place in Tzongnan Finance University.

1.3.3 Curriculum and Content

Although the National Guiding Committee for MBA Education has set fundamental standard requirements and guidelines for the content and teaching of all MBA programs, the individual programs are allowed to maintain their own characteristics to a certain extent. However, the committee requires each MBA degree candidates to complete a thesis.

Much of the teaching material currently used in Chinese MBA programs is based on that used at respected US and European business schools. Corporate finance and accounting, for example, were transferred wholesale from the West. However, there has always been a desire to localize the content so that students could learn from business cases that are more relevant to their future career. Much efforts are being put into developing business case studies based on success or failure stories of Chinese firms. Case development is also a costly endeavor. More funding for case research and case writing must be allocated before good quality Chinese cases can become the major learning tool for Chinese MBA students.

1.3.4 International Collaboration

Given the large number of foreign companies operating in China and their desire to localize their management teams, it is in the interest of these companies to help develop management education in China. With funding provided by firms with business interests in China, educational institutions and trade organizations from the United States and Europe began to introduce MBA-type management training in China since the late 80's. While some of them provide such programs independently as foreign institutions, most formed educational joint ventures with local institutions to share risks and resources. Unlike MBA programs offered by local Chinese universities that focus on training managers for local Chinese enterprises, almost all of these so-called international MBA programs were designed to prepare managers for foreign enterprises in China. Compared to the local MBA programs, these programs have curricula that place heavier emphasis on foreign languages and global business and management knowledge. Since their courses are usually taught in English by American or European instructors, only students who have achieved a reasonable level of English proficiency are admitted.

The China European International Business School (CEIBS) is probably the best know among all international management programs in China. CEIBS started as a collaboration between the European Union and China's Jiaotong University in Shanghai in 1984. Since the launch of its first international MBA program, CEIBS management programs have quickly become extremely popular among Chinese managers who set their career target at better paying jobs in foreign joint ventures. Although its 20-month MBA course charges a fee of US$4,000, almost twice the annual income of an average Chinese, thousands of applicants compete for less than a hundred places in the program every year. On their Internet homepage,[12] CEIBS claimed to have educated more than 50 percent of all MBA graduates in China.

Some major international collaborative management programs found in China are listed in the table on the following page:

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[12] http://www.ceibs.edu/

Chinese University	Partnership	Established since	Enrolment in 1997	Remarks
China Europe International Business School (CEIBS)	Shanghai Jiaotong University / The European Foundation for Management Development	Nov 1984	130	Also run an Executive MBA program. Acceptance Rate : 5%, Total Tuition : RMB40,000 (local), US$ 15,000 (foreign)
Dalian University of Technology	State University of New York at Buffalo, Rutgers, the State University of New Jersey	1984	unknown	During the last three months the 2-year program, students go to the United States to study, practice and conduct research
Guanghua School of Management of Peking University	Taiwan Guanghua Educational Foundation	December 1993	unknown	
Tsinghua University School of Economics and Management	MIT Sloan School of Management, Cambridge, Massachusetts	1996	40	Total tuition in 1998-2000 : 40,000 RMB
Fudan University School of Management	MIT Sloan School of Management, Cambridge, Massachusetts	1996	40	

Private companies that feel obliged to do their parts in contributing to the management education in China sometimes do so by providing sponsorship to business schools and management education programs. Recently, Coca-Cola committed 500,000 RMB (US$60,350) to the Business Management School of Shanghai's Fudan University, to be used for teachers' awards, graduate scholarships and the purchase of new teaching equipment and materials. In Beijing, Hang Seng Bank form Hong Kong donated a purpose-built building to Tsinghua University's Economics and Management School for its future expansion.

1.3.5 Career Options and Prospect

The career path of a Chinese MBA student often depends on how his/her MBA education is financed. Currently, many Chinese MBA students are employees sponsored by state-owned enterprises. For these students, they are obliged to return to their original SOEs to fulfill the contracts of their sponsorship. They usually have to work for four to seven years before they become “free agents” again.

Those who pay for their own business education do have a lot more options. Few of them choose to work for an SOE after their graduation. Foreign and joint ventures firms are high on their priority lists because they can usually ask for a salary three to five time higher than their pre-MBA pay. According to some MBA students, their “pecking order” among foreign firms are American and European, Japanese and Korean, Taiwanese and Hong Kong, and lastly South East Asian. Most of them quoted salary, training and reputation of the firms as their main career considerations.

Chapter Two – Demand-Side Case Studies

China's reform and open-door policy had attracted a large amount of foreign investment to the country since the late 80's. Hundreds of thousands of foreign enterprises have set up factories and offices in China to exploit its cheap labor for export manufacturing, and to produce and market all types of goods and services to its mysterious 1.2-billion consumers. These factories and businesses in China need to be managed, but qualified management talent has always been in short supply, partly due to the great demand, and partly due to the legacy of a socialist economy.

This chapter studies the demand side of the managerial HR market in China by examining three different HR models:

1. The American or western model that emphasizes formal training;
2. A low-risk but less commonplace model that happens to be Japanese; and
3. The overseas Chinese model based on ethnic connections.

A Caveat - Although a nationality or an ethnic group is associated with each of these models, such associations are used only to convey a preliminary observation (especially in the case of the second model, and probably with the exception of the overseas Chinese model), and to facilitate the organization of this thesis. Further research needs to be done to prove or disprove such associations, but that is beyond the scope of this thesis.

2.1 *Let's Train Them* - The American Model

When large American multinationals from the automobile or telecommunication industries invest in China, they often do so by having major joint ventures or large greenfield operations involving hundreds of millions of dollars of foreign direct investments. They build large and modern manufacturing facilities or assembly plants, and hire thousands of locals to work in these facilities. They are often required to transfer technologies to the local partners and employees, but they are also given the rights to sell to the national market and to export what they produce in return. This section of the chapter studies the managerial HR problems and strategy of Motorola China, a typical large-scale American investment in China. A day in life of a typical manager in Motorola China is also described to highlight some relevant HR issues.

2.1.1 Company Background

Motorola is a leading supplier of advanced telecommunications and electronics equipment in China. The company set up its first representative office in Beijing in 1987. Since then, its business has grown rapidly in China, leading to the incorporation of Motorola (China) Electronics Limited (MCEL) in Beijing, a wholly owned Motorola company and headquarters of China operations. MCEL's current product mix in China includes cellular phones, pagers, radio communications systems, and communications and semiconductor components.

Motorola's operations have been "very successful" in China. In 1996, its combined sales to China and Hong Kong were US$3.1 billion, or approximately 11% of the company's worldwide revenues. Motorola's investment and committed investment in China totaled US$1.2 billion, making it the largest U.S. investor in China. Motorola exported US$1 billion worth of products and services from the U.S. to China in 1996, supporting jobs in Arizona, Florida, Illinois, and Texas. However, it is not clear how much profit Motorola has made in China.

Today, Motorola employs more than 10,000 employees in China in some twenty manufacturing facilities, R&D centers and corporate offices. Managing such a sizable workforce on a foreign land is obviously a very challenging task for Motorola. The author interviewed Mr. Yao Weimin, the Section

Head for "*Leadership Development & Strategic Talent Sourcing*" in Beijing to learn how Motorola recruits and manages their management talent in China. In order to take a closer look at the life of an expatriate manager in China, the author also traveled to Tianjin, a city 120 kilometers northeast of Beijing, to visit Mr. Arthur Tan,[11] a manager at Motorola's Tianjin Paging Operations.

2.1.2 Problems and Challenges

Although Motorola does face all the managerial HR issues discussed in *Chapter One* as a large corporation operating in China, Yao singled out two problems as most challenging to Motorola China today. "Having built up a reputation as a good employer in China in the past decade, getting managers to work for us is less of a problem today than it used to be a few years ago. If we cannot find a suitable candidate locally, we can always find someone in the region through our recruitment network. Today, we also have big enough local workforces at all levels to allow us to promote from within. Once we have someone in a managerial position, our good training programs can usually make sure he or she performs to our expectation." According to Yao, the biggest problems for Motorola today are those related to retention and localization.

Retention

As good managers are still scarce in China, those who are experienced and well trained command high salaries and are very attractive to other firms. "Many Hong Kong and Taiwanese firms come after the people we have trained, and hire them away at higher salary," said Mr. Sim Lee, general manager of the Paging Manufacturing Plant in Tianjin[12]. Attracting potential management talent has also become an increasingly challenging task, particularly when Motorola adopts a strategy of "low pay, but lots of education and training." "We had an excellent internship employee who was a senior at Tianjin University," said Mr. Yao, "but we could not keep her because she had scholarship from four American universities for graduate engineering studies, in addition to more lucrative offers from other companies."

[11] Name disguised at interviewee's request

[12] Cutler, Liang and Yan, "*Motorola China - Human Resources 1997 (A)*", Case Report, MIT Sloan School of Management, April 1997.

In Yao's opinion, most managers in China leave a company because of cultural conflicts or better salary elsewhere. "Another firm can always offer a salary which is too good for someone to refuse if that firm really wants that person." Otherwise, some managers leave because they find it difficult to adopt to the company culture of a workplace or cannot get along with some of their bosses or colleagues. According to Yao, Motorola China has an annual attrition rate of 10%, but he was not sure if that figure also applies to the turnover at the managerial levels. When managers leave, Motorola China always try to fill the new vacancies by promoting from within first before they recruit from the outside job market.

Salary Discrepancy

As Motorola tried to localize their managerial workforce by replacing expatriates with local hires, re-aligning the compensations of these two groups of managers becomes another challenging task for them. When more local managers are being promoted to higher levels of management, situations in which two managers having the same responsibilities but getting very different salaries began to appear. They cannot offer the local managers the same kind of compensations as what the expatriate managers at the same level are getting because that defeats one of the major reasons to localize, that is, to reduce costs. On the other hand, trying to equalize compensation by undercutting the expatriate managers is difficult since they are still in demand as long as 100% localization is not achieved.

On this issue, Motorola is apparently taking a middle-ground approach currently. They are trying to pay the local managers well enough to keep them loyal and to make them feel they are fairly treated. On the other hand, they are also gradually cutting back on some conspicuous expatriate benefits at some levels of their management to reduce overhead costs and to eliminate some compensation discrepancy. For example, some expatriate allowances were lowered recently and the number of paid holidays for some managers have been reduced. Since personal compensation is always a sensitive issue anywhere, Motorola will have to handle the situation very carefully However, this is only a problem during a transition period which will disappear on its own with the attainment of full management localization in the future.

2.1.3 Policies and Strategies

This section studies some major managerial HR strategies Motorola uses in China to address the above and other problems.

Overseas Chinese

Like many other foreign enterprises in China, Motorola relies heavily on overseas Chinese to manage their operation in China. According to Yao, about 90% of their expatriate managers have Chinese cultural and language background. Among them, more than half are from Malaysia or Singapore. For example, Mr. P. Y. Lai, the President of Motorola China Electronic Limited (MCEL), is a Chinese Malaysian who joined Motorola after working for Intel for twenty years.

Another example is Mr. Sim Lee, the General Manager of the Paging Manufacturing Plant in Tianjin, the largest and most profitable plant in China. Lee worked as a manager in Motorola Malaysia for more than 5 years before he was transferred to China. As a Chinese Malaysian, Lee speaks both English and Mandarin fluently. When asked about life as an expatriate in China, he mentioned a few difficulties in adjusting to local lifestyle when he first went to Tianjin. Most of the difficulties he brought up were related to inconvenience and lack of entertainment. For example, his wife found it difficult to shop for groceries and there was nowhere to go at night. The barrier of cultural differences most expatriates encounter when they work abroad did not appear to be a big concern for him. A more detailed description of an expatriate's life in China is presented in *Section 2.1.4* below.

Motorola China prefers to employ overseas Chinese managers because of their regional experience in marketing, distribution, manufacturing operations and their language capabilities. These qualities are especially valuable during the start-up phase of Motorola's operation in Tianjin. The success of these managers can be seen from the fact that the Motorola Tianjin plant broke Motorola's corporate record by achieving Six Sigma Quality, a very stringent and much coveted quality measure, in the shortest time in the history of the firm.

Localization

Motorola considers China a manufacturing base and a major market. The company's $1.2 billion investment demonstrates its long-term commitment to the Chinese market. Besides having a very aggressive policy to source for manufacturing components locally, they also matches their commitment with a proactive human resources strategy of "management localization," which focuses on hiring and training employees who are either local or have a strong mainland Chinese background. Motorola believes that to be deeply rooted in China and successful, it needs people who have a significant level of local expertise and who are familiar with Motorola's products, technologies, corporate management and culture.

Motorola's management localization is being implemented in three different stages of increasing "Chineseness". During the first stage, Motorola brought in overseas Chinese managers from Southeast Asia, mainly from Singapore and Malaysia, to lead their management in China (see *"Overseas Chinese"* section above). Once the basic management structure is in place, stage two was introduced to identify and recruit high-caliber Chinese students studying overseas. Yao himself was a good case in point. He has an MBA degree and was recruited by Motorola when he was pursuing his master's degree in Urban Studies at MIT. "My education in the U.S. provided me with a good understanding of modern management in Western market economy, from which I can draw upon and apply to Motorola's business in China," said Yao. Direct overseas recruitment is usually for high-level management positions only, and these positions command much higher pay then the local hires.

The final stage, which is also the ultimate goal of Motorola's management localization is to have local Chinese people managing the China operation. "Right now you can still see a lot foreign managers, particularly Chinese-speaking managers from other Asian countries," said Lee, "but we expect the majority of managers to be local Chinese within the next two to three years." Motorola projected that by the year 2000, 60% of their managers in China would be local Chinese.

Yao told the author about the bottom-up approach of Motorola's localization plan. There are about ten management levels in Motorola worldwide, from the CEO on the top to production supervisors and group leaders at the entry level. The localization scheme started at the lowest level and is gradually moving up the hierarchy. According to Yao, about 20% of senior managers in China are now locals and 80% are still expatriates. However, at the lower levels, 80% of the mid-level managers are currently locals, whereas levels of small-department managers and below (supervisors and group leaders) are all localized. The highest ranked local managers at Motorola China now are department heads.

Motorola China is doing all they can to localize their management so that they can reduce cost, build a management team that is highly familiar with the local environment, and to provide employment locally so as to improve their relationship with the local government. They plan to achieve their target through good marketing, effective recruitment procedures and excellent in-house training programs. However, given the large contingent of expatriate managers they currently have, they are also obliged to redeploy their existing leadership in China regionally or even globally.

Training

It is a Motorola global policy that every employee, from the CEO to the accounts clerks, must go through a minimum of 40 hours of training per year. According to Yao, the training hours are much longer in China - the average is probably 70-80 hours per employee per year, and some employees have as many as 100 to 200 hours. Motorola University, Motorola's corporate training organization that designs, develops and delivers training courses and consulting services to its employees worldwide, established its first Chinese branch in Beijing in 1993, and a second branch in Tianjin two years later. Training programs were customized for the Chinese environment to provide highly relevant training to Motorola's Chinese employees, business partners and government officials.

Besides technology transfer, one of the key missions of Motorola University in China is to complement Motorola's management localization plan by providing management training to candidates at all levels. Managers in Motorola China have various opportunities to receive training, including on-site and overseas training. The Chinese Accelerated Management Program (CAMP) stands out as the company's flagship education initiative. It was introduced in 1994 as an intensive management training program for high-potential Chinese employees. The 10-month program includes classroom and on-the-job training, as well as a two-month overseas assignment. It covers basic management knowledge, problem solving skills, communication techniques, administrative skills and other micro and macro leadership skills. "Every trainee in CAMP has at least an undergraduate degree, some even have graduate degrees," said Yao.

Besides having full-time teaching staff in Motorola University branches in China, managers from various departments are sometimes invited to teach short courses in training programs. Senior managers share their personal experiences and knowledge with management trainees and help to provide teaching material for locally customized courses. Based on changes in the local environment and feedback from the trainees, existing program are constantly being improved upon, and sometimes new training programs are introduced when the needs arise. For example, LEAD (or Leadership Effectiveness Advanced Development), a 250-hour leadership training program, was introduced recently in China as an effort to accelerate the management localization process.

According to Yao, instead of offering high salaries like other firms do, Motorola prefers to provide good training to attract and retain their managers. Although the costs can be just as high - Yao estimated the cost of training some of the managers to be as high as the cost of sending them to attend overseas MBA programs - Motorola gets the benefit of having a highly-skilled management team as long as these managers stay with the firm. Considering the fact that high-pay managers can still be lured away by even higher pay, this is probably a good HR strategy to maintain a high-quality management team in places where managerial human resources are highly mobile. Such strategy can probably be even more effective if a large portion of the training is firm specific, since the trained managers are more likely to stay if the skills they gained from training are not appreciated elsewhere. On the other hand, the author believes, unlike technical training, management and leadership training transfers general skills that are applicable rather universally in any firms. Due to this reason, Motorola in China is still running the risk of training good managers for other firms in their neighborhood. A senior manager at Motorola agreed with this observation when asked.

Rewards and Compensation

Being a big country operation in an established worldwide organization, Motorola China has a well established and systematic scheme to reward their managers at all levels. Expatriates managers usually receive an additional allowance on top of their original home-country salary. Besides, they are also rewarded with company cars, free family housing, annual home leaves, and other standard "expatiate perks" enjoyed by their American counterparts. The local managers are well rewarded, too. They enjoy salaries that are "much higher" than the local average, good medical care, and a very conducive working environment. However, as mentioned earlier in this section, they are not entitled to most of the fringe benefits expatriate managers at the same levels are having.

To provide better incentives to their local management, Motorola has recently begun an employee home ownership program to build apartment buildings and sell the units to their managers on attractive terms. The program covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability. The direct objective for this program is to attract and retain the best employees, particularly managers, by providing a high-quality living environment. Even though the first two buildings were ready for occupancy by the end of 1996, demand still far exceeds supply. A home ownership program like this would improve management retention rate, assuming Motorola China has made the necessary legal, financial and social arrangement to "repossess" these apartments should the managers leave the firm before the end of the minimum employment period agreed upon.

2.1.4 An Expatriate's Life

Mr. Arthur Tan has been a Manager for Motorola Tianjin's paging facility for the past three years. He is a Chinese Malaysian in his mid-thirty, and he lives in a company apartment in Tianjin City with his mother, his wife and his infant daughter. Tan does not have a university degree or any professional management training, but he has more than 18 years of work experience to compensate for it. He left Malaysia to work in Singapore after graduating from high school, and spent most of his working life on the island state before joining Motorola in China. Tan worked for Motorola for three years in Singapore in the late 80's before he left to join another Fortune-500 company as a regional marketing manager. When Motorola needed managers in their new investment in Tianjin, they made Tan an offer that he could not refuse. Tan moved to Tianjin with his wife in 1995.

The author was shown to Tan's office adjacent to a pager production line in Motorola Manufacturing in Tianjin, and was allowed to observe him work for half of the afternoon. He was busy on the phone most of the time and hardly had time to be interviewed. While on the phone, he negotiated for delivery schedules and quantities most of the time, using English, Malay, Mandarin, Cantonese and a number of other Chinese dialects interchangeably, convincing or negotiating with his colleagues and suppliers in Beijing, Hong Kong, Penang, Singapore and the U.S. Most of Tan's subordinates were young local Chinese and they sometimes waited in line outside his office to seek his advice or to have him sign documents. "Many of them are university graduates and they are all very capable people," said Tan. "We are trying to get more and more of them to move up to higher levels in the management."

At around 6:00 p.m., the phone began to quiet down and Tan's colleagues were seen leaving the office. "This is the time of the day when I can actually get some work done around here," said Tan, while reading and replying email on his Apple computer. Part of Tan's responsibility involves dealing with local government officials and local suppliers, and he often has to entertain them to "keep up a good working relationship". "I used your visit to excuse myself from going to a business dinner tonight, but most of the evenings I am obliged to entertain someone, be it some local officials or visitors from other Motorola offices." Tan also complained that he *had to* consume a lot more liquor after coming to China because of the excessive business entertainment, and his wife was not particularly happy about that. "Refusing to drink at a business dinner is socially unacceptable here. So far, I know of only one person who can get away with it, and that was because he has a genuine medical certificate to prove that he is unfit to drink," said Tan. "Both my wife and I have to accept this because it is part of my China deal,"

Tan left his office at around 8:00 p.m. that evening after signing the last document on his desk and making sure a visiting colleague from the head-office get a ride to the plant the next morning. He invited the author to have dinner at home with his family and stay a night in his apartment. The ride from Motorola's facility to Tan's apartment took about forty-five minutes, and we were driven there comfortably in Tan's chauffeur-driven Toyota limousine. On the way, Tan talked about getting a new minivan from the company the following week so that they can be driven around more comfortably when his father visits him later this year. He also called his wife using his made-in-China Motorola cellular phone twenty minutes before we arrived so that she could steam the fish for our dinner with the timing just right.

In the car, Tan finally had time to tell the author more about his being an expatriate in China. "I accepted the offer because it was financially rewarding and because I believe this is a good experience to show on my résumé. However, I have to work really hard and be on my toes all the time, and this is the result," said Tan, pointing at his mostly-gray hair. Tan's main concern was his family, and he was not sure how long more his wife was willing to stay in China. According to Tan, another concern many expatriates like him have is their career after their postings to China. Should he decide not to renew his expatriate contract in China after it expires, the company may not have a suitable position at home for him to return to. In fact, Tan's contract for China was going to expire in a few months, and he was still undecided between the options of renewing his China contract or accepting a short-term head-office position in Texas. “I really can’t tell what my long-term career plan is. I just want to make sure I save up enough now so that my family can still live comfortably when good positions like this are not available any more.”

On the issue of compensation, Tan said he really had nothing to complain about. Besides being rewarded with a good salary, a company car, a full-time driver, a part-time housemaid, annual home leave and family housing, expatriate managers like Tan and their families also get to go on a short vacation every month with all expenses paid for by the company. “They are still taking good care of us, but I heard some of these perks will gradually be taken away from some of us as they try to equalize the compensations between local and expatriate managers.” However, Tan did not seem too worry, probably because he did not think Motorola’s localization efforts would affect managers at his level before he decides to leave China.

Dinner was almost ready when we arrived at Tan’s “home away from home”, a high-rise apartment in a prime area in the city of Tianjin. The 2000-sq-ft unit had three bedrooms and a large living room, and was quite luxuriously furnished. According to Tan, Motorola paid more than US$5,000 per month for the rental of his apartment alone. At the dinner table, Mrs. Tan thanked the author for bringing her husband home early (“he is seldom home before 10:30”) so that their 6-month-old daughter can spend some time with him.

Sitting in the living room after dinner, the author asked Mrs. Tan about her life as an expatriate’s wife. “It was really difficult and inconvenient when we first came [three years ago]. Many things that were readily available in grocery stores or supermarkets in Singapore were simply not found here. Besides, the only entertainment for us in Tianjin then was shopping during the weekends. There are some interesting places in Beijing, but they are two hours away.” Mrs. Tan conceded that things have improved over the past three years as Tianjin became more developed, but “the air is still polluted, the streets still dirty, and the people still rude.” Although she sometimes spent her day visiting other expatriates’ wives in the neighborhood, most of the time she felt bored and lonely until they had their first child. Mrs. Tan decided to deliver in Singapore last October because she “did not trust the hospitals in Tianjin”. Tan’s mother joined them in Tianjin soon after so that she could spend some time with her son and helped take care of her first granddaughter.

2.1.5 Conclusion

Motorola's investment in China represents a business model shared by a large group of American and European multinationals. They view China as a huge potential market for their mass-market products but they believe much need to be invested before they can reap substantial profits in the long run. They invest heavily in large greenfield projects or major joint ventures, and they require large teams of professional managers to run their Chinese operations. Since few western expatriates are able to manage effectively in China, they turn to the overseas Chinese population in the region for managerial human resources. As the cost of such strategy increases with increasing demand for overseas Chinese managers, investors in China began to localize their management in China by providing systematic leadership and management training to qualified locals. Although the short-term costs of such training are high, they hope it will turn out to be cost-effective in the long run if good compensation schemes can be implemented to effectively reward and retain their trained managers.

Retention is no doubt the key issue in this strategy. In the case of Motorola for example, they wish to attract managerial candidates with their excellent training programs, but they definitely have no intention to become a training school for other firms which may poach their well-trained managers. Given the general applicability of management and leadership skills, any efforts to promote job loyalty among locally trained managers are at best moderately successful so far.

Another major issue is the transition from heavy reliance on overseas Chinese to full localization. The firms concerned must device the appropriate HR plans to redeploy their overseas Chinese managers after they were replaced by local management. Equalizing the compensation schemes for the expatriates and the local managers is yet another HR challenge that has caused some major concerns during the transition.

2.2 *Let's Buy Them* - A Japanese Model

This section studies the case of a less common model that happens to be a Japanese beer brewery. Although the author was not able to study this case in as much depth as he wanted to because of time and budget constraints, this case is included in this thesis due to its uniqueness and its apparent success. It is different from the American model in the previous section because no costly recruiting and training were involved. The firm concerned has also avoided some high operating costs by minimizing the need for expatriate managers. The initial investment in this case may be high compared to other models, but the risk of failure due to poor management is small because a good choice was made in selecting the investment target.

2.2.1 Case Background

Kirin Beer was first introduced in Japan in 1888[13]. After dominating the Japanese beer market for more than a century, Kirin still has the largest market share (43% - 44%) in Japan today. Outside Japan, Kirin Brewery Co. Ltd. ranks seventh in the worldwide beer industry in terms of shipment volume. Their flagship Kirin Lager was also the fifth most popular beer in the world in 1996. However, more than 30% of Kirin's revenue in 1996 was derived from non-beer businesses, including soft drinks, liquors and wines, pharmaceutical products, agribio businesses (seedling, flower trading, genetic engineering, etc.), restaurant outlets and engineering. In 1996, Kirin sold ¥580 billion[14] of beer, ¥242 billion of soft drinks and ¥59.7 billion of other products, making a net profit of ¥34.4 billion.

According to Kirin's 1996 annual report, Taiwan was Kirin's "largest and most successful overseas market". President Group, a food manufacturer and distributor from Taiwan, has been a long-time business partner for Kirin's investments in Taiwan. President produces beverages, instant noodles, dairy food, frozen food and edible oil. Among other things, President also represents Tropicana Juice and Seven-Eleven convenient stores in Taiwan.

[13] Source: Kirin Brewery Company, Limited Annual Report 1996
[14] US$1 = ¥133.45

Contract Brewery

Kirin's first attempt to market beer in China was accomplished through the so-called *contract brewery* arrangement. Under such arrangement, a local brewery was contracted to brew Kirin-brand beer based on an agreed price and a recipe provided by Kirin. Since existing brewing facility was used for such production, Kirin was able to introduce their beer to the China market in a very short time after the contract was signed. In May 1996, China Resources Snowflake Brewery in Shenyang began to produce Kirin Beer in China. Kirin opened its sales office in Beijing in June and started selling Shenyang-brewed Kirin beer in northern China in July. Two months later, Kirin beer was shipped to southern China to be sold in Shanghai and Guangdong.

Besides being able to bring the product to the market in a short time, the contract brewery arrangement also has the advantage of requiring very little technical supervision. Only one production engineer was sent from Kirin Tokyo to Shenyang for quality control purposes. The author was also reassured that Kirin beer produced by the contract brewery "tastes no different than the beer produced by Kirin brewery itself." The major trade-off for contract brewery is then the lack of control in production costs, production volume and delivery time.

2.2.2 Acquiring a Brewery

A Promising Acquisition

When Kirin was ready for their longer-term investment in China, they decided to acquire an existing brewery instead of constructing a new one or getting involved in another contract brewery deal. Together with their business partner, President Group from Taiwan, they did their careful investigation and selected a local brewery in Zhuhai, a city in Guangdong Province. The brewery was chosen partly because it was profitable and well managed, and partly because it was located in southern China where Kirin wanted to set up their next base in China. After identifying the acquisition target, they negotiated with the local government who owned the brewery to finalize prices and to set conditions for the acquisition. They subsequently took over the entire operation of the existing brewery in November 1996 and became the new owner overnight. The new business entity, Zhuhai Kirin President Brewery Co., Ltd. (ZKPB) was a wholly-owned foreign direct investment worth 50 million RMB. Kirin owned 60% of ZKPB, President owned the balance 40%.

The obvious advantage of an acquisition like this is its low business risk. Since the existing brewery had been well managed and profitable, the business risk of the investment was exceptionally low. Besides having the production facilities, the distribution channel and the customer base all in place, the investment also took over all the employees and the management team that was found to be quite competent. The local government made some good revenues from the sales and would continue to collect income from the new owner through taxation. They also set the condition that requires Kirin to retain most of the existing employees of the brewery.

A Complementary Partnership

Kirin recognized China's potentially large market from their market research and their prior experience with contract brewery. They brought their brewing formula with them and contributed technology and experience in brewery operation. They also intended to use the investment as a test case for their bigger plan for China and the rest of the world.

However, Kirin was new in China and knew very little about the local business environment. Their partnership with the President Group played an important role in the acquisition and the subsequent management of the brewery. President was an experienced investor in China. They knew the local market well because they had learned their lessons from their other businesses in China, and they had good access to distribution, marketing and bureaucratic channels. Being an overseas Chinese company, they also brought their language and cultural advantages to the partnership.

Beer Production

Under the new ownership, the brewery continued to produce and market the existing brand, Haizhu beer, using the old production facility. Meanwhile, Kirin began a two-year construction plan to build a new production line for the production of the Kirin brand. The new production line was required both to improve quality and to increase capacity. When the author visited Tokyo in April 1998 to interview Mr. Hiroshi Fujikawa and Mr. Akihide Toda, both assistant managers of Kirin International, the new facility in ZKPB had just begun production.

2.2.3 Problems and Challenges

Excess Labor

The first thing Kirin did after taking over the brewery was to fire all the existing employees and re-hire most of them under the new ownership based on new employment terms, as agreed with the local government. As in the case of many other enterprises in China, there was substantial excess labor in the brewery under the old government owner. Although Kirin intended to reduce the workforce by more than 30% to achieve the ideal efficiency, they were only allowed to eliminate approximately 100 jobs in the brewery, reducing the employee headcount from the original 700 to around 600. "We still wish to reduce the workforce even further to around 500, and hopefully we will find a way to do that soon," said Fujikawa. It was not clear how Kirin decided whom among the 700 original employees to layoff. However, most of the executives from the top management were asked to leave.

Targeting Market Share

Besides the excess labor, Kirin's was also quite concerned about the potential market share they could capture once they introduce Kirin aggressively from their new production line. The beer market in China is very fragmented and very local. There are more than 600 breweries in the country, the largest has only 4% share of the national market. Most breweries produce for their local markets, but foreign brands like Blue Ribbon, St. Miguel, Budweiser and Carlsberg are distributed nationwide.

"Currently, most foreign breweries focus on sales volume instead of profitability," said Toda, "and we may have to follow suit until we gain enough market share." Although the old Haizhu brand produced by the brewery had been successful in the past, the old management might not have the capability or the experience to repeat the same success with the Kirin brand since the target of the new venture is the much bigger national market.

2.2.4 Management Reorganization

New Leadership, Old Management

Executives from Kirin and President replaced 13 out of the original 55 managers and supervisors after taking over the old brewery. The new General Manager was an expatriate from Kirin whereas the

Deputy General Manager was from the President Group. Eleven other managers posted from Tokyo or Taipei took over key management positions for finance, business development and production. Forty-two managers and supervisors from the original brewery were allowed to remain in the new management team.

The new brewery was going to introduce a better product to a much larger market under a new ownership. It is therefore understandable that some new decision-makers were needed at the top management to resume control, make financial plans and devise new market strategies. However, most of the mid- and junior-level managers and supervisors from the old brewery were allowed to remain in their old positions and continue to manage the production operation. "We knew from the business performance of the original brewery that the old management and other employees have been doing a good job, and we wanted to let them continue doing that," explained Toda. "After all, we decided to acquire a healthy firm in the first place so that we can be productive and profitable from day one."

<u>Expatriate Managers</u>

A total of eight expatriate managers were sent from Japan to ZKPB, and all of them were originally Kirin's employees in Japan. Unlike the managers sent by the President Group from Taiwan, managers from Kirin must attend one year of intensive cultural and language courses in China before their postings to Zhuhai. As a result of the training, all Japanese expatriates at ZKPB were familiar with Chinese culture and were able to communicate quite fluently in Chinese. "Learning Chinese culture is not difficult for them because of the similarities between Japanese and Chinese cultures," said Toda. "Furthermore, most of them could understand some written Chinese even before the training because Chinese characters, or *kanji*, are used in Japanese. Learning to speak is probably the most challenging part, and that is why they were trained in China so that they could have plenty of chances to practice."

According to the interviewees, expatriate managers at ZKPB and the local managers were on the same pay scales, which was three to four times more than the average local pay. However, Japanese and Taiwanese managers continued to draw salaries from the payrolls in their home countries, and received special allowances on top of that for their overseas assignments. Since the cost of living was low in Zhuhai and there were much fewer opportunities for the expatriate managers to spend their income compared to Tokyo and Taipei, most of them managed to accumulate a small wealth at the end of their expatriate contracts. "Young managers are especially eager to go to Zhuhai because it is a good opportunity to save a considerable sum of money and to gain some overseas experience. Such experience will help in their future career," said Fujikawa.

2.2.5 Conclusion

Kirin and President were able to complement each other well in an overseas investment by sharing production technology, operating experience, language and cultural advantages and local business network. They adopted a seemingly good risk-reduction strategy by investing in a profitable firm with proven track record. They chose not to have a local partner so as to avoid unnecessary transactions costs arise from the "same bed, different dreams" phenomenon found in most Sino-foreign joint ventures. They also avoided the need for expensive recruitment and training by retaining the existing management and production workforce. They did have some costly expatriate managers, but their headcount was kept to a minimum. The expatriate managers were there to lead the existing management to penetrate a larger market. They were also there to transfer new production technology and business skills based on better products to be produced by a new brewing facility. The long-term objective was to expand and localize the management further in the future as business expands.

Unfortunately, both Mr. Toda and Mr. Fujikawa were not directly involved in the acquisition or operation of ZKPB, and therefore not able to provide the author with in-depth information. It would be interesting and academically rewarding if a visit could be made to interview both the expatriate and local managers on site at ZKPB to find out how well they work together after the launch of the new production facility.

2.3 *Let's Talk as a Family* - The Overseas Chinese Model

The overseas Chinese investors are by far the most significant driving force behind the economic development of China. They come from Taiwan[15], Hong Kong (which was considered "overseas" until recently), Malaysia, Thailand, Indonesia and other parts of the "Bamboo Network" of the world. Their businesses in China ranges from Coca-Cola bottling and highway construction to township and village enterprises (TVE) that put together sneakers and Christmas trinkets, and they are often regarded as the most successful investors in China. This section examines three overseas Chinese companies and their managerial HR strategies.

2.3.1 Case Background

The CP Group

The Charoen Pokphand (CP) Group is an overseas Chinese conglomerate with its home base in Bangkok, Thailand. They were established in 1921 as a supplier of animal feed and vegetable seeds, but have since diversified into a wide variety of other industries. Agro-industry business still formed the core of the group's businesses today, but their investments in more than twenty countries worldwide include real estate, petrochemicals, finance, telecommunications, beer brewery, international trading, pharmaceutical, supermarket chains, restaurants and motorcycle manufacturing. CP's total asset in 1997 was estimated to be US$ 8 billions[16].

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[15] Few Chinese from the Republic of China (Taiwan) would consider themselves overseas Chinese ("*hua-chiau*"). However, for convenient reference, "overseas Chinese" is defined in this thesis as ethnic Chinese people who are not citizens of People's Republic of China (PRC). The author apologizes to the readers who find this definition politically offensive.

[16] Source : James Mulvenon (editor), China Facts & Figures Annual, Volume 21, Academic International Press, 1997

In 1979, CP established their first company in China, responding to Deng Xiaoping's reform and open door policy. In fact, they formed the first Sino-foreign joint venture to participate in the Shenzhen Special Economic Zone in Guangdong province, and they pride themselves on having a business license with a "001" serial number. Today, CP is one of the largest and most influential foreign investors in China. As a result, CP's dynamic Chairman, Mr. Dhanin Chearavanont, has become "one of a select group of overseas Chinese businessmen who are regularly consulted on business and political affairs by Chinese leaders."[17]

Under the names of their main holding companies, Zhengda Holding and Bofeng International, CP owns more than a 160 wholly-own and joint-venture companies in 28 out of 31 provinces in China[18]. CP's business in China focuses on agro-industry although they have also diversified into telecommunications, real estate, beer production and motorcycle manufacturing in recent years. A Salomon Brothers' analyst report dated May 1995 estimated that CP's agri-businesses in China would contribute more than 40% of the group's worldwide earning by 1996.

CP hires hundreds of managers to manage their business empire in China. Their managerial human resource policies are determined by the structure of their joint ventures, their business strategy to integrate both vertically and horizontally, and their corporate policy to be highly localized.

Partnership Structure

Although the current trend of investment in China favors 100% ownership, CP's strength in China lies in their ability and experience in managing strategic joint ventures with local partners. Depending on the investment constraints of the local authority and other local conditions, CP's investments in China usually take the form of either one of the two JV models commonly found in China:

> *Equity Joint Ventures (EJV)* – Under this arrangement, CP would own fifty percent of a limited liability company while a Chinese partner, usually a company owned by the local government, would invest in the other half. Both parties are jointly responsible for investment and management of the JV, and have equal share of its profits and losses.

[17] The Economist, November 26, 1994
[18] Source : "Mr. THIRAYUT P. Senior Executive Vice President of Charoen Pokphand Group", August 29, 1997, http://www.chinarainbow.com/english/wjhz/el.html

Cooperative Joint Venture (CJV) – This form of JV is usually adopted when the local Chinese partner is not able to contribute an equal portion of the initial investment, or not willing to share equal economic risks. It is a business agreement similar to a BOT (build-own-transfer) contract whereby the local government takes ownership of a company's assets after an agreed period of time - usually 20 to 25 years in the case of most CP's feed mills under such arrangement. CP's management has full control of a CJV company, but they are usually obliged to transfer 15% to 20% of their operating profit to the local government in exchange of discounted factory land, power and water supply.

Regardless of which partnership structure is adopted, CP is usually expected to bring investment capital, manufacturing technology and management know-how to the localities they choose to invest in. In return, the local communities would provide human resources, factory land, basic infrastructure (access roads, water and power supply, etc.) and local market for the manufacturing output. In new ventures where the required technologies do not reside in-house within the CP Group, CP is often able to bring a third player into a partnership as the technology provider. For example, Honda and Heineken provided technical assistance to CP's motorcycle and brewery joint ventures in China respectively. In such cases, CP's skills in organizing and managing business partnership in China become invaluable to these technology leaders who wish to establish themselves in China.

Vertical and Horizontal Integration

CP's investment strategy in China is consistent with an established model of vertical and horizontal integration widely used in their investments in Thailand and elsewhere in the world. A CP agro-industry investment in China usually began with a feed mill. As the firm became familiar with the local environment, it would expand vertically forward into chicken farming, slaughterhouses, and meat marketing; and vertically backward into chicken breeding and grain production. Subsequent horizontal expansion would probably involve duck or swine farming, each providing a new set of vertical integration opportunities. In fact, CP's strength in expanding through horizontal and vertical integration allows them to demonstrate their long-term commitment in China by reinvesting most of their operating profits within the country.

Localization

CP did not invest in China as a foreign investor, but as a local company utilizing outside capital and technology to bring social and economic development to China. Wherever CP invests in China, they consistently portray a strong sense of local belonging in their partnerships with the local authorities. This is partly due to CP's overseas Chinese background and their founding philosophy of shared prosperity, and partly because of the nature of the market for their core products. Unlike manufacturing companies that rely on China's cheap labor to produce primarily for export markets in faraway lands, CP's customers are local farmers and consumers in their vicinities. Not only do they rely on the neighboring districts and villages for production manpower, factory land, raw materials and other input factors, they also sell their products to farms and consumers in the same localities. Localization is therefore a very important characteristic of CP's operation in China.

Another compelling factor that drives CP to become close alliances of their localities is the fact that many of their major competitors in agro-industry are local Chinese producers. These local firms often capitalize on the nationalistic sentiment of their customers and solicit local support by insinuating a foreign-profiteer image to CP's investments. CP knows very well that the closer they can identify themselves with the local communities, the better they can preemptively displace such claims by their local competitors. While describing a JV with the Jilin provincial government, Mr.Thirayut Phitya-Isarakul, President of CP Group in China, emphasized the "Three Benefits" principle CP has for their investments in China: *Benefit to the nation*, *benefit to the people* and, only lastly, *benefit to the company*.[19] "The government leaders and the business partners around China have accepted us, welcomed us, and treated us as good friends instead of outsider," said Mr. Thirayut.

Gao Qiu Golf Resort

Mr. David Chen had no idea what exactly he was getting into when two close friends, one from Hong Kong, another from Taiwan, asked him to help manage a golf resort project in Southern China. He accepted the challenge anyway since he had been retired for a while and found it a little boring staying at home in San Francisco. Besides, his friends insisted that he was their "only hope" in salvaging their investment.

[19] "Mr. THIRAYUT P. Senior Executive Vice President of Charoen Pokphand Group", August 29, 1997, http://www.chinarainbow.com/english/wjhz/el.html

The investment Mr. Chen was assigned to salvage was a real-estate project to build and operate a luxurious golf resort in the suburb of a provincial capital in Southern China. The project was conceived and launched in 1992 when foreign investors flocked to Southern China after Deng Xiaoping's legendary visit to the South. The much-discussed direct air link with Taiwan and the potential economic boom in the region that would follow also contributed to the optimism in the project. The multiple-phase project covered a total land area of 600 hectares near the city. The total investment would eventually amount to more than US$50 million, financed entirely by funds from Hong Kong and Taiwan. The whole proposal included a golf course, 600 luxurious bungalows, a 200-unit apartment building, a community center, a sport and recreational zone, a resort hotel, and all the associated earthworks, access roads and infrastructure. The target customers of the resort were expatriate executives who worked and lived in the provincial capital.

Mr. Chen was trained as a civil engineer and had more than twenty years of experience in construction project management. The Taiwanese construction firm he worked for sent him to Singapore as a general manager in the early 80's when they began to expand globally. Mr. Chen subsequently worked for many years in Singapore for several other construction firms, managing large-scale housing projects for both the government and the private sectors. He eventually returned to Taiwan to become the Chairman of a construction company before he retired in 1990.

When it was launched in 1992, the first phase of the project, which included the golf course, 60 bungalows and the support infrastructure, was expected to complete in eighteen months. Mr. Chen arrived at the project site as the project's Vice President and a fully authorized representative of the board of directors in 1993. By that time, *Phase One* had been going on for more than one year, but leveling of the golf course was only half-done. The rest of the construction work was nowhere near completion.

Chia Hsin Company

Chia Hsin Company, a Taiwanese conglomerate, started their first investment in China in 1994. Between April 1994 and December 1997, they established nine companies in Shanghai and its vicinity with a total investment of US$550 millions. The largest among these investments is a US$280-million cement production plant built in 1995 near Jiangsu Province. Other Chia Hsin companies in China are firms involved primarily in cement production, trading and distribution. Chia Hsin's cement production facilities in China have a total capacity to produce 1.2 million tons of cement per year. Half of the cement they produced in 1997 was sold in the domestic Chinese market, while the balance was exported back to Taiwan. In 1998, Chia Hsin's cement business has been severely affected by the economic downturn in Asia. As infrastructure and housing constructions were being cut back in most developing Asian countries, Chia Hsin saw cement price plummeted from the 1997-peak of $43 per ton to as low as $25 per ton in 1998.

Out of the nine Chia Hsin companies in China, Chia Hsin wholly owns three of them, whereas the rest are joint ventures with Chia Hsin having 22.5% to 80% share. Some of these JVs have as many as four partners. A total of 1,240 employees are hired by these companies, out of which 105 are managers. According to Mr. Dylan Chang, Vice President of Chia Hsin Company in China, the joint venture contracts of all but one of the companies stipulated that Chia Hsin has the right to make hiring decisions for all the managerial positions in these companies.

Among Chia Hsin's 105 managers in China, 75 of them are expatriate managers, and all of them are overseas Chinese. Furthermore, most of the expatriate managers are originally employees of Chia Hsin's operation in Taiwan. While expatriate managers manage the more strategic functions in the group e.g. finance, marketing and business development, most of the local managers are entrusted with operation related tasks.

2.3.2 Problem and Challenges

This section describes some of the difficulties the firms above face in managing their management in China, and the sources and consequences of some of these difficulties.

<u>Cronyism and Nepotism</u>

The case of Gao Qiu Golf Resort illustrates how misplaced trust on the investor's part can result in disastrous total mismanagement. After Mr. Chen's inspection of the project site, he was shocked to discover how much had gone wrong. Not only was construction work of the bungalows not up to the expected quality standard, basic specifications of most structural and foundation works were done wrong back at the design stage. Mr. Chen finally had no choice but to suspend construction for more than three months so that he could go back to the drafting table and reworked the structural design. He then spent the next three months managing remedial works to rectify the wrongly constructed structures.

According to Mr. Chen, the root of the problem was personnel mismanagement. The project hired 60 management and administrative staff members then, in addition to 300 construction site workers. Under the General Manager of the project, there were managerial and supervisory positions for procurement, sales and marketing, engineering, quality control, accounting and general administration. "In my opinion, none of the managers at that time was qualified for his or her job," said Mr. Chen.

Mr. Lee, the General Manager appointed by the project investors, was a retired senior cadre from the city government. He was chosen by the board of directors to manage the project mainly because of his strong influence in the local government. He also appeared to be a resourceful person who knew where to recruit the right people and identify the suitable contractors for the project. The investors were not familiar with the local business environment. They therefore thought their best bet was to let someone with an extensive local network manage their investment.

The problem started when Lee began to fill literally all the managerial and key supervisory positions of the project with his ex-subordinates and close friends. "Not only did Lee and his managers not have the proper professional qualification and experience to carry out their duties, they did not know how and where to hire the right people," said Mr. Chen. In Mr. Chen's words, most of the managers "used their imagination" to determine how to run the project. On top of that, they took advantage of their positions to channel economic benefits to their families and friends. "I had no way to prove it, but I suspect some key managers actually owned some of the subcontractor companies of the project," said Mr. Chen. All these led to extensive conflicts of interest and prolonged work delay. Obstacles to smooth progress, be it legal, administrative or technical, appeared frequently, and the management kept demanding additional funds to be used to "expedite progress". In the end, the investors had no way of telling how much of the delay was inflicted internally.

Chia Hsin faces similar problems, too. "As a foreign JV partner in China, you somehow have to always keep an eye on the managers appointed by your Chinese partner," said Mr. Dylan Chang. "This is my major concern with the local Chinese managers. They somehow cannot appreciate the fact that a firm has to prosper as a single entity. They are there to maximize the benefits of the Chinese partners, not the benefits of the company as a whole. To us, these managers are '*their* people' whom we don't trust."

However, since CP and Chia Hsin are both long-time investors in China, their HR policies have been designed to discourage cronyism, as we will discuss in section 2.3.4.

Brain Drain and Retention

Like other investors in China, overseas Chinese firms do lose their managers, too. In the case of CP, for example, despite generous compensations and attractive career prospect, they still loses 5% to 10% of their key managers every year. Mr. Nirun mentioned cases in which ex-managers of the group set up competing mills using the production technology and management skills they learned while working for CP. "Fortunately, they are not a major threat to us at this point," said Mr. Nirun. "Consistency in quality is critical in our business, and they are not experienced enough to avoid quality fluctuation yet. Furthermore, our brand name is what our customers trust. They are unlikely to switch brand and risk their entire chicken stocks for slightly lower prices." Nevertheless, the potential of losing good managers to competition will remain a serious HR issue CP's top management in Beijing has to cautiously deal with.

Difficulty in Expulsion

No matter how much effort they spend on identifying the right managers, companies in China do make mistakes in their hiring processes. Every now and then, they may find under their payroll managers who either fail to perform to expectation, or are too difficult to train. However, firing an employee is not an easy task in China, no matter how legitimate a case the employer has. Employees are accustomed to lifetime employment and all-encompassing social welfare provided by state-owned employers under the old command economy. Although such expectation is gradually being removed under the recent economic reform, laying off employees in most localities outside the more "reformed" cities is still socially unacceptable, if not illegal.

As a good corporate citizen and trusted partner, CP, for example, has been quite reluctant to upset the local communities and their Chinese partners with labor disputes. "All we can do to managers who don't perform is to transfer them to some redundant and obscure positions," said Mr. Nirun. "And we are not even supposed to reduce their salaries. By doing so, we hope they would get the message and resign on their own. Sometimes they do leave when they find better jobs, but there is nothing much we can do if they decide to stay on."

Sometimes, the no-layoff condition can take on a different and more personal form. When faced with the incompetent management team at the golf resort, the first solution that came to Mr. Chen's mind was to fire all the non-performing managers. However, he later realized that was next to impossible. Almost all the key personnel were related to Lee, the General Manager, in one way or another. Offending Lee in any way was undesirable because of his influence in the local government. The personal relationship among Lee and some of the managers of the projects dated back to the Cultural Revolution[20] period when they went through wave after wave of political movement together. For this reason, he felt obliged to "take care" of them when he was capable of doing so. "Some of these people spent years in the same prison cell together, and they became even closer than family. It is very difficult for an outsider to understand the strong ties among them - it took me more than two years to truly appreciate how deep such 'comrade love' and 'revolution attachment' are," said Mr. Chen. "Once you have such strong relationship in the management team, people start to cover up each other's mistakes and, sooner or later, begin to exploit such relationship for personal gains at the company's expense. That was how the whole operation became corrupt and unprofessional."

Territory Disputes

Besides the more "generic" problems discussed above, CP also faces a rather unique HR problem that involves territory disputes among their managers. As CP proliferates more districts and provinces in China, market territories began to overlap. As a result, they sometimes find it difficult to prevent some of the more ambitious sales managers from expanding their business too far. On the one hand, CP wants their managers to be aggressive in securing market share. On the other hand, they knew their limited management resources could be better utilized than being wasted on market cannibalization. Furthermore, not allowing their managers to compete freely is against what they were taught to do in free market economy, and that creates disincentives among some of the more enterprising managers. The fact that the JV partners of these feed mills are often different and competing commercial or political entities further aggravates this problem. The eight CP regional offices in China are actively involved in resolving territory disputes among feed mills.

[20] The Cultural Revolution is mass campaign started by Chairman Mao in 1966 to revitalize the nation's revolutionary fervor and renew its basic institutions. Allied with the army, young revolutionary Red Guards attacked so-called bourgeois elements in cultural circles and in the bureaucracy. The movement lasted for a decade and resulted in widespread disorder and violence. Many people were killed and tortured.

2.3.3 Hiring Options

This section looks at the different options CP, Chia Hsin and Gao Qiu have while hiring managers in China.

Expatriate Managers

An obvious solution to overcome the short supply of local managers is the hiring of expatriate managers. Mr. Chen's appointment to his position at Gao Qiu is clearly a case in point. Mr. Chen in turn hired a supervisor from Taiwan when he failed to find a suitable candidate locally. CP and Chia Hsin also hire a substantial number of expatriate managers for their operations in China. In fact, CP has some very specific HR policies (see section 2.3.4 below) that often force them to import key managers to their new feed mills. During their early years in China when qualified managers were difficult to find locally, all of these key managers were overseas Chinese from Taiwan, Hong Kong, Thailand, Singapore, Malaysia and other South East Asian countries. These were usually experienced managers transferred from other established factories, or capable senior employees promoted to lead a new partnership.

Although expatriate managers may import the skills and experiences essential to some managerial positions, they are not always the best choice. In Mr. Chen's opinion, the greatest drawback of expatriate managers is their inability to manage from the Chinese perspective. China is still at the very early stage of internationalization. Therefore, most employees are relatively ignorant about the outside world and the concepts of market economy. As a result, business practices taken for granted in other countries are often not the norms in China. If an expatriate manager fails to recognize this circumstance, he is most likely to be frustrated and fail. In order to do his/her job well, a good expatriate manager should be sensitive to the local business environment and try to adjust his management style and expectation to accommodate it.

"Good communication skills, a thorough understanding of the local business culture, and a great deal of patience are what a good expatriate managers should bring with him to the job," said Mr. Chen. "Unfortunately, too many expatriate managers had tried to impose western management theories in China without recognizing the fact that it is impossible to undo fifty years of socialist rule overnight."

Overseas Chinese

Not surprisingly, expatriate managers in CP, Chia Hsin and Gao Qiu are all ethnic Chinese. To these firms, hiring non-Chinese expatriates is apparently not an option. “We have more than seventy expatriate managers from all over the world, including some from New Zealand and the United States. However, all of them are overseas Chinese who speak Chinese and have Chinese cultural background. They might have grown up in some Chinatowns in the West somewhere, but they are still Chinese,” said Dylan Chang of Chia Hsin. In fact, it makes sense for overseas Chinese firms to hire only ethnic Chinese managers for China. Sharing the same language and culture, they can communicate effectively with both the Chinese employees and the overseas Chinese owners. Unlike non-Chinese expatriates who become literally illiterate when they get to China, overseas Chinese expatriates also have the valuable language advantage in daily business dealings.

Mr. Chang of Chia Hsin quoted *trust* as another major factor of hiring overseas Chinese manager from home. "For the managers we send from Taiwan, we know their background well and we can therefore trust them better. Some of them have worked for us for many years and we know they always have the benefits of the company in mind. On the other hand, we often know very little about the people we hire locally in China, and we simply can’t trust them as much.” Chia Hsin therefore prefers to have overseas Chinese managers from Taiwan for some key managerial positions even though they cost much more than local managers.

However, Mr. Chen has his caveat on overseas Chinese expatriates, and he believes they are not necessarily the best managers in China. He observed that they may have the language and cultural advantages compared to American and European expatriates, but their management style tends to be problem-oriented. In other words, they focus their efforts on solving short-term problems at hand by taking advantage of their ability to understand the local employees better. However, most of them received their management training by rising through the ranks after many years of learning on the job. Although they have vast experience they can draw upon to solve operation and administrative problems, they lack the analytical skills and professional knowledge most western managers learned in formal business education. As a result, they often lose sight of the long-term outlook of the business and fail to get to the root issues of management problems. In Mr. Chen’s opinion, many of them turned out to be poor managers for businesses that required long-term visions and big-picture thinking.

Local Managers

More so than the western and Japanese enterprises, overseas Chinese firms find that they need to localize their management in order to be cost effective in China. Despite high salaries and generous fringe benefits, CP, for example, still finds it difficult to recruit expatriate managers for their feed mills in China. This is partly due to the rapid growth of their business, and partly due to the critical shortage of management talent in China and in Asia as a whole. Professional managers with good language skill and business experience have become a scarce resource amidst the Asian economic boom in the late 80's and the 90's. Furthermore, better-qualified managers from Hong Kong, Taipei and South East Asia usually prefer the more convenient and glamorous lifestyle in other Asian cities (e.g. Singapore, Hong Kong, Bangkok and Kuala Lumpur) to the relative backwardness of China.

Faced with increasing difficulty and ever growing costs to hire expatriate managers, CP began to look for substitutes in the local HR market in the early 90's. They do so by hiring graduates from the economics departments and business schools of local universities throughout the countries. "These local graduates are eager to work for us because the salary we pay is ten times more than what they can command from local Chinese employers," explain Mr. Nirun Changwatchai, a Vice President from CP's Bangkok head office, while discussing with the author in fluent Mandarin. "But to us this is still an attractive option because they still cost much less than the expatriate managers."

As western-styled business and management programs were introduced into more universities and vocational schools in China, more local managers were recruited into CP's pool of key managers. Compared to expatriate managers, CP feels that their local managers are more loyal to the firm because, unlike the expatriates, they are unlikely to get job offers from outside China. Furthermore, since they are less competent in English, they are also less likely to become headhunting targets of foreign multinationals investing in China. However, unlike expatriate managers, key managers hired locally by CP do have to go through additional training before they are put on the job.

Gao Qiu Golf Resort needed to hire managers locally for the same cost reason, too. Mr. Chen tried several times to recruit managers, supervisors and engineers locally and from nearby provinces, but he was not too successful. However, due to his substantial recruitment efforts, he had the opportunities to meet graduates from many local universities and has therefore gained a good understanding of their backgrounds and capabilities. Following are some of his observations and opinions.

Quality of Management Training

First of all, Mr. Chen feels that a large part of the problem lies with the quality of the faculty in many Chinese universities. Many of the instructors in these universities were in their 40's, and they belong to a generation who received their university education during the Cultural Revolution period. A lot of students were admitted to universities and granted university degrees then based on their good political background rather than their academic accomplishments. Furthermore, most of the qualified and experienced professors in the universities were sent to rural villages during that period for "education through labor." There were virtually no good teachers in these institutions then even if the students were good. Later, many of these graduates with questionable academic credential became faculty members in local universities and they taught new generations of university students. Consequently, students taught by these faculty members were not able to learn the proper skills from the professors. That in turn has a negative impact on the quality of subsequent batches of university graduates.

The peculiar historical factor discussed above was highlighted when Peking University, the oldest university in China, celebrated its 100th anniversary recently. During a celebration gathering organized by P.U. alumni in the New England area, alumni representing different decades in the history of the university went up to the stage to share their P.U. memories with the audience. While alumni from others decades recounted invaluable intellectual experiences and inspiring professors, an alumnae who attend P.U. in the early 70's talked about something very different. She recalled how she and her classmates laid every brick of the library, dug a pit on campus to build a swimming pool, and labored to construct other facilities for the school. "Our experience as university students is quite different from what the rest of you experienced," she told the audience.

In Mr. Chen's opinion, the quality problem is most severe in the business and management fields. Subjects like Civil Engineering and Mechanical Engineering are least affected because the basic technologies haven't changed much in the past decades. Therefore, what the older generations of professors learned from the Soviet Union is still relevant and applicable to a large extent. On the other hand, new fields like computer sciences and biotechnology are so new that no individual can pretend to have expertise in those fields and teach such courses in universities without the proper credential. The most affected are therefore "soft sciences" like business strategies, finance theories, legal procedures, insurance, marketing, international relations, business communications and other business and management subjects taught in a typical MBA program. Since many of the instructors of these courses were trained in the old centrally planned and command economy, they often do not have a good understanding of how modern market economy functions. However, due to the subjective nature of these subject matters, faculty members can easily form their own opinions by drawing upon the limited amount of relevant literature they have access to, adding their personal experiences from the old economy to it, and blending them with their imagination of how modern market economy works. This is reflected in the quality of the management candidates Mr. Chen interviewed. "Without a good understanding and appreciation of how the global economy functions, many instructors impart the wrong knowledge and attitude to their students. To me, this is the most destructive and dangerous thing that is happening to China's economic reform. Without the proper business and management mindset, Chinese managers will never be able to manage a world-class economy," said Mr. Chen.

Mr. Chen illustrated his point with an example: "When I asked the General Manager to come up with some incentives to speed up the leveling of the golf course, he put up dozens of loudspeakers on the golf course and blared patriotic songs and music from the revolution era while the workers worked. To him, that was the best way to boost morale."

Mr. Chen has also observed another inherent problem with the Chinese education system – extreme specialization. University students are assigned to very specialized academic departments and spend their entire college years studying very narrow fields in great details. In fact, some of the colleges are in themselves very specialized. For example, there is a Tourism College and a Petroleum University. Even in an engineering school, a student would graduate with an undergraduate degree in combustion engine design instead of a degree in mechanical engineering. This education model worked in the planned economy because university graduates were immediately assigned to very specific positions and would most likely spend the rest of their career carrying out the same job functions. Since their careers were pre-planned by the state and job mobility was restricted, most workers had neither the means nor the incentive to be flexible in their skills. This education model certainly doesn't produce good managers for the reformed economy. A manager in a market economy is expected to be a well-rounded and adaptable individual with broad business and social knowledge.

Location Factor

"Due to the immobility of Chinese employees, companies located in different places in China face different problems in their attempts to hire local managers," said Mr. Chen. Most Taiwanese and Hong

Kong investments in China concentrate in the Southern provinces. These smaller companies usually find it more difficult, if not impossible, to hire good professional managers due to their physical distances from major cities like Beijing and Shanghai. Larger cities tend to have better universities that attract faculty and students with better talent. "American and European multinationals in Beijing and Shanghai can at least try to recruit from several leading universities in these cities. For those of us who tried to hire in smaller cities in the southern provinces, the pool of candidates we had access to were not quite as good even though we may receive a lot of applications," said Mr. Chen. "Chinese MBA students you met at Sloan and other top management programs in the U.S. and China are not the typical management caliber you see in everyday China," Mr. Chen reminded the author. "Those who make it to the top MBA programs are survivors from the toughest competition and they would do well even if they don't have their MBA degrees. Managers at that level are hard to come by in China, especially when one is outside the few major cities."

Demand Factor

Difficulty in hiring good professional managers due to their disadvantageous locations was not too big a problem for Hong Kong and Taiwanese enterprises when they first migrated to southern China in the 80's. Most of the overseas Chinese ventures then were involved in labor intensive light industries that took advantage of the low operating costs in China. "Many of them were managed as family businesses, and you often see an entire family moving from Taiwan or Hong Kong to China so that they have enough hands to manage an export oriented manufacturing operation," said Mr. Chen. "For labor intensive operations in those days, good management skills were not essential. They based their operations on their experiences in Taiwan or Hong Kong, and slowly adapted in China through trial and error." However, as operations in China became more expensive in recent years, and as Taiwanese and Hong Kong enterprises began to move upmarket to management intensive hi-tech and value-added industries, the demand for good professional managers by these firms began to grow. That worsens the supply shortage in the already competitive labor market in places where these firms are found.

Loyalty and Retention

Retention is yet another problem faced by smaller overseas Chinese firms. "For a small company like ours, identifying a qualified candidate in the recruitment process is not the end of the story," said Mr. Chen. Many highly qualified candidates use smaller overseas Chinese joint ventures as stepping-stones to managerial positions in large western firms. Potential employers like Mr. Chen have to do their best to identify and avoid these candidates. For example, Mr. Chen once interviewed a very promising candidate for a supervisory position in the engineering department. However, it was very clear that he wanted the job so that his rural residence permit ("*hu-kou*")[21] can be upgraded to a city residence permit, and that he would start looking for job in a bigger company once he became a legitimate city dweller. "We had to forgo candidates like that since we did not expect them to stay long."

The issue of residence permit, or *hu-kou*, is less of a problem today than in the early 90's. Like many rules and regulations introduced by the Chinese Communist Party decades ago, laws that restrict labor mobility are still there but are less strictly enforced after the economic reform. Nevertheless, managerial candidates who are not qualified or confident enough to join a western firm may still use small overseas Chinese firms as their "training schools", and will move on as soon as they think they are ready for their ideal jobs.

After adding all the above-mentioned factors together, hiring good local managers for smaller firms outside the major cities became extremely difficult. Mr. Chen had an experience of interviewing more than seventy candidates and still failed to identify the right employee for a single supervisory position.

Borrowed Managers

In China, one rather common way to hire managers is to "borrow" them from state-owned enterprises based on temporary transfer contracts. Such arrangements, known as *jieyong* or *jiediao* in Chinese, were originally introduced among SOEs to provide allocation flexibility in an otherwise rigid labor system. Once a suitable candidate is identified in an SOE, the potential employer can request to "borrow" the candidate for up to five years. The contracts for such arrangement are negotiated on a case-by-case basis, and they are usually renewable every year. Almost in all cases, the private company has to pay a higher salary than what the employee originally earns in the SOE. On top of that, the private-sector employer also has to pay the SOE concerned a monthly fee no less than the original salary of the employee, supposedly to compensate the SOE for its lost productivity.

[21] The residence permit system is a comprehensive system of residence and employment control introduced in the early 60's. It was used to remove surplus population from China's towns and cities. A complete household registration system was established and strictly enforced in urban neighborhoods to ration foodstuffs and other daily necessities. Illegal migrants to the cities would thus have to return to the villages for not having the right to purchase food in the cities. In rural areas, the same system used food rationing to tie peasants to the land. Most

In general, SOEs are happy to get into such arrangements because this is a good way to earn extra income from their redundant workforce. The SOEs concerned gain twice - by collecting extra revenues and by not having to pay some employees to whom they have no work to assign anyway. The employees are happy, too. Not only do they earn higher salary, they also get to keep the social welfare benefits associated with SOEs by keeping their personnel files with the state personnel system. Besides, for those who are willing and eager to learn new skills, working outside their original SOE units gives them good exposure to the competitive business environment.

Mr. Chen of Gao Qiu managed to borrow an architect, a civil engineer and a mechanical engineer from a local SOE to supervise the construction of the golf resort. Although he was very satisfied with the quality of the managers he borrowed, the borrowing arrangement itself turned out to be an unpleasant experience for Mr. Chen. "We only needed to use the three managers for half a year, but at the end of the sixth months, I was arm-twisted into keep the managers longer and continued to pay their fees and salaries. I managed to find them enough work to do for another eighteen months until construction completed and I was about to return to San Francisco. When I tried to "return" these managers again, the SOE concerned threatened to take legal action against us on the ground that we were obliged to keep those managers indefinitely since we did not specify the borrowing duration up front." To Mr. Chen, that incident showed how desperate some SOEs were in getting rid of their excess workforce, albeit temporarily.

2.3.4 Policies and Strategies

This section investigates some major HR policies CP, Chia Hsin and Gao Qiu use to address their managerial recruitment challenges based on the hiring options discussed above.

Control Mechanism

After doing business in China for a period of time, firms would have learned valuable lessons from their experiences in hiring managers for their Chinese operations. Many of them introduce specific HR policies for the unique challenges in China, and they usually update these policies as and when the

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people thus lived with their rural or urban statuses acquired at birth.

local conditions change. Many of these policies take the form of control measures that preempt some potential HR problems common found in China.

Due to their long history in China, CP appears to have the most systematic and most effective HR policies for China among the three overseas Chinese firms we are studying. Their feed mills in China usually hire workers locally through local employment agencies, and they usually let their Chinese partners decide who to employ. However, CP always insists on appointing four key managerial positions on their own in every joint venture. These positions are General Manager, Financial Controller, Sales Manager and Quality Control Manager. "These positions are critical in feed mill business. Letting the inexperience local managers hold these positions is too great a risk for us," said Mr. Nirun. He went on to explain that managers hired in China usually lack the market experience to fill the first three positions mentioned above because they were trained to manage production volume under the old planned economy, and are therefore not capable of managing based on efficiency, market needs and profitability. As for quality control, it is crucial to the business and involves some proprietary technology CP brings to the partnership. "How much we can sell depends on the consistency of our quality, and that ultimately depends on our quality control. It is therefore too critical a task to leave to the inexperience local managers," said Mr. Nirun. As long as the appointment of the four key positions mentioned above is under the control of CP', they always let their Chinese partners hire local candidates for other managerial posts, particularly positions for administration and procurement. The local managers would have the cultural and language advantages required in their liaison with the local authorities, and a local purchasing manager knows where to source for the best raw materials at low prices.

In order to manage its large pool of key managers in more than 150 agro-industry partnerships in China, CP has put together a set of other HR policies to control, motivate, upgrade and retain their valuable management talent. Some of the more important policies are the following:

No local postings

As a rule, a new manager in one of the four key positions is not permitted to begin his career with CP in his home province even though some other managerial positions are filled by individuals familiar with the local business circle. CP had probably learned from some unpleasant experiences in the past, and hoped to use such policy to avoid cronyism and nepotism introduced from a key manager's old business or personal network. A new manager, bringing his management and business skills to an unfamiliar environment, would be forced to build a new business network with the help of his new subordinates and fellow managers. That helps create a workplace in which self-monitoring and mutual learning prevail. A major disadvantage of this policy is that, like expatriate managers, local managers must also be given 30 days of home leave per year, resulting in substantial productivity loss. According to Mr. Nirun, CP has recently begun to allow some of their long-serving managers to return to their home cities. Once these veteran managers have demonstrated their loyalty to the group, posting them near home benefits CP by eliminating the need for extended home leaves.

Job rotation

CP does not keep a key manager in the same feed mill for more than five years. Managers are routinely transferred to factories in different provinces so that they do not cultivate too intimate a local network and compromise company interests through favoritism. A more positive aspect of such rotation is of course the opportunity to expand a manager's industrial knowledge and business network. Given CP's strength in vertical and horizontal integration, rotating their managers through a wide variety of operating environments and job functions has become an effective means to train and motivate their key managers.

Horizontal reporting structure

All the four key managers in a CP feed mill are at the same level of the reporting hierarchy. Instead of having three other managers reporting to the General Manager, all of them report to their respective regional vice presidents based in Beijing. Key managers focus on what they know best but work as a peer team to coordinate the management of a partnership. Such horizontal reporting structure creates balance of power at the firm level and minimizes covering up of operation faults. In fact, such check-and-balance management style is a key characteristic of companies run by overseas Chinese conglomerates.

Chia Hsin also has a similar set of managerial HR policies in place in response to the unique employment market in China, but they are less formal and less comprehensive. As for Gao Qiu, since much of their operation involved one-time construction tasks, most HR policies were introduced and enforced *ad hoc* based on Mr. Chen personal experiences.

Training

Overseas Chinese firms generally do not put as much emphasis on formal training as their western counterparts do. The author believes this is partly because their operations are usually of smaller scales (and therefore not economical to provide formal training to a small group of managers), and partly because they seldom involve themselves in production or manufacturing that requires specific training in advanced technologies. Since Asian and Chinese businesses rely heavily on personal relationship, overseas Chinese firms also have a strong tendency to advocate informal on-the-job training. A management trainee would work closely with and learn from a more senior mentor, and he would become a part of the mentor's career network in the process.

Due to their size and their long corporate history, CP does provide good training to all their staff, especially their key managerial personnel. "CP always encourages their staff to learn and provides good formal training at all levels. If you learned well, you will rise quickly within the group," said Mr. Natwut Amornvivat, an MBA student from MIT Sloan school of Management who worked for CP's TelecomAsia both before and between his MBA years. CP's feed mills usually provide three months of on-the-job training for the new managers they hire in China. During this period, a new recruit would serve an apprenticeship under one or more experienced managers in an existing feed mill. He would learn the necessary skills, evaluate his work condition and responsibilities, and be assessed on his business and management capabilities at the same time. According to Mr. Nirun, an average of 10-15% of the new candidates would leave during the training period, either voluntarily or were eliminated due to some uncorrectable weaknesses in their management skills. The remaining candidates would be given a 30% pay rise and be transferred to their new positions anywhere in the country where vacancies were available.

Chia Hsin, on the other hand, provides in-house training to train their managers on human resource management, legal procedures, finance and accounting, languages (mostly basic business English), shipping procedures, insurance, telecommunications, data processing and international trade. Their training consists of some classroom workshops and some on-the-job learning, the duration of which depends on individual cases.

"We teach different things to our Taiwanese and [local] Chinese candidates," said Mr. Chang. "For our managers from Taiwan, besides the technical knowledge they need to know about China, we spend a lot of effort to prepare them psychologically for the business and personal hardship they would face in China. Once they know what to expect and yet decide to accept the offer [to work in China], they are more likely to complete their overseas assignments." In fact, many Chia Hsin's managers had requested to extend their employment contracts in China in the past, and some even decided to settle down in China for good. As for the managers they hire locally, Chia Hsin usually trains them on basic business and computer knowledge, and make sure they learn the proper protocol to communicate with the Taipei head office.

Rewards and Compensations

Like their western and Japanese competitors, Overseas Chinese companies also have to use good compensation packages to attract managers from their home countries and other parts of Asia to manage their investments in China. In fact, the need to hire expatriate managers has always been a heavy cost burden for these firms.

Salaries

Given the high demand for their talents in the region, expatriate managers understandably demand high salaries or additional cash allowances to compensate for the relatively poor living condition[22] in China. Such extra monetary rewards are commonly, and aptly, known as "hardship money" in the business circle in China. "In addition to the relatively high salaries they draw from the local partnerships, our expatriate managers continue to receive their original pay under our payroll in Taipei. Depending on the individual contracts negotiated, some expatriate managers also receive an additional monthly 'expatriate allowance' from Taipei," explained Mr. Chang of Chia Hsin. "Such salary structure allows us to compensate the expatriate managers appropriately without upsetting the local salary structure in China."

On the other hand, cost of living in China is considerably lower than many other Asian cities. With housing and transportation expenses covered of by the employers, many young expatriate managers from Taiwan and South East Asia find their take-home salaries increase many folds compared to what

[22] Compared to some other cities popular among expatriates in Asia, cities in China are usually more polluted and have less developed infrastructure. However, the living condition in some major cities has improved considerably in recent years.

they could earn from their old positions at home. They therefore view their postings to China as attractive opportunities to build up substantial personal savings.

Although managers recruited locally are paid substantially less than their expatriate colleagues, all the three firms we study in this section claimed that they pay higher-than-market-average salaries to their local managers.

Home Leaves

In CP, all expatriate managers are entitled to a 30-day paid home leave every year, with roundtrip airfare paid by the company. Local managers who work outside of their hometowns are also entitled to similar home leave arrangement with the appropriate transportation costs included.

In the case of Chia Hsin, their expatriate managers earn ten days of paid holidays for every three months they work. They and their families may use these holidays to travel home or to any holiday destination of their choice in China, with all expenses reimbursed by the company.

Housing

CP and Chia Hsin provide housing for all their expatriate managers and their families. With some of their senior expatriate managers stationed in Beijing and Shanghai where real-estate prices are among the highest in the world, housing subsidies for these managers become a significant part of their operating overheads.

In the case of CP, since they require most of their local managers to work outside their hometowns, housing allowance is included in the pay package of many of their local managers, too. However, CP feed mills are usually located in smaller cities where housing costs are far cheaper than those in Beijing and Shanghai.

Other Benefits

In addition to the above benefits, most firms also provide financial and administrative assistance to their expatriate managers to help them relocate before and after their postings to China. Expatriate managers with children may also receive education allowances for their school-age children.

It is apparent that CP and Chia Hsin still rely heavily on overseas Chinese managers although CP has obviously spent more effort in localizing their management team. “Posting expatriate managers to China is very expensive for us since each one of them costs more than ten times to hire than a local manager does,” said Mr. Nirun, “but we often had no choice.”

Even though CP and Chia Hsin have been rewarding their expatriate managers handsomely, they realize how easily other firms in China can poach most of their key executives simply by offering more attractive material incentives. They therefore always make extra efforts to accommodate individual needs of their managers. Like many typical Asian conglomerates, they reward loyalty and seniority, and do so generously.

For example, every Thai knows CP takes exceptionally good care of their veteran employees, and they do the same, if not better, in China. However, they too have to recognize the value of management expertise and technical innovations, and reward young professional managers who bring these skills to the group with good compensation, job security and long-term career path. With a generous reward structure which is consistent with their long-term investment plan for China, CP has been quite successful in keeping a team of capable and loyal managers. They in turn have become a key force behind CP's rapid expansion and diversification in China.

2.3.5 Conclusion

CP, Chia Hsin and Gao Qiu certainly share a lot of similarities in their managerial HR strategies. Being overseas Chinese firms, they rely almost entirely on overseas Chinese managers to run their operations in China. All of them feel the need to localize their management, but they are not yet convinced of the capabilities of the locally hired managers, and only assign less critical managerial tasks to them. They offer good compensation packages to both their expatriate and local managers, but they feel they have to do more to encourage loyalty. They provide training to their managers, but put much emphasis on on-the-job apprenticeship. Being Asian, they can appreciate the importance of personal relationship and harmony at the workplace, but they are equally troubled by rampant cronyism and nepotism as their western counterparts.

On the other hand, due to their differences in size, corporate history and industrial background, these companies also handle their managerial human resources differently in some respects. The paragraphs that follow highlight and analyze some of these differences.

The CP Group

Among the three overseas Chinese firms studied here, the CP Group appears to have the most sustainable managerial HR strategy for their operation in China. It is clear that they have learned some important lessons in HR management after many years of investing and operating in China. They started with a costly HR strategy that relied heavily on expatriate managers when local management talent virtually did not exist during the early phase of economic reform in China. As local universities began to produce business and management graduates as part of the overall economic reform, CP gradually localized their key management team by hiring more local managers when they became available. Training was provided to these managers to equip them with both the appropriate skills and the proper mindset required in managing businesses under a market economy.

Besides systemic factors, CP's HR strategy in China is also determined by the nature of their core product lines and their strong corporate culture that cherishes long-term business relationship. They hire both managers who understand local market and local culture, and managers who are capable of bringing management skills and technical knowledge to local partnerships. Under the leadership of their regional managers in Beijing, CP forms firm-level functional teams with these managers and let them complement and monitor each other in their day-to-day operations.

To motivate and retain their managers, CP rewards them generously and expects dedication and loyalty in return. Given CP's strength in vertical and horizontal integration, their managers are also motivated by promising long-term career paths that encourage learning through job rotation.

Looking forward, CP's business in China will continue to expand as they ride the wave of economic reform and leverage their good relationship with the local governments. Since the bulk of their business is in agro-industry that depends on China's domestic demand, CP growth in China will not be inhibited significantly by the economic slowdown expected in Asia in the next few years. In fact, CP will find it easier to localize their management team in China as other export-led foreign firms scale down their operations and as local institutions produce more professional managers. The expected restructuring of the SOEs will also create some excess managerial workforce which CP can tap into. If they continued their localization efforts, CP may one day be able to "export" their managers from China to their operations in other parts of the world when these managers become business-savvy enough to take on international challenges.

Chia Hsin Company

Chia Hsin group of companies is the least aggressive among the three firms in localizing their management. After operating for more than four years in China, overseas Chinese expatriates still make up of more than 70% of their management team. The author believes the major factor for Chia Hsin's low level of management localization is the lack of trust for the local Chinese. During the course of the case interview in Shanghai, the local Chinese managers were described repeatedly to the author as "untrustworthy", "dishonest" and "greedy." Such suspicious or even contemptuous attitude is not entirely unfamiliar between Chinese from the mainland and those from Taiwan. Although there is definitely some degree of truth in what the case interviewee attempted to portray, there are obviously some historical and political factors behind such mutual mistrust, too.

When Taiwanese firms were exploiting the low labor and operating costs in China for export-oriented manufacturing, the mutual mistrust between the people from two sides of the Taiwan Straits did not matter much. The labor-intensive industries concerned required very little management at the level where these people interact. However, as Taiwanese and other overseas Chinese firms move towards management-intensive industries in China in response to increasing labor costs, better understanding and mutual respect need to be cultivated so that local Chinese managers can be entrusted with high level management tasks to reduce operating costs. Removal of such deep-rooted prejudices may take many years to realize.

Gao Qiu Golf Resort

Mr. Chen's experience is quite different from those of CP and Chia Hsin. Being a smaller business away from the major cities, Gao Qiu a very different set of recruitment and management problems. They were not in the position to attract the best local managerial candidates, and they suffered the consequences of poor management as a result. They had to use some expatriate and "borrowed" managers to fill some key vacancies, but they are not convinced that that is a good long-term solution.

In Mr. Chen's opinion, not knowing anything about management is much less harmless than having the wrong business and management concepts. Those who admit ignorance stand a better chance in learning the right ways of doing things, whereas those who put wrong knowledge into practice create problems in businesses that are difficult to undo once damages are done. "The golf course project could have been completed in 18 months if everything was done right from the very beginning. Poor management caused the project to drag on for three years, including six months of remedial works to set things straight."

Chapter Three - Supply-Side Case Study

As discussed in *Chapter One*, the supply side of the managerial human-resource market in China can be divided into the following sources and subcategories:

Sources	**Subcategories**
Expatriate managers	▪ *Overseas Chinese* ▪ *Non-Chinese Foreigners*
Chinese nationals from abroad	
Local managers	▪ *Existing managerial pool* ▪ *New management graduates*

It is clear that the expatriate managers, especially the overseas Chinese managers, have been playing a major role in managing foreign-owned and joint-venture enterprises in China since the beginning of the economic reform. However, as seen in the cases in the previous chapter, much localization effort is currently underway to produce a larger management workforce in China to make business more sustainable in the long run and to support the fast growing management-intensive industries. If cost and quality are the main considerations in building up the management workforce of a nation, the "*new management graduates*" category is no doubt the most important and most promising among all the sources in the long run.

To better understand the current status of management education in China, this chapter studies an American-China initiative in management education. Besides examining the design and implementation of the program in detail, this chapter also compares it against a typical American MBA program to highlight differences and similarities.

3.1 The MIT-China Management Education Project

3.1.1 Program Background

The MIT Sloan School of Management and two top universities in China, Tsinghua University in Beijing and Fudan University in Shanghai, are currently engaged in a five-year collaboration to train managers in China. The author took a close look at this education joint venture by interviewing the faculty, students and administrators from these universities who are involved in the project. The author also attended some classes in Beijing and Shanghai with the first batch of MBA students this program recruited.

MIT Sloan School of Management

The Sloan School of management in Cambridge, Massachusetts has one of the most reputable MBA programs in the world[23]. Its two-year MBA program admits approximately 350 students each year. One of the major strength of the Sloan MBA program is the diversity of its student body. Thirty seven percent of Sloan's master's program students in 1998 are international students from 57 different countries[24].

Sloan's interest in global development started many years ago. In the 1960s, for example, Sloan led the development of the Indian Institute of Management in Calcutta. The school also had a five-year collaboration project with the Nanyang Business School in Singapore. Besides, Sloan had conducted other joint programs in Taiwan, Mexico and Chile.

Academically, Sloan is renowned for its strength in finance, operation research, international management, marketing and technological innovations. It has nearly 100 full-time faculty members representing a wide range of research and teaching interests in current management issues and disciplines. Besides the MBA program, Sloan also runs an undergraduate program, a doctorate

[23] *The U.S. News & World Report* ranked Sloan's MBA program first, second, fourth and third in 1995, 1996, 1997 and 1998 respectively. Business Week ranked Sloan's MBA program ninth in 1996.
[24] Source : Brochure for Sloan Master's Program 1997-1998 and 1998-1999

program and two one-year executives programs – the Management of Technology program and the Sloan Fellow program.

Tsinghua University, Beijing

Tsinghua University[25] is located in a scenic campus in the capital city of China. It is best known for its engineering schools and it sometimes pride itself as "MIT of China." Tsinghua was founded in 1911 as a preparatory school for U.S. universities and became a university in 1925. Its graduate school, the first in the country, was founded in 1984. Tsinghua's School of Economics and Management was formed in the same year. Mr. Zhu Rongji, the newly elected premier of China, has been the Dean of the school since then. Since its founding, Tsinghua's School of Economics and Management had graduated 600 undergraduates and 1000 master's and doctorate students. Today, the school has more than 100 faculty members, 550 undergraduate students and 850 graduate degree candidates.

In 1991, Tsinghua became one of the first nine universities hand-picked by the State Education Committee to offer MBA programs in China. It was given the mission of training management talent to help develop a "socialism with Chinese characteristics." It set itself a target to become a leading management school in the world by the 100th anniversary of the founding of the university. The program has been expanding rapidly over the years and has become the largest MBA program in China. In September 1998, 284 new students were admitted to Tsinghua's MBA program.

Fudan University, Shanghai

Shanghai is the most metropolitan city in China due to its extensive trade contacts with the western world since the cannons of the Opium Wars blew open the doors of feudal China in the mid 19th century. As a result, Shanghai residents are known to be the best business people in China. It is therefore small wonder that Fudan University, known to be the best university in southern China, also runs one of the best and most popular management schools in the country.

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[25] Source : Tsinghua University homepage - http://www.em.tsinghua.edu.cn/

Fudan University[26], originally called Fudan Public School, was founded in 1905, and became a private university in 1917. Fudan was the first university in China to have a department of business administration in 1920. That later became School of Business in 1929. Under the reform and open-door policy, Fudan was again the first in the country to resume its management education. Its department of Management Science was established in 1979. That evolved into the School of Management in 1985. Currently, Fudan School of Management runs 4 doctorate degree programs, 10 master's degree program and 8 undergraduate programs.

The IMBA Initiative

After running their MBA programs for years, some Chinese universities found that the best way to accelerate the upgrade of their business schools to international standard is to borrow course contents and teaching models from established overseas institutions. On the other hand, foreign companies targeting China's attractive consumer market regard top-notch universities like Tsinghua and Fudan as their primary sources of local management talent. These two factors have created a very favorable environment in China for international collaboration in management training. Many foreign institutions have proposed various exchange and collaborative programs to jointly develop China's future business leaders. Unfortunately, not unlike the situation for a lot of foreign-Sino joint ventures, many memoranda of understanding were signed but few collaboration initiatives had created significant long-term impact due to the lack of sustainable funding and other administrative difficulties. Only the most carefully planned and properly funded programs stand a chance to deliver meaningful result in the long run. The international MBA (IMBA) program MIT's Sloan School of Management established with Tsinghua University's School of Economics and Management and Fudan University's School of Management is one of the rare success stories of such efforts.

The MIT-China Management Education Project began in 1996 as part of Sloan's on-going global engagement in management education. Thanks to its many years of experience in the international arena and the lessons learned from similar projects by others in China, Sloan has designed a collaborative program that is most likely to have a significant impact in the long run. The following sections take a closer look at the design of this program and its implementation.

[26] Source : Fudan University homepage - http://www.fudan.sh.cn/

3.1.2 Objectives and Design

Program Objectives

The IMBA program was designed and implemented by the parties involved with the following objectives in mind:

- To train professional managers for China's increasingly global economy;
- To allow Sloan as a management research institute to learn more about doing business in China in the process;
- To create and maintain a strong tie between Sloan and the business and academic communities in China, which will facilitate further cooperation in the future;
- From a broader perspective, the three universities involved in the project hope their collaborative efforts will eventually produce a proven management education model for widespread implemented in China;
- Lastly, the program can also be viewed as an effort on Sloan's part to tap into the prosperous Asian region for operating and research funds.

Program Design

The IMBA program is run as a separate program from the regular MBA program currently being offered by Fudan and Tsinghua. Although the names of the courses taught in both the programs may appear very similar, the contents of these programs are significantly different. While the regular MBA programs focus heavily on business and management issues of the local Chinese environment, the content of the IMBA program is much more global and, to some extent, Americanized due to its Sloan origin. In fact, most of the course materials used in the IMBA program are derived from what MBA students used at Sloan.

Another major difference is language. While the regular MBA classes are taught entirely in Chinese based on Chinese-language material, the IMBA program requires the use of English as the major, if not the only, medium of instruction throughout the program. Original English editions of textbooks, case study materials and other readings are used. Instructors are expected to conduct classes in English and students use English in all their homework assignments and class discussions.

The way in which IMBA courses are taught and learned is also very different from how regular MBA classes are run. Regular MBA classes are taught in the typical lecture style found in most Asian classrooms where knowledge is spoon-fed to students by supposedly know-it-all teachers. Students are not encouraged to express their own opinions and the authority of the instructor is not to be challenged. On the other hand, professors teaching IMBA classes are expected to teach in the American case discussion format. They are expected to encourage open discussion in class so that students learn to tolerate ambiguities and accept opposing views. Teamwork is to be encouraged among students, too. Significant proportions of the grades students received from their courses are based on class participation and teamwork efforts.

Training China's Future Managers

The training aspect of Sloan's IMBA program serves two purposes: besides training managers for foreign multinationals operating in China, it also trains future managers for local Chinese companies so that their management team can be adequately staffed to become competitive in the global market. "We really start the program not focus on China, but focus on standard MBA knowledge taught in any leading business school in the world," said Professor Donald Lessard of Sloan. "But later in the program, there is a great deal of emphasis on what we call the *dual integration of China* – the problems or issues facing firms from outside of China when they do business in China, and the problems of Chinese firms when they seek to become international players themselves."

Since the Sloan IMBA program takes both local and international factors into consideration, managers trained under the program will be able to compete and communicate comfortably with MBAs graduates trained elsewhere in the world. In other words, they will become ideal managers for Chinese enterprises inspired to take on the world, as well as foreign firms who wish to localize their management in China.

Mutual Learning

The MIT-China project is both an educational and a research collaboration. Besides helping the Chinese universities to develop management talent for China's job market, Sloan also hopes to benefit by learning more about doing business in China while sharing its management education knowledge and experiences with its Chinese counterparts. "Through this educational and research collaboration, we are establishing the common ground of understanding that will lead to the successful integration of China into the world economy for the benefit of all," said Glen Urban, Dean of the Sloan School of Management.

In fact, this is not the first time Sloan attempted to learn more about a foreign country through educational collaboration. A good case in point is an exchange program Sloan had with Japan in the 1980's. As a result of that program, Sloan had developed considerable amount of expertise in Japanese economy and operation practices. "To us, this kind of international collaborations are well worth our efforts and investment since they allow us to study a country's problem up close and gain first-hand knowledge on them. That, over time, will create some experts in this institution for a given country or region," said Lester Thurow, a senior professor and a formal Dean of Sloan who chairs the MIT-China project.

Building an International Network

Another long-term objective of the MIT-China initiative is to create a strong international network among the organizations and individuals involved in the program. Not only will the faculty members and administrators work on the program together and become close colleagues, students in these three institutions are expected to learn from each other through various exchange activities, too. Given the very diverse community in Sloan, this will, over time, form a truly international network for future academic collaborations and business partnerships.

Training the Trainers

Besides sufficient funding and strong commitment from all parties, Sloan believes the IMBA program must be sustainable in the first place in order to maximize its impact in the long run. A unique "training the trainers" approach was introduced to ensure increasing returns from the project's investment.

Other collaborative programs for management education in China either send foreign faculty to teach in China or send Chinese students to study abroad. The China European International Business School (CEIBS), a Jiaotong University and European Union collaboration in Shanghai, for example, sends foreign instructors to China to teach management courses based on short-term contracts. "We call that the missionary approach, and there is no doubt that it can be very effective in the short run," said Alan White, a Senior Associate Dean at Sloan who directs the Sloan-China initiative. "However, we think that approach is costly and may not be sustainable in the long run when funding runs out."

In order to make sure the Chinese universities have enough teaching resources to continuously expand their capacity in the future, Sloan decided to experiment with an innovative approach that systematically train Chinese faculty on MIT campus in Cambridge, Massachusetts. Chinese faculty members are invited to live and work on Sloan campus so that they can dedicate months of undivided attention in learning how a top American MBA program functions. Since many of them are first-time visitors to the United States, they are also given the opportunity to experience the daily life of a market and capitalist economy by living amidst an American society. Such distinct personal experience will no doubt help them become better teachers for international MBA courses when they return to China. Sloan believes Chinese business school faculty who learn how to teach modern business courses through this process will be able to in turn train better teachers for their institutions in the future.

Tapping into Asia's Wealth

During a "town meeting" with Sloan students recently, Professor Glen Urban, the Dean of Sloan since 1993, quoted the MIT-China project and a few other international collaborations in Asia as important revenue sources for Sloan to develop into a better business school. In fact, MIT and Sloan alumni in Asia have been very supportive of the school's effort to build a stronger tie with Asia. Tang Center, Sloan's new business school building that hosts most of its classes and students activities, was build primarily with the generous donation of an Asian alumnus. A program like the MIT-China project is no doubt another good channel for Asian alumni to contribute financially to the school's globalization effort.

3.1.3 Program Implementation

This section examines how the Sloan-China collaboration was implemented, and to what extent the program's objectives discussed above have been achieved so far.

Fundraising

Tsinghua and Fudan were not expected to provide any direct funding for the program. Therefore, Sloan alone was responsible to raise all the funds required to meet the financial needs of the program. Besides covering administrative costs of the program, the IMBA project also needs funds for faculty and curriculum development, and to finance all the exchange activities involved. In addition, the program pays for all the course materials used by the faculty and the students in the program. The fundraising target for the IMBA program was set at US$10 million for the initial five-year phase of the project.

Since it is unlikely that the Chinese government would provide any funding to the IMBA program, and since Sloan wanted the program to be financially independent so that it can be run with a free hand, the program had decided to raise all the required funds from the business community. The potential donors were firms with strong business interests in China because they were most likely to benefit directly or indirectly from the program through their needs in managerial human resources. The fund raising campaign also targeted Sloan alumni in Asia specifically because the fundraisers believed Sloan Alumni's prior international experiences at Sloan would make them more likely to contribute to the globalization efforts of their alma mater.

It turned out that almost all funding for the program was donated by Asian companies, most of them from Hong Kong and Taiwan, and MIT/Sloan alumni from Asia who thought the program was a good idea. Although the program did try to raise funds from American multinationals with heavy investments in China - for example, General Motor and Motorola - these companies often decline the invitation to participate since their human resource policies required them to train their managers in-house. "When we talked to them, they invited us to conduct in-house programs exclusively for their employees. They failed to see how they could benefit by contributing to a general and public program like this," said Alan White of Sloan. "However, training managers for some specific firms is not our objective, and we simply don't have enough resources to do that after committing to Tsinghua and Fudan."

According to White, most western firms in China are not willing to fund the IMBA program and the like because they understood, rightly or wrongly, that most MBA candidates in China are company-sponsored students instead of "free agents" whom they can target to recruit. However, overseas Chinese and other Asian companies are less pragmatic and more far-sighted. They believe they will be able to hire from the pool of management talent trained by these programs in the long run, after the students have fulfilled the obligations of their sponsorship. Besides, many Asian sponsors who are accustomed to political patronage also expect to gain brand-name exposure through their financial contributions to management education. They hope the students graduate from these programs will one day become business leaders of China who will remember and reward those who sponsored their management education.

Student Selection

Tsinghua and Fudan each has its own regular MBA program since 1991. Students who are interested in the IMBA programs must fulfill all the admission criteria and sit for the same entrance examination as the rest of the MBA program candidates (*please refer to Section 1.3 above*). However, those who express interest in pursuing the IMBA program have to make it through an additional set of tests and interviews after their acceptance to the regular MBA program. Since the IMBA courses are taught primarily in English using mostly English material, having a good command of English is the most basic admission criterion. The test of English for IMBA admissions includes testing a candidate's ability to listen, speak, read and write in English. A candidate's performance in the entrance examination and their work experience are other important criteria for their IMBA acceptance. Due to resource constraints, only about 40 students in each of the two schools are admitted to IMBA for the 1997 and 1998 academic years. Those who sit for the IMBA tests but fail to qualify may still enroll in the regular MBA program.

In the case of Tsinghua, for example, around 800 candidates applied for the regular MBA program for the entering class in 1997. About 280 students were admitted, and only 90 of them did well enough in their English examination to qualify for further tests and interviews for the IMBA program. Forty candidates were finally accepted to the pilot IMBA class. All the rest who did not make it remain in the regular MBA program.

Faculty Training

As discussed above, faculty training is the core of the IMBA program. Much emphasis has therefore been put on this element of the program to make sure the visiting professors from Tsinghua and Fudan get the most out of their visits to Sloan.

During the first phase of the IMBA project, six Chinese faculty members, three each from Tsinghua and Fudan, visit Sloan each semester for four semesters. In other words, a total of twenty-four Chinese professors would be trained in a period of two years. During his/her stay at Sloan, each of the Chinese professors is assigned a faculty host who is usually a full-time Sloan professor who shares the visiting professor's research interest. Throughout their stay at Sloan, the visiting professors work closely with their Sloan faculty hosts in various aspects of the development of one or more IMBA courses. They attend classes, engage in faculty meetings, and prepare course material for the new courses they intend to teach upon their return to China. Some of the Chinese professors also take part in orientation activities for incoming students, join student discussions and participate in other student teamwork activities to observe first-hand how American MBA students learn, work and interact in teams. During their stay, the visiting professors learn to take advantage of the computer infrastructure in the most "wired" campus in the country to communicate with those at home. They share the progress of their studies with their colleagues and students regularly through e-mail, and will be able to do the same through videoconferencing in the near future.

"Initially, we were afraid that, for one reason or another, Tsinghua and Fudan might not be able to send their best faculty members to Sloan," confessed Thurow. "Later, we were really pleased when we found that all the professors who visited us were young, talented and enthusiastic about management education."

Another major concern for the teaching of IMBA courses is the readiness of Chinese professors to change from the traditional lecture-style teaching to the MBA case-discussion style that emphasizes student participation. The author had an opportunity to discuss this issue with a visiting professor from Tsinghua University during the fall semester of 1996. He told the author he had always been teaching business strategy by giving a series of 45-minute lectures without any input from the students, and he did not think the students were ready to change even if he was prepared to introduce open case discussions in his classes. He therefore felt strongly that he should continue to lecture in his classes upon his return to China. In April 1998, the author visited Tsinghua University for an on-site study for this thesis. Sitting in the Strategic Management class taught by the same professor, the author was quite surprised to find that a case discussion on business strategy for Intel was conducted in very much the same way as it would have been conducted in an American MBA classroom. The author was also impressed by both the enthusiasm in the class discussion and the quality of its content. The fact that the Chinese professor's eventually decided to teach in the "American way" demonstrated his recognition of case discussion as a better way to train China's future managers. On the other hand, the students' readiness to adopt the new format of learning showed their determination and capability to adapt in an increasingly global business environment.

"I think the problem doesn't lie with the students," said Professor Shi Yongheng, currently visiting Sloan from Tsinghua University, when asked how he will encourage his students to actively participate in class discussions. "The professor must induce the students to express their opinions in class, and the best way to do that is through the grading system". According to Shi, a student's performance in a regular MBA course depends almost entirely on the final examination. He plans to follow the Sloan grading system instead when he returns to Tsinghua to teach International Management in the fall semester of 1998. "I will do away with the final exam all together. I will have 30% of the grade for class participation, and the rest of the grade for presentation and written case reports," said Professor Shi.

Curriculum Design

To Tsinghua and Fudan, the collaboration with Sloan offers a unique opportunity to experiment with a new management curriculum that promises to prepare future managers for China's increasingly global economy. The IMBA programs at Tsinghua and Fudan have constructed their initial curricula based largely on a series of relevant courses in Sloan's MBA program. For example, most IMBA courses use the same Harvard Business School case studies used heavily in Sloan classes. However, a considerable amount of effort is also spent on making sure that the IMBA curricula have the appropriate amount of "Chinese content" to suit the background and expectation of the Chinese students. This is done by either including Chinese business cases in the syllabus or by modifying western cases to incorporate some Chinese perspectives and experiences.

According to Professor Shi who is finalizing the syllabus for the International Management course he will teach at Tsinghua, good business cases based on Chinese firms or Chinese experiences are hard to come by. This is partially due to the short history of case-study teaching methodology in China. "I heard a professional case writer from Harvard Business School can finish writing a case in less than a week, but it took me nine months to write my last case when I did it on a part-time basis," said Shi. Furthermore, writing and publishing business cases are expensive endeavors and funding for such activities is extremely limited in China.

Although there is a short supply of published business cases on Chinese firms, some professors in the IMBA programs seem to be able to overcome this problem by taking advantage of the reputation and location of their institutions. Fudan and Tsinghua, located in Shanghai and Beijing respectively, are surrounded by a large number of foreign and local businesses that have established their country head offices in these cities. Given the fame of these institutions as leading universities having the top business schools in the country, managers and business leaders are eager to visit the schools and share their business experiences with the students and the faculty. Local firms are eager to learn some cutting-edge business and management skills from the schools, whereas foreign firms are looking to add some Chinese perspectives to their business strategies. The schools can then take advantage of such relationship with the business communities to offer some real-life exposure to their students. For example, while the franchise strategy of Kentucky Fried Chicken was discussed in a Management Strategy course in Tsinghua, the story of a pioneer Chinese franchisee, now the Vice President of KFC in South East Asia, was added to the content of the original case. Besides, the said franchisee himself was invited to class to share his experience with the IMBA students.

"We have no problem finding business people to speak in our classes at all," said Professor Shi. "In fact, our problem is an opposite one – we often find ourselves having to politely and tactfully turn away business people who offer to come to talk to us."

While writing a thesis is optional in the Sloan MBA program, the Chinese universities require every MBA students to write a thesis during the final year of the program. This can be a good source of Chinese business cases if some of the relevant theses can be further developed into teaching materials.

Building a Sloan-China Network

Since the launch of the Sloan-China project in 1996, not only have the professors and administrators of the project become close colleagues, students from the three universities had begun to work with each other through various formal and informal exchanges, too. Some examples of the international interactions resulted from the Sloan-China project are listed below:

- The Sloan China Trip visited Tsinghua University and had a group dialogue with its MBA students in March 1997. Close to a hundred MBA students from both schools exchanged ideas on academic, economic and social issues for hours in a Chinese classroom after having dinner together in the school canteen. That unique opportunity of cross-cultural learning has become a new tradition of the Sloan study trip held during spring break every year. Another group of MBA students from Sloan, many visiting Asia for the first time, visited a new batch of Tsinghua students in March 1998 in a similar setting. Due to the very positive feedback from the students of both schools, the author believes such exchange forum will continue to be held every year.

- A Chinese professor visiting Sloan to design teaching material for an international management course for the IMBA program invited students from Sloan to participate in Internet discussions with her Chinese students. Sloan students from different parts of the world responded to her request and agreed to share opinions through world-wide-web discussions in the future.

- After learning career development services are not yet available to the IMBA students, more than thirty MBA students from Sloan showed their support by volunteering to edit resumes for Tsinghua students to help them improve their chances of securing summer internship with foreign enterprises in China.

- The author interviewed several professors from Fudan and Tsinghua in the process of writing this thesis. He also visited the campuses of these Chinese universities to attend lectures and to talk to Chinese students in both the regular MBA and IMBA programs. Some supportive and resourceful IMBA students from Tsinghua continued to help the author later by providing data and answering questions promptly through e-mail. The author deeply appreciates their helpfulness and willingness to share ideas and information.

- A group of ten Sloan students from the student organization Project Team[27] visited Beijing for five days in March 1998 to teach team building skills to Tsinghua MBA students. "We learned some very valuable lessons from the Project Team's visit," said Patrick Lee, a first-year Tsinghua IMBA student. "We have always been taught how to be a good leader, but this is the first time we learn how to play the support and coordination roles when others lead. By observing how the Sloan students work seamlessly together as a teaching team, we also realize how a group of very different individuals can develop extremely good teamwork understanding among them."

  To the Sloan students in Project Team, all of them visiting China for the first time, it was a once-in-a-lifetime cultural and academic experience. While they were not teaching, they were taken around to sample authentic Chinese food in Beijing and visit historical places during the weekend, and some good friendship developed during their short encounter with the Chinese students. "I'm beginning to miss my students already," said Ellen Sandler, a second-year Sloan students, two day after leaving Beijing.

As current and future generations of students, faculty and alumni from Sloan, Fudan and Tsinghua continue to learn from and about each other, the cross-cultural relationship they build up through the IMBA program will extend into their future career and benefit them in many ways. A strong and extended international network like this will no doubt have a very positive impact on the further globalization of the business world.

Monitoring Progress

Even though clear objectives and targets have been set for the implementation of the IMBA program, there is no guarantee that Tsinghua and Fudan are able to adhere fully to the implementation plan agreed upon. According to White, recruiting students for the program and having the proper course materials in place were not too big a worry. The major concern was the teaching component of the program. "It is more of a language, or even cultural barrier. For example, some of the professors openly acknowledged that their students have better command of English than the professors

[27] The Sloan Project Team is a seven-year-old student organization run by Sloan MBA students committed to learning, creating and sharing teamwork skills, and to building a world-class team environment at Sloan. Over the years, Project Team has developed a variety of team skill teaching materials and seminars for Masters Program students. As team-based management is becoming increasingly important to employers worldwide, Project Team's efforts assist Sloan students in leading this change.

themselves do. It is therefore more convenient for them to teach in the traditional lecture style and spoon-feed the students than to conduct interactive case discussions. Or they may even decide to teach in Chinese instead of English as agreed upon," said White. "Although we provide all the funding, we basically have no control over how and what they teach. We can only influence."

However, Sloan does monitor the progress of the project closely by having formal review conference with their Chinese counterparts every summer, either in China or in Cambridge. "They are top schools in a big and proud country, and they view us as their equal. In other words, we are in no position to tell them what to do. However, we do try our best to point out to them the areas in which we think they are lagging," said Professor Donald Lessard of Sloan, who is on the advisory board of the MIT-China Project. For example, Sloan is urging Tsinghua and Fudan to set up career development offices (CDO) to help the IMBA students in their search for summer internship and permanent employment after graduation. The CDO at Sloan plays a central role in job placement for Sloan's MBA students, and Sloan wishes to see similar facilities being set up in Tsinghua and Fudan to effectively market the new IMBA program to potential recruiters in China.

3.1.4 The IMBA Students

Competitive Environment Admits Only the Best

Fudan and Tsinghua are both leading universities in China. Given the large population of China and the heavy emphasis its people traditionally place on education, the race to secure a place in these universities is extremely competitive. The IMBA program had an admission rate of less than 5% in 1997[28], and it is expected to become even more competitive in the years to come[29]. Given such competitiveness, those admitted are undoubtedly among the very best in their peer group. The author has had the opportunities to interact with some IMBA students in a number of occasions and found that this is indeed the case.

After spending a day with some IMBA students in Tsinghua, the author finds the IMBA students mature, intelligent and vigorous. Despite their limited exposure to the "outside world", they have an exceptionally good understanding of the micro and macro environments around them, and one can easily tell they are capable of making the best out of what they have. They are also very curious about the part of the world they are less familiar with, and they always try to learn more about it by asking their visitors from abroad. Like young students in most cultures, they see the needs for changes in their society, but they view that as their future challenges. Talking to the IMBA students, the author could sense their optimism about their own future and the future of their society, which is probably the result of the general improvement of life in China in the past ten years. Like most American MBA students, they work hard, they have fun, and they are proud of themselves.

The IMBA students are observed to be quite comfortable with computer and communication technology. The Tsinghua students, for example, each has his/her own e-mail account which they use freely, frequently and "bilingually" to communicate with each other and with the "outside world." In the few occasions the author requested for information for this thesis through e-mail, Tsinghua students responded promptly, sometimes within hours despite the 12-hour time difference. After the author complained about not being able to relate names on their business cards and the faces of the

[28] In 1997, 965 and 810 candidates applied for the MBA programs of Fudan and Tsinghua respectively. About 40 students were qualified for the IMBA class of each of these schools. (Source: http://www.cm.tsinghua.edu.cn/docs_c/Committee_1/nmbac4.htm)

IMBA students he has met, he received a digitized photo book of the entire Tsinghua IMBA class through e-mail two hours later!

Financial and Academic Hardship

Many IMBA students are under heavy financial burden since the cost of attending business school in China is high without company sponsorship (the same can of course be said for American business schools). In Tsinghua University, for example, the total two-year tuition for the entering class in 1997 is 27,000 RMB (US$3,260)[30], which is more than twice the average annual income of a Chinese worker. The tuition will be raised to 40,000 RMB (US$4,830) for the class entering the program later this year, which is an increase of 48%. Besides, subsidized campus housing is only available to the top 30 non-local MBA students – IMBA or otherwise - based on their entrance examination results. One of the students the author met has to cycle for one hour each way between campus and his rented home everyday.

Despite the financial hardship, the IMBA students apparently enjoy the challenges they face. Like most Sloan students, they complain about the heavy workload of the intensive program, but they know they have to work hard to learn their skills. "The first semester was really a struggle for all of us due to the amount of homework and class preparation we had to complete everyday. No one gave up and, in the end, all of us survived and learned a great deal," recalled George Jiao from Tsinghua, who obviously has no regret for all the long nights he had to put in. Similar statements can be heard from most Sloan MBA students. Both programs obviously employ the same strategy of pushing the students to new limits so that they realize their own intellectual strengths.

Being International and Business-Like

Another similarity between Sloan MBA students and the IMBA students is the use of business cards on campus. Every IMBA student in Tsinghua carries professionally printed business cards with standard design. The cards are bilingual with Chinese on one side and English on the other. Besides their names and title ("International MBA Candidate"), also printed on their cards are the institution (e.g. "Tsinghua University School of Economics & Management") and program (e.g. "MIT-Tsinghua

[29] In comparison, Sloan MBA admission rate for the graduation class of 2000 is slightly less that 12%.
[30] Based on US$1 = 8.28 RMB

International MBA Program") they are affiliated with, their individual e-mail addresses from the school, and their personal pager or telephone numbers.

Interestingly, almost every one of the IMBA students uses an "English name" that precedes his/her family name instead of having their first and middle name romanized for the English side of their cards. Names printed on the business cards the author received include *Patrick*, *Richard*, *Victor*, *Warren*, *Harold* and *George*. The use of such names on their business cards (despite the strong Chinese tradition against changing one's name) is obviously aimed at facilitating their interactions with foreigners, since westerners usually find Chinese names difficult to pronounce and remember. "Westerners do the same when they come to do business in China," said Patrick Lee. "They give themselves Chinese names so that we can remember them."

While the use of business cards reflects the business-like setting of the IMBA environment, the content of the cards highlights the international aspect of the program.

<u>Lack of Diversity</u>

Like their counterparts at Sloan, most IMBA students have three to five years of work experience, have undergraduate degree in engineering or other disciplines, and are between 25 and 30 years of age. However, a major difference between the IMBA schools and Sloan is the level of diversity of the student body. While around 40% of the current Sloan MBA classes consists of international students from more than 50 different countries[31], the MBA and IMBA classes of Fudan and Tsinghua are made up almost entirely of Chinese students from different parts of China.

"A visiting Sloan student asked me why there are no international students in our international MBA program. I had to tell her the word "international" describes the content of our program, not its students," quipped a Tsinghua student. This in fact is a serious shortcoming of the IMBA program, since much of the learning of a truly global MBA program takes place through interactions among students from very diverse backgrounds. Although the IMBA program is considering admitting some overseas Chinese students from South East Asia, it will be a long while before it can become reputable

[31] Thirty-seven percent of Sloan's MBA class of 1998 is international students. The 1997-98 MBA student body of Sloan is made up of students from 57 different countries.

enough to attract good students from all parts of the world. Until then, it will not be able to enjoy the level of diversity found at Sloan and other top American business schools.

Lack of International and Market Exposure

Since China had closed its door to the international community for a long period of time before the recent economic reform, very few of her citizens have had the opportunity to travel or work abroad. Therefore, unlike the more fortunate and well-traveled Sloan students, most IMBA students have never set foot outside their own country. Furthermore, most of them worked under the command system of a planned economy before they returned to school for their MBA degree. Therefore, most of the market economy concepts found in the IMBA courses are new and foreign to them. Unlike their relatively business-savvy counterparts at Sloan who live in the most capitalist society in the world, they have no past experiences to draw upon and very few real-life cases around them from which they can observe and learn.

"The main problem with Chinese management students is their attitude and mindset," said Thurow. "They work hard, they are smart, and they can memorize and analyze well - no doubt about that. However, they have been trained to manage by volume and capacity under the planned economy, and it is impossible to change that mindset overnight. Most of them do not have enough exposure to the market economy to allow them to think and react in the right business sense, and that will only change over time."

Sitting in his temporary office at Sloan, Professor Yin Xiangshuo from Fudan University brought up another problem with his Chinese students. "Chinese students are not good at dealing with ambiguities. The old [socialist] system has taught them to expect *the* correct answer to every question and *the* right solution to every problem. This kind of mentality makes case discussions in MBA classes difficult, since there is usually no "right" solution to a given business case. Students are not supposed to memorize solutions to solve management problems in western MBA education, but Chinese students often expect their teachers to provide standard answers to their questions," said Professor Yin.

3.1.5 Career Prospect

Job Options

Like American MBA students, most students in China enroll in an MBA program to learn the necessary management and business skills to improve their career prospect and broaden their career options after graduation. However, the career targets for the IMBA students are somewhat more specific. With the exception of those sponsored by state-owned enterprises, almost all the rest of the students hope to be employed by a foreign firm or a foreign joint venture company upon graduation. They believe they can then leverage their unique IMBA credential in a supposedly more challenging, and therefore more interesting and more rewarding international career.

In Tsinghua University, for example, about a third of the current batch of thirty-nine[32] IMBA students are sponsored by state-owned enterprises. All the rest are "independent" students who pay their own tuition and other expenses of attending the program. Although some who worked for SOEs before going to Tsinghua had the option of accepting sponsorship and return to their original employers after the program, most chose not to do so if they can afford to support themselves financially. "In the current system, only seniority counts. All I can get if I return to my old employer with an MBA degree is probably an extra 10 RMB per month. I won't even get a promotion because I simply have to wait for my turn," said a Tsinghua IMBA student. "I am much better off looking for a job outside." Even for those with sponsorship, some are considering breaching the contracts with their current employers and pay the fines if they find doing that is better for their long-term career. Should they decide to return to fulfill their sponsorship obligations, most of them will have to work for four to seven years with their respective SOEs. To some of them, that will be too much time wasted on unproductive career and missing much better opportunities elsewhere.

Another factor worth noting is the new development in the SOEs since Zhu Rongji, the new premier of China, announced the decision to restructure state-owned enterprises and their human resource policies in March 1998. The author was told that some IMBA students sponsored by two large SOEs are expecting to see some policy changes which may affect their sponsorship. However, no one is certain about the specific impacts of such changes at this stage until more details are announced.

[32] One of the students from the original class of forty decided to leave after the first semester to pursue a legal career instead.

Summer Internship

As in the case of American MBA programs, the best way for an IMBA student to evaluate a career option is to work in an internship for a potential permanent employer during the summer between the first and second year of the program. This is especially helpful in the IMBA situation because working for a foreign and private organization is and entirely new experience to many of the students. However, since these students were the first batch of IMBA candidates made available to the job market, awareness of the program as a source of managerial employees is rather low among recruiters in China. The fact that Fudan and Tsinghua have not yet established career development services for their IMBA students has also caused much concern. Sloan had decided to help by recommending the IMBA students to its worldwide network of industrial and alumni contacts.

Sloan's marketing effort has yielded some reasonably good results to date. By the end of April 1998, about 20 foreign and joint-venture companies have expressed interest in hiring from the first batch of IMBA students at Tsinghua University for summer positions. Among these companies are major MNC investors in China, including Andersen Consulting, Ericsson, General Electric, Hewlett-Packard, Johnson & Johnson, Motorola, Nokia, Siemens and United Parcel Services. Among those who offer summer internship opportunities to the IMBA students also include a Taiwanese company, a Chinese investment bank and a Hong Kong firms which is also a major sponsor of the IMBA program. Besides positions in Beijing and Shanghai, some of the students have been offered to work in places like Guangdong Province, Hong Kong, Indonesia, Mauritius and even the United States.

While MBA students at Sloan are not required to work in the summer, most do because good jobs are abundant, and an average monthly salary of US$7,000-8,000 is too good to forgo. However, all IMBA students are required to work in the summer even though there is much less financial incentive for them to do so, at least for now (see "*Compensation*" section below). To motivate them to gain some additional work experience in between their MBA years, every IMBA student is required to turn in a summer job report, whereas working in the summer is optional for the regular MBA program.

Meeting the Employers' Demand

Although the list of recruiters was impressive, not all IMBA students are popular among the potential employers. According to Patrick Lee, the class monitor of Tsinghua's IMBA class of 1999, most employees look for students with vast work experience and good engineering background. Lee, for example, has a mechanical engineering degree from Tsinghua University, specializing in automobile manufacturing. He worked for three different automobile manufacturers in three different provinces before he returned to Tsinghua for his MBA degree. He has also travel widely on his own initiative to visit every major automobile manufacturing plants in China in order to study and compare their operations. Lee has secured three offers for summer internship by end of April and he is expecting to get more before he makes up his mind. Fourteen other classmates of Lee have also been offered to work of foreign firms or JV in the summer.

On the other hand, Lee's classmates with less impressive background are not as popular among the recruiters. About 15 of the 39 IMBA students at Tsinghua have not even had a single job interview by the end of April. Most of them have less job experience and have undergraduate degrees in arts or humanities. However, they believe there are still plenty of opportunities and do expect to land themselves a job somewhere before summer begins. In the worst case, most of them can quite easily return to their previous work units or go to other SOEs to work in the summer.

Compensation

The IMBA students are not as fortunate as Sloan MBA students who can command an average of US$7,000-9,000 a month in the summer. They are typically paid a salary of 3,000 RMB (US$380) a month, and some get no salary at all but will only be given allowances for their living expenses. Most students are still eager to work for the employers listed above even though some of them can make as much as 10,000 RMB per month working for an SOE. "We are still willing to accept the job because we think the working experience at a famous international company will add value to us, and it will help us find a better job when we graduate next year," said an IMBA student. As good MBA students, they are able to analyze their situation from the employers' perspective and consider what they have been offered as fair. They realize both the idea of paid internship and the IMBA program itself are new in China. The firms that plan to hire them know very little about their capabilities and are therefore taking risks with them. On the other hand, they do expect a somewhat higher salary range of 5,000 – 10,000 RMB per month after they have graduated with their MBA degrees.

3.1.6 Other Challenges

Meeting the Language Requirement

The original plan of the IMBA program is to use only English in all the courses so that students can become comfortable with using the international business language at the end of the program. However, as discussed earlier, some professors have decided to conduct their classes in Mandarin even though the course material and student assignments concerned remain in English. Understandably, some professors feel compelled to do that because they know the students will benefit more if they can teach in a language that allows them to fully communicate their thoughts. However, some students feel short-changed because they expect to have every opportunity to sharpen their language skill in the program. "Fortunately, this happened in the second semester. Otherwise, some of us would surely have requested to change the professor," said a student. "We struggled with English for months during the first semester when every IMBA course was taught in English, and have become quite confident and comfortable with using the language by the end of the semester. We therefore don't really mind if one of our professors decide not to teach in English this term. In fact, some of us are glad to have a break."

In fact, Sloan anticipated this problem and has taken some initiatives to alleviate it. "We need English-speaking people [who don't speak Chinese] in their classes to encourage the use of English," said Lessard. In the past semesters, Sloan has sent lecturers and students to teach short-term courses in China. A professor in Business Communication taught a one-week course at Tsinghua in March. Two weeks later, a team of ten Sloan students flew halfway across the earth to teach teamwork skills to the same group of IMBA students.

Faculty Retention

Like many American business schools, business schools in China also have to worry about losing their faculty to the industries. The rapid growth brought about by economic reform in China has aggravated this problem. Individuals with modern business administration and management knowledge are being actively sought after by private firms and state-owned enterprises undergoing reform, but there are hardly enough of them in China.

To the Chinese faculty members, the temptation to join the industries is big. Their salary scales are fixed by the State Education Committee as part of a nationwide compensation scheme. The universities are therefore in no position to offer better compensation to compete with the industries. In fact, most of their students will command much higher salaries than they do on the day they graduate with their MBA degree. In Sloan, faculty members are allowed to spend 20% of their time on outside consulting works. In Tsinghua and Fudan, many faculty members are advisers to commercial films and state enterprises, too, but it is not clear how much they can gain financially for such non-academic efforts. Besides, due to the shortage of teaching resources, faculty members in Chinese universities tend to have less time for outside engagement. In fact, they spend so much time in teaching and course preparation that they often have very little time to pursue their research interests. This can well be an area the respective institutions want to improve on in their efforts to retain teaching resources.

When the author discussed this issue of faculty retention with some IMBA students, they sounded less concerned. "Many of our professors are very dedicated teachers and they enjoy teaching. That is why they are here in the first place. Besides, they get a lot of respect from the community by teaching in a top university like ours. Business people come to them for advises and consultation, and they can always get some extra income from such works if they want."

3.1.7 Future Outlook

<u>Extending the project</u>

Although the MIT-China project was initially intended to last for five years, Alan White, the Director of the program, is hopeful that it will be extended for at least another five years. Although the program is well accepted by all parties involved and is producing the targeted results, raising the necessary funds for a five-year extension "is not easy, and is always unpredictable." In order to carry its impact further into the future, the program needs appropriate funding to train more Chinese faculty and to develop better teaching material. That will in turn expand the capacity of the program more rapidly to accommodate bigger MBA classes, making it a more significant source of managerial resources in China's business community.

Extending the program will expand its scope, too. According to Philip Kwok, a third Chinese institution, Ling Nan University in Guangdong Province in southern China, will soon become the third

Chinese institution in the program. In fact, a new business school building modeled after Tang Center at Sloan will be constructed there soon. "With Ling Nan on board, we will have all three northern, central and southern regions of China covered," said Kwok. "We want to eventually help each of these three schools to become the leader in some specific fields of management research and education. For example, with its proximity to Hong Kong, Ling Nan can focus on financial management and operation of the service sector."

Meeting the Market Demand

The IMBA program currently trains a total of eighty MBA students per year at Tsinghua and Fudan. Even if it expands its capacity considerably by having more teaching resources and physical facilities, it is unlikely to produce more than a few hundred new graduates a year in the near future. "We are not pretending that we can have much direct impact in the managerial HR market of China. The number of managers we can produce per year is just a drop in the bucket compared to the huge demand," said Lessard. "What we are targeting is indirect impact. We want to help Tsinghua and Fudan, which are already top universities in China, to have the best MBA programs in the country, too. This will create a good model for other universities to follow."

Deployment of Technology

Another way to expand the IMBA program rapidly is through the deployment of Internet and videoconferencing technology. Such technology will allow the teaching faculty to reach a larger audience with very little trade-off in the quality of faculty-student interaction. It will also provide an effective channel for international exchanges at much lower cost. For example, a Sloan professor can teach a short course at Tsinghua or Fudan through videoconferencing without having to even leave the country. The financial and time savings in such arrangement will encourage a lot more cross-boundary teaching than what is witnessed today. According to Dean Urban, about 400 videoconference sessions were conducted at Sloan in 1997 alone.

"Unfortunately, the Chinese government still puts a lot of restrictions on the use of telecommunication and Internet facilities, and that impedes our plan to introduce distant learning in China. Hopefully we will see some deregulation in this area soon," said Thurow.

Chapter Four – Conclusion: Putting it All Together

The final chapter of this thesis summarizes the six cases studied in the last two chapters, and does some comparisons among them. Based on the experiences and lessons found in these cases, some recommendations are made to firms that wish to hire managers in China. Some thoughts and lessons are also shared with those who are involved in management education in China. Lastly, the short-term and long-term outlooks of managerial human resources in China are discussed to conclude this thesis.

4.1 Summary of Cases

This section summarizes both the supply and demand cases studied in the last two chapters by tabulating key characteristics and issues. Weaknesses/disadvantages and strength/advantages were highlighted by grouping them under different columns.

4.1.1 Demand-Side Summary

Summary of Human Resource Models

Summarized in the following pages are the three different managerial HR models studied in this thesis. Please note that this is by no means a complete representation of the all the managerial HR policies found in China. Others models may exist but these are what the author finds interesting and relevant. Besides, the association between each model and a nationality or ethnic group only reflects a preliminary observation on the author's part. Further research needs to be done to confirm or refute such associations.

Table 1 - Human Resource Models

Model *Firm(s) Studied*	**Strengths**	**Weaknesses**
The American Training Model *Motorola China*	▪ Good training and hi-tech image attract strong candidates ▪ Comprehensive reward structure ▪ Well established regional HR network that recruits and deploys managers regionally ▪ Far-sighted localization plan	▪ Trained managers are susceptible to poaching ▪ High training cost ▪ Obvious pay discrepancy between local and expatriate managers
The Japanese Acquisition Model *Kirin Beer / President Group*	▪ Low risk ▪ Immediately productive and access to local market ▪ Low recruitment and training costs ▪ Good support from local government ▪ Partnership with overseas Chinese eased cultural and language difficulties ▪ Extensive cultural and language training for Japanese expatriates	▪ Difficult to identify suitable acquisition target ▪ High acquisition cost ▪ Need to eliminate excess labor from old operation

Table 1 - Human Resource Models (cont.)

Model *Firm(s) Studied*	**Strengths**	**Weaknesses**
The Overseas Chinese Model	▪ Exclusive use of overseas Chinese maximize cultural and language advantages ▪ Good leverage of ethnic connections	▪ High costs of overseas Chinese expatriates ▪ Problem-oriented, short-term mentality of some overseas Chinese managers ▪ High mobility of overseas Chinese managers – easy poaching target ▪ Ad hoc localization ▪ Little or no formal training in smaller firms
CP Group	▪ Vast experience resulted in effective HR management with good control ▪ Large management team allows flexible deployment ▪ Effective training through apprenticeship	▪ Factories in rural locations are less attractive to candidates ▪ High coordination costs due to large number of sites and highly local operations
Chia Hsin	▪ Employees from Taiwanese home office as a good source of expatriate managers	▪ Lack of trust for local managers
Gao Qiu Golf Resort	▪ Made good use of an experienced overseas Chinese to reengineer mismanaged project	▪ Geographically far from prime recruitment locations ▪ Not attractive to management candidates due to its relatively small size

Summary of Hiring Options

Tabulated below are all the hiring options used by the firms studied in this thesis, and their respective advantages and disadvantages.

Table 2 – Hiring Options

Options	Advantages	Disadvantages
Non-Chinese Expatriates *Usually American, European or Japanese nationals; some speak some Chinese, but most don't*	▪ Import technology and skills not available locally ▪ Many have professional management degrees ▪ Sometimes command better respect from the locals ▪ Good head office relationship (for western owners)	▪ Language and cultural barriers ▪ Very costly due to high salary in home countries and "hardship pay" ▪ Lack patience and expect changes overnight ▪ Discouraged by government through high taxes on benefits
Overseas Chinese *Foreign nationals of Chinese descendent - most read and write Chinese and speak one or more Chinese dialects. Most from Hong Kong, Taiwan, South East Asia and the United States*	▪ Good communication with locals due to language and cultural similarities ▪ Entrepreneurial spirit and vast regional experience ▪ Good head-office relationship (for overseas Chinese owners)	▪ Some lack professional training in management – lack long-term vision ▪ High mobility – easily hired away by other firms in China or Asia ▪ Discouraged by government through high taxes on benefits
Chinese Nationals Abroad *Chinese nationals studying or working abroad*	▪ Familiar with local business environment – resourceful and good local network ▪ Well educated and understand western business concepts ▪ Good international exposure	▪ As costly as foreign expatriates ▪ Few have intention to return ▪ Discrepancy in compensation may attract resentment from locals

Table 2 – Hiring Options (cont.)

Options	Advantages	Disadvantages
Local Graduates *Candidates from local universities*	▪ Good local knowledge and social network ▪ Low cost	▪ Very little international and business exposure ▪ Some are sponsored and bonded by SOEs ▪ May need additional training ▪ Relatively poor English
Experienced Managers *Local managers hired from other firms*	▪ More cost-effective than expatriates ▪ More experienced and have good local business connections	▪ May have bad work habits to unlearn ▪ Have higher tendency to job-hop
Borrowed Managers *Local managers transferred temporarily form SOEs*	▪ Low cost and no long-term obligation (if arranged appropriately) ▪ Good for short-term assignments	▪ "Returning" can be difficult ▪ High search cost ▪ Command economy mindset

Other Lessons

Some other lessons not captured by the tables presented above are:

- Localization appears to be a solution everyone has adopted, but the process usually takes a long time to complete, especially for multinationals with big workforces. Bob Marsh, human-resource director of Kodak in China, estimated that it would take at least ten years to fully localize Kodak's management in China.[35]

[35] Alkman Granitsas, Trish Saywell, "Managing, Barely", Far Eastern Economic Review, August 28, 1997

- Mindset and attitudes are more important than technical and management knowledge. Those with the right attitude can easily be trained to manage in a short time, whereas those with the wrong mindset usually have too much to unlearn.

- Like many other problems in China, the severity of the shortage problem depends on location. For example, hiring managers in Beijing and Shanghai is easier than hiring in smaller cities.

- Chinese managerial candidates value training. That puts American and European firms high in the pecking order of their career choices due to the good formal training these firms provide. Some candidates choose managerial positions with lower salaries because they offer better training.

4.1.2 Supply-Side Summary

Following are the major lessons learned from the case study on the MIT-Chinese project:

- More than fifty top Chinese universities have been given the mission to train professional business managers for foreign firms operating in China and local firms targeting the global market. However, in their efforts to develop an adequate MBA curriculum and to expand their capacity, they have to struggle with limited resources and high demand.

- Some Chinese business schools view collaboration with more-established western business schools as a good way to expedite content development and to secure financial support. Western universities gain from such collaborations by learning more about doing business in China in the process. Some may also benefit financially by managing these collaborations as for-profit fund-raising projects.

- Lack of teaching resources and course materials are the two major concerns in developing western-style MBA programs in China.

- The "train the trainer" strategy adopted by the MIT-Chinese project is considered a better collaborative model than the "missionary approach" since it is more likely to produce a widespread long-term impact.

- Case studies and other course materials used in western MBA programs need to be customized to suit the local Chinese business environment before they are used in Chinese MBA classes. Such localization effort is time consuming and costly.

- The major challenges for the Chinese faculty teaching the IMBA program are the expectations to use English totally and to conduct classes in the interactive format. Some instructors have done better in these respects than others.

- To the IMBA students, lack of international exposure and not having enough career guidance are their main concerns. Some also wish to have more opportunities to practice the use of English as a business language.

- The IMBA students find training on business communications and team skills extremely useful.

- Some IMBA students are obliged to return to work for their SOE sponsors, but most of them will work for foreign firms in Beijing, Shanghai or Hong Kong. Most of them expect to command a starting salary that is five to ten times the average local pay for graduates.

4.2 Recommendations

4.2.1 Demand-side Recommendations – Hire the Trainers

It is obvious from the cases studied that most firms believe in localizing their management because that is the most cost-effective and sustainable solution in the long run. It is also clear that, for most strategies that are effective, the two most significant factors are hiring of overseas Chinese and heavy emphasis on training. Training is attractive to high-potential local candidates who are eager to learn new management skills, whereas overseas Chinese provide an experienced managerial workforce that is most effective in managing operations in China. However, since most overseas Chinese managers are hired on expatriate terms, they are sometimes too costly compared to local managers. Based on these considerations, here are the author's recommendations for firms that need managers for their Chinese operations:

- Hire overseas Chinese managers to fill senior managerial positions, but focus on hiring those who have demonstrated talent and interest to teach. It is also desirable to hire those who are far-sighted enough to always have the long-term benefits of the firm in mind. Make it explicit in these managers' employment contracts that they are expected to train local managerial candidates.

- Localize aggressively by focusing recruitment efforts on hiring top graduates from local MBA programs. Invest in marketing the firm as a managerial employer by sponsoring academic, career development and social activities on MBA campuses.

- Study the curricula of the local MBA programs and design a training program that addresses their weaknesses. On the other hand, use firm's influence as an employer to help local MBA programs to tailor their contents to suit local needs and the needs of the firm.

- Justify the high cost of overseas Chinese managers by making them trainers and mentors to local managers. Besides classroom training, provide systematic on-the-job training to local managers so that they learn from the experiences of the overseas Chinese managers.

- Increasingly tie overseas Chinese managers' compensations to their teaching skills and ability to train good local managers. Gradually shift the role of overseas Chinese managers from day-to-day management to full-time management training as local managers become more competent.

- As local managers become more experienced, train them to become trainers and gradually eliminate the needs for expatriate managers in the long run.

One will find the strategy of "hiring the trainers" recommended above applicable to both small-size firms and large multinationals. Smaller companies may find it most effective to have a few overseas Chinese expatriates to provide informal on-the-job training to the locals. On the other hand, large multinationals may have both the need and the financial strength to maintain a sizable contingent of overseas Chinese managers. These managers are then used to identify future managers locally and to provide regular and systematic management training to the local managerial candidates.

4.2.2 Supply-Side Recommendations – Train the Trainers

Based on the observed needs in the currents managerial job market and the shortcomings of the existing local MBA programs, here are some recommendations for the organizations and individuals who wish to contribute to management education in China:

- Focus efforts on expanding the current teaching resources. Adopt the "train the trainers" strategy used by the MIT-China project to maximize long-term impact of today's investment.

- Provide financial, professional and in-kind resources to develop teaching material that integrates state-of-the-art global management theories and local business environment.

- Work closely with both foreign and local firms in China that would ultimately decide whether the education system is supplying them with the right managers. Besides making these firms a good resource for financial support, MBA programs should also solicit to share their knowledge and experiences by inviting them to present at industrial seminars and making them targets for case studies.

- Students from business management programs in China should be given more international exposure so that they become confident enough to manage globally after their graduation from business schools. Besides having teaching material with western business theories and global contents, this can be helped achieve by admitting students with foreign backgrounds (e.g. foreign students from other Asian countries), having guest lecturers from abroad, providing international internship to students, organizing international student trips, etc.

- Provide financial support by raising educational funds from firms and organizations that have direct and indirect interests in the managerial job market in China. Efforts must be made to make sure the funds raised are properly managed and used most effectively to fulfill their respective management education objectives. A large portion of such funds should be spent on developing teaching resources as long-term investments in management education.

- Make use of modern communication and information technologies to address the critical shortage of teaching resources and learning material. Internet technology, for example, can be used effectively to tap into global resources that are otherwise too expensive to obtain.

- Those with management knowledge and industrial experiences should be given the appropriate incentives to participate in educating future managers. Besides offering competitive monetary benefits and social status to part-time and full-time teaching staff, continuous training should also be provided to the trainers so that they always stay in the forefront of management education and be informed of the latest development in the global business arena. Knowledgeable, inspiring and aptly rewarded teachers will in turn encourage more management students to join the teaching force later.

The recommendations above focus on the development of appropriate teaching resources for management education in China. The problem of supply shortage can only be solved when enough properly trained trainers are available to train future managers in the long run.

4.3 Future Outlook

"It takes ten years to grow a tree, but educating the people takes a hundred years to bear fruits."

- Chinese Proverb

The critical shortage of management talent will continue to haunt both local and foreign businesses in China. While firms are doing all they can to overcome and preempt the shortage from the demand side, much is also being done to improve and expand business and management education in China so that the supply capacity for new managers will continue to grow. Although it takes only twenty months to train an MBA student, it takes much longer to develop a good MBA program. Changing the mindset and attitude of the entire population of China will probably take decades. Looking forward, here are some of my hopeful and optimistic predictions.

4.2.1 Short-Term Outlook

An article published by the International Institute for Management Development (IMD) in Switzerland had the following to say about managers from China:

> "There is a new generation of well-educated, cosmopolitan Chinese professionals, who are amazingly at ease with the world of global commerce. Beyond their intellect and confidence, which is breathtaking to those who have long written about the inadequacies of Chinese management, what is so striking about this new generation of Chinese managers is that they have little, if any, allegiance to the state sector. They like what they see of the multinational corporate world, what it offers in terms of compensation and development, and they are easily able to talk about building careers inside China, and abroad, with any number of foreign firms."[36]

[36] William A. Fischer & Dominique Turpin, "Foreign Companies' Performance in China: An assessment at the start of the post-Deng era", May 1997 (http://www.imd.ch/pub/pfm_9705.html)

While the above description is indeed consistent with what the author has observed in the past three to four years, China is still far from solving its problem of shortage and inadequacy on the managerial HR front. First of all, demand still far exceeds supply for the elite managers described above. As discussed earlier, the large supply-demand gap caused by the socialist legacy and rapid economic growth will take many years to close given the rate at which professional managers are being trained in China. Furthermore, narrowing the gap is only possible if managers can be trained at a faster rate than the rate at which demand grows. Although China has taken steps to develop and expand its national management education, much still need to be done before both the quality and quantity on the supply side of the managerial HR market can be considered adequate.

Secondly, many of the business-savvy managers described in the IMD article may well become part of the management workforce of another country, and will therefore not contribute to alleviating the shortage. As long as business and living conditions in China remain relatively backwards compared to other countries where Chinese managers are in demand, these managers will not return to manage businesses in China.

On the other hand, the expected economic downturn in the next few years resulting from the recent Asia economic crisis will help to consolidate the managerial job market in China. Demand for managers in both China and the entire Asia region is expected to decline considerably as national economies try to recover and businesses consolidate and reorganize. Both foreign and local firms in China should use this opportunity to reassess their HR policies and speed up their localization process. They should recruit aggressively but selectively to build up the size and quality of the local managerial workforce. They should also invest in comprehensive and systematic in-house management training for the next two to three years, since the opportunity cost of doing so will be low during a slow economy. A team of local managers trained and deployed throughout the organization during this period of time will become a real asset to a firm when the economy moves on to the next cycle of growth.

Businesses concerned should also pay close attention to the current efforts by the government to restructure state-owned enterprises. In their efforts to streamline operations, and despite the expectation that hundreds of thousands of state employees will lose their jobs during the mandated reform, the SOEs may in fact create a great demand for professional managers. A new generation of managers is direly needed to help manage organizational and operational changes during the process to reform and reorganize the SOEs. In fact, some SOEs' are already aware of their needs to be globally competitive and professional managed. This is evident from the fact that many of the students in the MBA programs today are sponsored by SOEs.

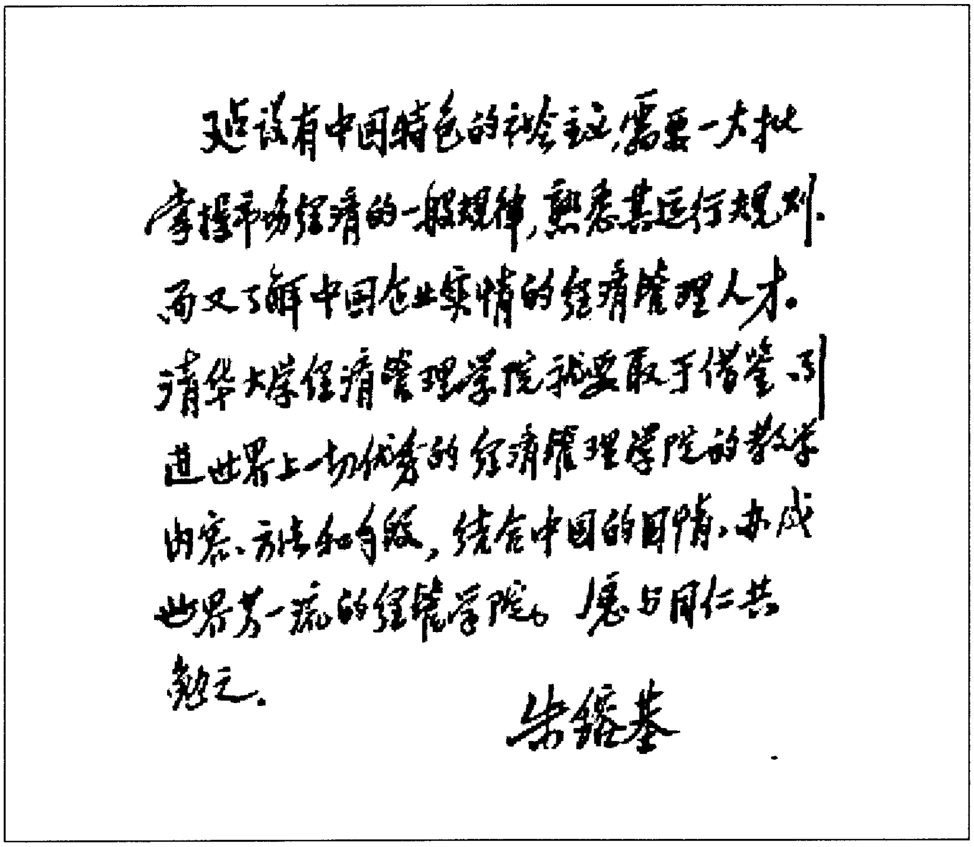
4.2.2 Long-term Outlook

As China upgrades its economy and moves upmarket to develop more management-intensive industries, continuing to rely on expatriate managers to manage its enterprises is not a sustainable human resource strategy. The high cost of doing so will undermine competitiveness at both the country and the firm level. The only long-term solution is therefore to aggressively develop and expand management education in the country to ensure an adequate supply of local management talent in the future.

The needs of those with strong desire to learn how to manage professionally will continue to drive the market of management education. The quantity of management education programs will increase and their capacity will expand as modern teaching tools such as videoconferencing and distant learning facilities enter the scene. High quality content and teaching resources will also be developed to meet international standard as China further globalizes its economy.

Well-respected Chinese scientists and engineers have long been prominent members of the international research and technical workforces. It is the author's hope that an adequate management education system will soon be able to train managers in China to combine the strength of their local knowledge and their global reach, thereby allowing them to become part of the global pool of management talent in the not-too-distant future.

Appendix 1 – A Message from Zhu Rongji



建设有中国特色的社会主义，需要一大批
掌握市场经济的一般规律，熟悉其运行规则，
而又了解中国企业实情的经济管理人才。
清华大学经济管理学院就要敢于借鉴、引
进世界上一切优秀的经济管理学院的教学
内容、方法和手段，结合中国的国情，办成
世界第一流的经管学院。愿与同仁共
勉之。

朱镕基

"In order to develop a socialism with Chinese characteristics, we need a large pool of economics and management talent. They know the basic principles of market economy, are familiar with its operation, and at the same time have a good understanding of Chinese enterprises. We should have the courage to introduce the contents, methodologies and tactics from all the top-notch business schools in the world, learn from them, and incorporate them with the unique environment of China. That will allow the Economics and Management School of Tsinghua University to develop into a world-class business school. I would like to share this inspiration with my colleagues."

ZHU Rongji, February 22, 1994

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Detailed Contents