

“Doing Business with China”

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(<http://dominiquejolly.wordpress.com/>)

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International MBA Program – Orchid Class ; Course Number: 209.4902

Format: Seminar.

Introduction

In 2001, China was the sixth largest economy in the world in terms of gross domestic product (GDP). Over the following ten years, China has bypassed all of the world’s largest economies: the United Kingdom, France, Germany, and Japan. It is now number two and it might outpace the USA in the coming years. It will probably be the first (in real terms) in the year 2030! As such, it is strategically important for all of us. We are pretty sure to have a supplier, a customer, a competitor, or even a boss who is Chinese. It is strategically important for almost all companies. A number of large companies have already done well. That’s true as well for smaller and lesser known companies. Plenty of business activities are now open to foreign companies, yet, all these industries differ in terms of key success factors.

Contact information

Dominique Jolly (Jolly@Webster.ch) is Professor of Business Strategy at Webster University Geneva (Switzerland) where he chairs the Walker School of Business & Technology. He previously worked for SKEMA Business School (Sophia-Antipolis, France), the Center on China Innovation at CEIBS (Shanghai, China), HEC Montréal (Montréal, Canada) and Grenoble École de Management (Grenoble, France). He works as a consultant for several large companies. He also advises international organizations and foreign governments in the areas of innovation and technology. His assignments have taken him to over twenty countries in Europe, Middle-East, Asia, North America, South America and Africa.

Learning outcomes

The aim of the course “Doing Business with China” is to help participants:

To build their own essential knowledge about doing business with China, i.e.:

- To reach an understanding of the most important socio-political reengineering that has occurred in the world during the last 40 years, and the current political, economic, ecological and sociological environment in China;
- To learn about different types of companies that “make China”, both Chinese and foreign;
- To learn about important public bodies in China impacting business.

To develop practical competences, i.e.:

- To develop abilities to recognize the Key Success Factors (KSF) of different industries, to identify the best practices regarding suppliers, customers, staff and networks, and to implement appropriate policies;
- To develop practical abilities that can be used later in their professional life in the screening of suppliers or the search for customers;
- To build research capacity employable in a business context to better understand the challenges and overcome obstacles – participants have to learn to become more autonomous and acquire knowledge by themselves (passiveness is not accepted).

To foster specific attitudes, i.e.:

- To get used to speaking in front a business audience;
- To adopt the appropriate state of mind to work in China, to develop attitudes toward identifying challenges and obstacles, to increase the probability of success and to develop profitable relationships in China;
- To develop understanding of differences to avoid being afraid of China.

Course structure

The course is divided into 4 parts and 13 chapters:

Part 1. The Socialist Market Economy in the Center of the World

1. China Corporation: A new legitimacy for the State apparatus
2. The place for economic records

Part 2. Strategies for Foreign Companies in China

3. Modes of development used by foreign companies
4. The areas of foreign penetration: opened businesses
5. A focus on the amazing journey of the automotive industry
6. Implementation issues

Part 3. Paradigm Shifts in Business

7. Changes in the legal framework
8. Technology creation in China
9. Global sourcing strategies of large Chinese public groups
10. International strategies downstream

Part 4. Challenges

11. Cracks in the Chinese society
12. The dark side: freedom, ecology, ethics, etc.
13. Political challenges: Will the 21st century be Chinese?

The first two parts will be covered from March 5th to March 6th. The two following parts will be covered on March 31st, and April 1st.

Materials

Before and after the class, I recommend that you watch this series of videos:

Chapter 1 – Is China run like a corporation? (3'22)

<https://youtu.be/eYE1i-kIQgU>

Chapter 2 – Is China a place for records? (3'31)

<https://www.youtube.com/watch?v=i-YuCOYbaak>

Chapter 3 – How can a foreign company start a business in China? (2'45)

<https://www.youtube.com/watch?v=t6CKmwlXO2g>

Chapter 4 – Which businesses in China are open to foreigners? (2'57)

<https://www.youtube.com/watch?v=QmNThNiyiUc>

Chapter 5 – What are the rules of the Chinese car industry? (3'54)

<https://www.youtube.com/watch?v=6a5cxftiYP0>

Chapter 6 – How should we implement a business strategy in China? (3'03)

<https://www.youtube.com/watch?v=SXgrjJolAn8>

Chapter 7 – How much has China's regulatory framework changed? (2'44)

https://www.youtube.com/watch?v=mbY2vl_nwPk

Chapter 8 – Is China on the world Research & Development map? (4'25)

<https://www.youtube.com/watch?v=0rmfPpSx0Ms>

Chapter 9 – What has happened with Chinese FDI? (3'09)

<https://www.youtube.com/watch?v=L5HlwN2f628>

Chapter 10 – Why do Chinese private companies invest outside China? (4'10)

<https://www.youtube.com/watch?v=7pucZFbBns>

Chapter 11 – Conclusion (7'04)

<https://www.youtube.com/watch?v=ZDnG6KAS6Bq>

Other suggested videos:

Why Home Depot failed in China? (<https://www.youtube.com/watch?v=d7QxeBwWXvY>)

Is war between China and the USA inevitable?
(<https://www.youtube.com/watch?v=XewnyUJgyA4&t=995s>)

Under the dome: Investigating China's smog
(<https://www.youtube.com/watch?v=T6X2uwIQQM&t=19s>)

Pedagogy

Guest speakers program

Speakers are invited by the professor. The program for these testimonials will be presented later (after I get confirmations). Speakers from the industry are usually interested in establishing links with academia, in finding sources for recruitment of good employees, in promoting the image of their company, and in testing their ideas with a nice audience. They are invited to the class because of their experience. By definition, they are keen to share this experience. All speakers offer genuine testimonials about their real-life experience in China and their vision of business.

Nevertheless, all do not have the same level of expertise for communicating their experience. Keep in mind that while some speakers are at ease to attract audience interest, some others might have more difficulty; in that case, for respect and image, we have to stay polite ... Be prepared also to occasionally listen to speakers whose practice of the English language may vary; for example, accents might sometimes be a serious obstacle. This speaker program is also an opportunity to get familiar with inter-communication in a multi-cultural environment, to cope with ambiguity, and to improve your own tolerance of ambiguity. You have to deal with messages which are partially truncated (if you are not comfortable with such situations, maybe you should redirect quickly towards accounting or the teaching of physics).

A guest speaker session is organized in three phases. First, I briefly introduce the speaker. Second, the speaker gives his presentation during an expected slot of 30 minutes. Please, do not interrupt the speaker during his speech – except for clarification questions (e.g. what is the currency used in this table?). Third, when the speaker has ended his talk, the professor runs a Q&A session. Questions are raised only in this third phase to avoid participants interrupting the speaker to raise questions that the speaker has planned to deal with later on in his speech. Please, write your questions during the speech so as to be ready to raise questions just when the Q&A starts.

Key-points: For each speaker session, participants have to infer the two or three lessons that they will have to keep in mind after the class. This means, to write down two or three sentences, working in teams of 2 students. Then, each team has to hand over to the lecturer those two or three sentences that will be discussed later in the class.

Assessment

Overall picture. It is based on class participation (20%) and on the presentation in class (on April 1st) of a business case (80%) developed by participants. The 80% is split into: 10% for the company's profile, 20% for the competitive intensity assessment, 10% for competitive rules, 30% for the final presentation, and 10% for peer review – grade for the case will be given by the students who are listening to the presentations. Each case is allocated a slot of 30 minutes in class, i.e. 15' for presentation, followed by 15' questions and answers.

Grading by participants (peer review). This is one of the means used to help participants to sustain their attention during case presentations in the class. They will have to work on their judgment and channel their subjectivity. One participant will be designated at each session to collect and compile assessments from all the participants.

Grading of participation. Participation is evaluated during class discussions, workshops, listing of key-points, and during Q&A with guest speakers' testimonials. In the case of participation in Q&A after a speaker's presentation, grades are straightforwardly linked to the

number of questions you raise during the Q&A part. However, the professor has the right not to post a question when the objective of this question is a ridiculous attempt to gather marks or when the question is irrelevant, vague or discrediting.

Deliverables

Please follow those steps:

1. Read the ppt “How to build your own Business Case?”
2. Select the industry you want to deal with and the company (in this industry) you will target (slide 3). Inform the Head of the Program (chalomabrod@hotmail.com) of your choices by March 12th. The first participant to register for one given business will be the only one to cover this business.
3. For the industry you choose, and the company you are going to focus on, the following points **have to be strictly covered**:
 - a. What is the company’s profile? The business or businesses the company is in, its geographical territories, its size, i.e. sales, and number of employees (and their evolution), its profitability (and trend), its emphasis on innovation, its ownership, stock price, ...
 - b. What the industry’s profile?
 - i. Who are the company’s competitors? Extend the list of names presented on slide 3. Assess profiles. Show whether the industry is fragmented or concentrated (slides 4 to 7). Assess this competitive force.
 - ii. Assess potential new entrants and substitutes. Idem.
 - iii. Who are the suppliers? Give names. Show whether suppliers are fragmented or concentrated. Assess this competitive force.
 - iv. Who are their customers? Idem.
 - v. Summarize previous points with a Porter 5 forces assessment.
 - c. What are the competitive rules?
 - i. What are the Key Success Factors (KSF) in the business, i.e. the rules that apply to all competitors? Rank these rules according to their perceived importance. Develop appropriate scales for assessment (slide 8).
 - ii. How much does the company control these KSF? How competitors do? (slide 9)
 - iii. What are the company’s competitive advantages (i.e. when the company is first of the class)?
 - iv. What are the company’s competitive disadvantages (i.e. when the company is the worst of the class)?
4. Collect, bundle and process data before coming to the class.
5. Allocate enough time to match materials, to rehearse, and to adjust your oral presentation.

For the data collection, you can use all the means you want. You can look at published sources: published statistics, press releases (newspapers and magazines), Internet web sites, reports, books, academic articles, databases (Factiva, Proquest, etc.) etc. You can also look at primary data: meetings with managers from the company (and competitors), meetings with experts from the industry, etc.

For class presentations on April 1st, rules are the same for all the participants. This means that you have to strictly comply with time requirements. I will interrupt you if you go beyond the defined timeslot. Please, rehearse to make sure you are within the time allowed. The timeslot for presentations was chosen to fit with the ability of the audience to listen to your presentations as well as some planning constraints. One given issue can be dealt within a few sentences, or on the contrary, with several books. This is like Laplace law, as you may remember: one gas will occupy all the volume you offer to it. In this course, **15 minutes** is considered to be the right level of granulation.

My strong advice for oral presentations is to escape from what I like to call “pedagogical karaoke”. This occurs when someone simply reads the slides that are shown to the audience. Everyone can read the slides; there is no value added in reading them publicly. Create a power point presentation with pictures, diagrams, schemes, etc. Avoid presentations made only with bullet points or text! Try to summarize your key messages at the end on only one slide.

Readings

No textbook. A set of readings will be provided.

JOLLY D., Mc KERN B. & YIP G.S., CEIBS (2016), *China's Transition to Technology Creation: Challenges for Foreign Companies*, All China Review, April-May 2016, pp. 8-10. (<http://www.allchinareview.com/chinas-transition-to-technology-creation-challenges-for-foreign-companies/>)

JOLLY D., MASETTI F., (2016), “The Winding Path for Foreign Companies: Building R&D Centers in China”, The Journal of Business Strategy, volume 37, issue 2, pp. 3-11.

JOLLY D., Mc KERN B., and YIP G.S. (2015), “The Next Innovation Opportunity in China. Multinationals are shifting their R&D focus from cost savings to knowledge-based research.”, *Strategy+Business*, issue 80, pp. 16-19. (<http://www.strategy-business.com/article/00350?gko=e0f49>)

HAOUR G., JOLLY D., (2014), “China: the next innovation hot spot for the world”, The Journal of Business Strategy, volume 35, issue 1, pp. 2-8.

SHAN J., JOLLY D. (2013), “Technological innovation capabilities, product strategy, and firm performance: The electronics industry in China”, Canadian Journal of Administrative Sciences / Revue canadienne des sciences de l'administration, 30(3), pp. 159–172.

JOLLY D., ZHU F.Q. (2012), “Chinese S&T parks: A news model is emerging”, The Journal of Business Strategy, volume 33, issue 5, pp. 4-13.

JOLLY D. (2008), “Chinese vs. European views regarding technology assessment: Convergent or divergent?”, Technovation, volume 28, issue 12, pp. 818-830.

JOLLY D. (2004), “Bartering Technology for Local Resources in Exogamic Sino-foreign Joint Ventures”, R & D Management, volume 34, issue 4, pp. 389-407.

See you on March 5th, 2020!

Detailed Course Content. Thirteen major topics are considered in this course – organized into four parts, as detailed in the table below.¹

Parts	Chapters	Content
The socialist market economy in the center of the world	(1) China corporation: A new legitimacy for the State apparatus	In less than half of a century, the Chinese Communist Party (CCP) has skillfully negotiated the transition from Marxism-Leninism to a “socialist market economy”. Political structures in place have so far managed to also ensure the consistency of one of the largest ensembles in the world. State control occurs in many forms: political control over the CCP, control of the largest Chinese companies, control of the two continental Chinese stock exchanges, monitoring of foreign investments, price control, etc.
	(2) The place for economic records	Over an area roughly equivalent to that of the United States, the country has more than 1.3 billion people. China is the largest agricultural country in the world with the largest number of farmers. Some constructions are impressive: Great Wall, Grand Canal, and more recently, the Three Gorges Dam. With a multiplier effect of 1.3 billion, the country also accumulates records in the productive sphere: 22% of the world market of beer, one third of world production of cigarettes, the largest market in the world for new cars, 50% of global steel consumption, 2,200 TV channels, the first pool of Internet users, etc. The size of the market has fueled many fantasies. Yet, these scale effects have significant impacts.
Strategies of foreign companies in China	(3) Modes of development used by foreign companies	Foreign companies setting up businesses in China did not initially have any-other choice but to form joint-ventures (JVs) with Chinese companies. Other modes of entry have been authorized more recently, as the creation of wholly foreign owned enterprises (WFOE) or even outright acquisition of domestic firms. If the relative weight of new JVs is going down, it has not gone down to zero. Trade-offs between these different modes of development depends on many factors about the foreign company such as its ability to work overseas JV, company’s existing knowledge of China, suppliers, distribution networks, etc.
	(4) The areas of foreign penetration: opened businesses	The intent of this chapter is to provide an overview showing the extent of involvement abroad, to highlight a few key players, and to outline the competitive rules specific to diverse activities. Indeed, there are many industries where foreign companies are committed in China. In the most significant (where we see the largest numbers of employees), there are:

¹ The first six chapters are in line with the six chapters of my book “Ces entreprises qui font la Chine” published by Eyrolles / Les Editions d’Organisation in October 2011. The next seven chapters (7-13) follow the organization of my new book “Stratégies d’entreprise en Chine” published by Pearson France in May 2013 ([Stratégies d’Entreprise en Chine](#)).

		outsourcing electronics, automotive, hypermarkets and luxury goods. This part shows that there is no simple set of good practice to operate in China. The set of Key Success Factors (KSF) varies considerably from one industry to another.
	(5) A focus on the amazing journey of the automotive industry	The global automotive market is in full reorganization. The United States, Europe and Japan have lost market share. The forecasts point to an explosion of production outside these traditional territories. The automobile is one of the main sectors of historical entry of foreign firms in China. With the collapse of the North American market and a weak European market, foreign manufacturers in China have found a great driving force. After going bankrupt in the United States, General Motors has found its recovery in China with its brands Buick, Chevrolet and Cadillac.
	(6) Implementation issues	It is not the strategy that raises the most important difficulties, but its implementation. This is especially true for soft issues such as the insertion of a foreign company in an environment that it does not know intimately. At this stage, the foreign company must also address the preservation of its technological advantages when it comes to China with technologies which are sources of its competitive advantage (or even other types of value-added knowledge). It is also the development of local capacity for managing people, and also, to adapt its marketing policies.
Paradigm shifts in business	(7) Changes in the legal framework	A series of gradual transformations allowed China to make significant progress to a market economy: revival of private property, recognition of private enterprises, phasing out of licenses, quotas and other restrictions, etc. Its legal and regulatory framework is gradually harmonized with international standards - including the very sensitive issue of intellectual property rights (IPR) with the ratification of conventions on this subject. Recent history was marked by the decentralization of powers from central government towards local governments; this decentralization is accompanied by differences in the applications.
	(8) Technology creation in China	After several centuries of eclipse, China is challenging the technological superiority of the West and is becoming a dominant power in technical areas. China is no longer only bridging the technology gap it has with developed countries. Now, it wants to break its dependence <i>vis-à-vis</i> the suppliers of foreign technology. The country seeks to develop its own expertise in multiple areas: telecommunications, computers, nuclear power, solar panels, aviation, etc. China announces a plethora of plans for the future – such as being the leader of the revolution for the electric car. It remains for the moment

		focused on declarations of intent, although in certain targeted areas, it has already managed to gather a real potential.
	(9) Global sourcing strategies of large Chinese public groups	Large state-owned Chinese companies have adopted different strategies to ensure the supply of the huge industrial machine. They are now almost everywhere, from Australia to Africa to South America and Central Europe, creating an economic boom in some of these countries. The aim is to gain access to ore or energy resources. China has developed a range of options in those countries to guarantee that the machine is supplied. This includes: the capitalistic strategy, the banker strategy, and the implementation strategy.
	(10) International strategies downstream	For years, most Chinese companies have remained quietly in their territory. Since a few years, they are inspired by going abroad. Several Chinese companies (private and public) have entered into a large movement of deployment - as shown in the widely publicized case of the acquisition of Volvo by Chinese carmaker Geely, or Syngenta by Chem China. There are likely to be some serious bargains in the future – in the banking industry for example. The country is strengthening its position as a superpower.
Challenges	(11) Cracks in the Chinese society	The revolution experienced by China in the last forty years is a time of change, instability, and uncertainty. The risk of chain reactions and the consequences associated with these challenges could seriously hamper the future. Challenges are due to a series of geo-socio-economic fractures. Across the country, there are considerable differences in development, a growing divide between rich and poor, and a population dynamic characterized by an aging population. We cannot ignore the dark side of Chinese society: the influence of the authorities on civil liberties, environmental damage, the transformation of societal values to a discriminating materialism, etc. There are ultimately many political challenges. Domestically, the questions focus on the future of the autocrat regime in place, the inner tensions (Tibet, Xinjiang), and the future of the relationship with Hong Kong and Taiwan. Externally, we see that China is gaining in confidence and gradually building a doctrine that will shape the future. For foreign companies, these challenges have an undeniable political impact on their economic activities.
	(12) The dark side of the Chinese society: freedom, ecology, ethics, etc.	
	(13) Political challenges: Will the 21 st century be Chinese?	

Journals in English

Journal	Abbreviation	Editor	History
Asia Pacific Business Review	APBR	Frank Cass	
Asia Pacific Journal of Management	APJM	Springer	2006= Volume 23
Asia Pacific Journal of Human Resources	APJHR	Sage	
Asian Business and Management	ABM	Palgrave	2001 = Volume 1
China Economic Review	CER		1990 = Volume 1
International Journal of Chinese Culture and Management	IJCCM	Inderscience	(recently issued)
Journal of Chinese Economic and Business Studies	JCEBS	Routledge	2003 = Volume 1
Journal of International Business Studies	JIBS	Palgrave	
Journal of Technology Management in China	JTMC	Emerald	
Management and Organization Review	MOR	Blackwell	

Articles & Books

Bin Guo and Jing-Jing Guo (2011), Patterns of technological learning within the knowledge systems of industrial clusters in emerging economies: Evidence from China, Technovation, Volume 31, Issues 2-3, February-March, pp. 87-104.

Business Week (2002). « High Tech in China. Is it a threat to Silicon Valley? » (cover story), October 28.

Chun Chang & Horst Löchel (2012) – Editors, China's Changing Banking Industry, Frankfurt School Verlag.

Ilan Alon and John R. McIntyre (2007), Globalization of Chinese Enterprises, Palgrave Macmillan, 272 pages.

Mei-Chih Hu and John A. Mathews (2008), China's national innovative capacity, Research Policy, Volume 37, Issue 9, October, pp. 1465-1479.

SCHLEVOGT K.A. (2002), *The Art of Chinese Management: Theory, Evidence and Applications*, Oxford University Press.

WANG H. (2008). « The Innovation in the Product Architecture – A Study of Chinese Automobile Industry », *Asia Pacific Journal of Management*, 25(3), p. 509-535.