IN SEARCH OF A FRAMEWORK FOR INTERNATIONALIZING MANUFACTURING INTO EMERGING CHINA

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ABSTRACT

This paper draws up some lessons on internationalizing into emerging China for manufacturing firms. Many Western manufacturing firms although multinationals are unfamiliar with conditions inside emerging markets such as China, Indo-China countries of Vietnam, Myanmar, Laos and Cambodia and India. Mailed, faxed and in-depth field studies are implemented as part of a search for an early corporate entry strategy (a long-established Swiss multinational based in Singapore with extensive operations in Southeast Asia) into China. This study also raises a range of issues related to manufacturing inside emerging economies. One significant insight gained is a framework for conceptualizing strategic entry into an emerging, fast transforming economy and a stratagem for regenerative manufacturing investments. Also, a bowl metaphor of complex power and influence in Chinese society is discussed.

INTRODUCTION

How does a manufacturer decide whether to manufacture in an emerging, fast-transforming market like China? If the outcome is a compelling yes – since China’s economy continues on the upbeat despite predicted uncertainty (Wong, 2001) – then the question raised is how and when. This is a common question that confronts any manufacturer seeking an enhanced global presence. There are other consequential questions that follow even when the decision is in the negative: if not then what? The prevailing competitive concern among many manufacturers is how to get to Made-in-China without being trapped in a whirlpool. Yet there is still little in the literature that reports of consulting-based explorations on this very early aspect of internationalizing into China. The very process of such a search for entry as this paper demonstrates may well turn out to be an enriching, learning experience. Three factors may be cited why this may turn out to be so.

First, China and other emerging markets in Indo-China are very different in terms of economics. They were once communist, centrally-run or in the case of India highly protected. Thus the classical tools, techniques, methods, frameworks, strategies, ideologies or even the repertoire of skills effective in non-communist and thus freer economies may be less than relevant.

Past lessons of success on “how-to-do-it-right” when internationalizing
into, say, Singapore is starkly different from doing it in, say, a Chinese city. Also, mastering the art of doing business in one provincial city in China does not guarantee similar success in another city in a different province. For, as shall be discussed later, there is a complex pattern of power and influence networks across China.

Second, besides transitional changes in economies, there is a host of very different institutional, political and regulatory norms that have to be overcome. For instance, there is the lack of a deeply ingrained concept of the rule of law within emerging markets (say in Vietnam and China). Thus it is imperative for manufacturers to adapt their technology strategy to new reality. Without rigorous policing of intellectual rights, it takes a bold manufacturer to bring in the latest state-of-the-art technology into an emerging country. Yet, this “high technology” is the preferred investment sought by the authorities. The bureaucrats are eager to try and catch up with the industrialized and new industrializing Asian countries.

Third, there is the question of sharp cultural contrasts in thinking between the East and the West. This is more sharply so between the capitalist Westerner and the communist Easterner. Arguably, countries in Eastern Europe (Russia included) share a common cultural heritage with Western Europe and the United States. Persons unaccustomed to Eastern cultures would require more than just cross-cultural training to become effective. They would require time for deep immersion. Markets like China, Indo-China and India have very different social norms of behaviour. Indeed, in some of these countries, their cities, for example, Vientiane in Laos (Foo, 2002) may be even more truly Southeast Asian than, say, Singapore. These differences may confuse the Western manufacturers inexperienced in such markets. Indeed, initially they may even be confounded on what next or best to do.

For two of the emerging markets culturally contrasting to the West – China and India - the game may be just to get inside and learn rather than stay out. Combined, China and India represent half the world’s population. And they still may grow proportionately more each year. CEOs of large manufacturing firms who seek dominance of global markets have to think out stratagems on how to play the game. Stratagems are formulae of strategy (Foo and Foo, 2000). Of these two giant countries, China is probably the more confounding for the Western manufacturer. Why? These are possible reasons.

1. There is the language.

In India there is at least, for example, in Calcutta, the wide use of English, but in China to perform your role as a manufacturer, you will be much better off knowing the official Chinese language or Putonghua.

2. India is not as left as China.

That is, despite how extremely capitalist the cities may turn out to be, power in China is still entrenched in the hands of die-hard Communists: a fact that has escaped many; even top US politicians like former reelected President Clinton. They still debar entrepreneurs from joining the Chinese Communist Party.

3. Legally and administratively, India is more easily comprehensible as it is based upon British rule of law compared with China.

There are other reasons too: Indian life and culture is more accessible to the common Westerner than China. This may be attributed to both best-selling British and Indian novelists who have brought aspects of internal Indian life to Western readers. This has made it more interesting, therefore, to explore the early internationalizing behaviour of a Western manufacturing firm that peers towards China.

Given the foregoing discussion, the author therefore chose to embark on an in-depth yet exploratory, consulting-based study of the problems, difficulties and issues that may be encountered by a manufacturer in the early stages of internationalizing into China. Besides the issues addressed specifically by the author in his role as consultant, there are other deeper, more research-oriented questions being investigated. These include the following:

- Are techniques advocated for researching markets in the West
applicable in an emerging economy (China as case)?

- Is there a framework to guide other manufacturers who may become involved in a similar search process?
- Could a stratagem be derived for investing in manufacturing inside emerging markets?

The paper is continued as follows. An outline is made at the macro level of why China is the country of choice. Then a discussion is made of issues that concerned the Swiss corporation particularly. A review is then made of the changes then occurring within China: these may spell opportunities for the Singapore-based Swiss corporation. These are conditions prevailing at the time of undertaking the task. For better understanding, some background information of the Swiss corporation is provided.

Then the various stages of the exploratory search are explained in detail: surveying the strategic intentions of niche competitors, the Chinese customers (mailed and workshop surveys), on-site investigation of manufacturing conditions, and fieldwork involving interviews of prospective customers. The final section draws on insights gained to draw up a framework and stratagem. Hopefully, CEOs and corporate strategists may find these useful when mapping their China entry strategies.

Emerging Market: Case of China

China is a huge country with enormous economic potential, even more so after WTO. But nobody is as excited about China as when the country first opened up. For by now it is known that China can be an exceedingly complex country to succeed in. This is especially so for an outsider unfamiliar with Chinese conditions and culture. With 1.2 billion people – and still growing – China after WTO is still one country that no global corporation can ignore.

Top CEOs of giant corporations are compelled to have an early China entry strategy mapped out. Yet, here, there is a paucity of literature to guide the corporate strategists. To fill this gap, the experience of a Swiss corporation based in Singapore seeking for a made-in-China presence is described here in detail.

Consistent with strategy processes found in major ASEAN corporations (Foo and Grinyer, 1994), the top management within the furniture division of this European firm decides as the first step to initiate an exploratory China strategy study. A strong impetus for this is the then go regional drive by the Singapore government. Other greater push factors are moves by niche competitors to go regional. For any major corporation that is keen to shape an early China strategy, these are some pertinent questions to ask and if possible answer:

- Do the changes in China signal an opportunity for the company?
- How should the company begin to formulate a China entry strategy?
- Are Western survey methodologies applicable in the Chinese context?
- How useful are field studies in helping a company shape an entry strategy?
- Is there any empirically validated process that can be used as a guide?

These pertinent questions are addressed in this paper.

OPPORTUNITIES IN THE WINDS OF CHANGE

The success of continuing reforms had led many corporations to again think of investing in China. What is most promising about the Chinese leadership is their willingness to adapt and change as they reform the economy (Wang, 1982). Reform initiatives in the 1990s in terms of new directions (Naughton, 1991) have resulted in the doing away of many of what may now seem to be antiquities. These include the dual currency system, tax changes, job freedom, unlocking of consumerism (Gallant, 1992), the setting up of private universities, debates that led to changes in regulations on property development (Horsley, 1990), allowing of foreign purchases of state firms, and the luring of investors to the interiors. Forecasts of China then tended to be
generally favourable – these being borne out by a study of China’s productivity growth (Young, 2000).

This optimism remained despite the voiced political risks of China going the way of Russia (Barnett, 1992). The general perception had been one that with continuing economic reform embedding the society with capitalism – Worthy put it then as testing of skills (Worthy, 1988) – investment risks in China are likely to be more business-specific than general. The Swiss company, like many Singapore-based corporations, is further drawn to China by the strong Sino-Singaporean ties as evidenced in formal cooperative arrangements between the two countries. Another pull factor is the then China’s efforts in remodelling her economy after Singapore’s.

The promise of China in the long term remained then and even now clouded by experiences of the many difficulties encountered by Sino-foreign, equity joint-venture corporations (Watts and Child, 1992). Indeed, there are too few success stories. If there is success, the story is buttressed high technology as background (see Nelson, 1992). Western firms encounter severe cultural problems and few are able to successfully craft their practices in the Chinese environments: it is still not easy to find the right managerial approach for China (Ireland, 1992).

For many, succeeding in China remains a challenge (Punnett, 1988). Focused joint ventures (Newman, 1992) have been suggested as a possible solution. Another is to structure alternative modes of strategic alliances such as cooperative rather than equity joint venture. Some even prefer manufacturing operations to be completely under their control (Barale, 1990).

Corporations should explore, based on their own unique characteristics (product-type, nature of technology involved), the appropriate mode of entry into China. For some, it may even be too early to contemplate any entry. For others, it is timely to secure a strong brand presence. The next section provides the background prevailing at the time of the study. This should lead to a better appreciation of the case in focus.

CASE STUDY: FIRM OF SWISS ORIGIN, SOUTHEAST ASIAN ROOTS

In shaping corporate strategy, it is necessary that the organizational characteristics be considered as well. The Swiss corporation (“S”) with its roots in 19th Century Singapore is one of the most reputable. Many Singaporeans – possibly also nearby Malaysians and Southeast Asians (e.g. Thais) – and especially the more senior citizens from all walks of life, are familiar with the company. With a total employment size of more than 2,000 employees, it is considered in Singapore as being very large. The company is also highly diversified with an M-form divisional structure: consumer, health care, special products, engineering, furniture and industrial.

Taking an activity-based perspective, the range of “S” corporation’s activities includes market research, design and development, manufacturing, quality control and testing, warehousing, marketing, advice and consultation, sales, distribution, merchandising, promotion, sales report, financing and management information and support services. The idea of manufacture-in-China is initiated within the furniture division.

The Furniture Division

The furniture division within “S” corporation is regarded by many as a market leader in the Southeast Asian office-furniture industry. In the 1970s, the company pioneered the open office concept in Singapore, which later became popular in the Southeast Asian region. What sparks off top management’s current interest of operating inside China is continuing orders from their traditional customer-base – government offices: an order from the Singapore Embassy in Beijing. Other major accounts of the company also made similar requests for office furniture to be shipped into China.

One possible interpretation of such requests is a growing trend among top Asian executives to regard their office furniture as an extension of corporate identity. The familiar, typical corporate office furniture may “cushion” the culture shock among Singaporean expatriates
when working in the Mainland Chinese environment. (This happens despite the common cultural roots of the Singaporean Chinese professionals posted to work there). If so, as is argued within the “S” corporate furniture division, there may well be a sizeable potential market for corporate identity furniture.

The furniture division is organized as shown in Figure 1. Their manufacturing activities are based in Malaysia with assembly functions mainly in Singapore. The essential stages in the manufacturing process are illustrated in Figure 2. There is a unique feature of the furniture division that differentiates it from others in the trade: early historical presence in Southeast Asia with headquarters in Singapore through more than 50 years of experience in manufacturing office furniture. Indeed, the very origins of Singapore-made office furniture may be traced to this division. Such deep Southeast Asian cultural roots clearly distinguish it from the average foreign firm.

The company is strongly oriented towards incorporating ergonomics in its design of
chairs. Singaporeans tend to associate the division with one that manufactures "top of the line" office furniture. Less widely known is that the company also offers other lines of office furniture at very competitive prices. The study of the internal and external aspects of the furniture division led to a crystallization of certain issues as being strategic. Reliable answers to these questions were sought at the beginning of the strategy study through mailed and workshop surveys:

- What range of products should be actively promoted?
- What level of emphasis should be given to ergonomics in promotion?
- Should the company emphasize its European origin and connection?
- Are Singaporean executives likely to be loyal to brands familiar to them since childhood?
- Do strengths in total design matter?

Exploring Competitors' Intentions

Another major push factor for the company to move into China is less immediate but nevertheless of longer-term, strategic importance: whether there is a need to take action now to counter a possible future threat. The imminent threat that may have to be countered is possible production within China by Singaporean niche-competitors of high quality office furniture (but at low cost to the manufacturer) that uses designs typically associated with "S" corporation. For some inexplicable reasons, the "S" Corporation does not believe in patenting the designs of their furniture.

Such competitors will then be in a strong cost advantage situation to compete in Singapore and the Southeast Asian region. This portends diminishing market share and thinning of profit margins for "S" corporation. (Indeed, from the fieldwork that follows the surveys, "photo-economic" evidence is obtained that validates this fear.) Some indicative measures on the strategic intentions of niche competitors have, therefore, to be incorporated as part of the strategy study.

In addition, an on-site assessment has to be made about the "manufacturability" of top quality office furniture, given the then Chinese social and working conditions.

Semi-structured Interviews

Direct, semi-structured interviews of companies participating in an exhibition of the same trade were conducted to confirm early press reports on regional moves by direct competitors. A reasonable response sample of 31 per cent (n=13) was obtained from those present at the trade fair. The purpose is to obtain first-hand, content-rich information on intended internationalization moves by niche competitors: those competing in the top quality office-furniture market.

The profile of the firms suggests these to be broadly within the same competitive niche as the Swiss company: 46 per cent provide total design for office system, 36 per cent being chair manufacturers with 23 per cent designing chairs in-house. The survey results (Table 1) suggest that about 23 per cent of those within the same competitive niche are building manufacturing bases within China: these, if implemented according to plan may mean that in the foreseeable future of the next two to three years, production will flow out of these lines. Whilst 15 per cent are still at the feasibility stage, 62 per cent remain unexcited about making quality furniture in China. These findings provide some rough estimates of the scale of the regional moves by major competitors into China: Shanghai, Beijing and Harbin.

There is a strong likelihood of these companies gaining a cost advantage and may then (see earlier discussion) bite into the market share of the company within Southeast Asia. Such a finding also calls for a realistic assessment of whether the manufacture of top end quality furniture is achievable given current Chinese operating conditions. This is an empirical question that can only be answered through an on-site study of Sino-Singaporean manufacturing joint ventures. Consequently, an on-site study of joint-venture manufacturing in furniture is structured as part of the strategy study. Countering competitors' moves is as good a reason for contemplating a China move as the latent potential of a billion more people: the Chinese customer.
TABLE 1
Strategic Intents of Major Competitors

(i) Characteristics
Sample: 31% (n=13) of population (N=42)*
Respondents: 100% with >3 years in the furniture trade, designations include managing director, executive director, manager, sales, marketing and export executives.
Firms: 0% has chair specifically designed for Asians
46% provide total design for office system
38% are major manufacturers of chairs
23% design chairs in-house

(ii) Internationalization
Southeast Asia: 23% have manufacturing facilities**
China: 23% plan to set up manufacturing in China***
15% are at the feasibility stage
62% are unlikely to manufacture in China#

Notes
*The population is the list of firms that exhibited at the 1993 Office International organized by the Singapore Furniture Industries Council.
**From the interviews, these are mostly sited in the West Malaysian Peninsula.
***The sites are in Beijing, Shanghai and Harbin.
#The reasons given are anticipated difficulties of manufacturing within China.

TABLE 2
Beijing Perceptions of the Chinese Market

(i) Characteristics
Sampling Frame*: N=78; comprising 62% (48) Singaporean and 38% (30) Swiss firms.
Response Rule: Overall 17% (n=13), Swiss firms 20% (n=7), Singaporean firms 13% (n=6)
Mode of Response: Fax 62% (n=8), Letter 38% (n=5)
Respondents: 100% "very familiar" with business conditions in China

(ii) Perceptions of Respondents**
100% that foreign offices in the main Chinese cities likely to use quality, status office systems.
100% think top Chinese executives in the main cities are status conscious.
62% that Chinese executives are likely to show preference for office with European labels, for instance Swiss.
92% that top Chinese are not concerned with health problems associated with bad sitting postures.
38% think that Chinese are likely to prefer total design concept for their head-offices

Notes
* The sampling frame used is the Directory of Foreign Companies in Beijing, China, published by Longkin Consultants & Publishers Pte Ltd and China Economic & Trade Consultants Corporation.
** Designations include General Manager, Chief Representatives, Chief Architect, Vice-President.

The Customers: Beijing Residents versus the Singapore-based Sample

As seen earlier, some strategic issues arise essentially out of the nature of the product-market characteristics of "S" corporation. The basic question is how good a "fit" are current company's competitive strengths given Chinese market conditions. To answer that, some understanding of the Chinese markets is needed. Although many related questions may arguably be raised, it is vital when at the entry stage to focus on those that are strategic. There are practical, methodological constraints, too. An excessively long questionnaire may dampen the readiness of the respondent to reply. A wide spectrum of issues if raised may dilute the respondents' concentration on the strategic few.

Consequently, a simple one-page questionnaire was designed to solicit accurate responses.

Using a directory of Beijing firms as a sampling frame, all the 78 Singaporean (n=48) and Swiss (n=30) firms listed were surveyed. Due to changes in office addresses, many of these envelopes were returned resulting in a rather low response rate of 17 per cent (n=13) (see Table 2). This was despite repeated mailings. Interestingly, the Swiss response rate of 20 per cent (n=7) was much higher than Singapore's rate of 13 per cent (n=6). Of the replies, 62 per cent (n=8) were through faxes, suggesting this as a viable alternative for obtaining responses. One compensating factor is that all the respondents claimed themselves to be very familiar with the business conditions prevailing in China.
TABLE 3
Singapore Perceptions of the Chinese Market

(i) Characteristics
Population*: N=49
Response Rate: 63% (n=31)
Sample for analysis: 35% (n=17)**
Respondents: *** 100% "some familiarity" with business conditions in China

(ii) Perceptions of Respondents
95% that foreign offices in the main Chinese cities likely to use quality, status office systems.
100% think top Chinese executives in the main cities are status conscious.
76% that Chinese executives are likely to show preference for office supplies with European labels, for instance Swiss.
82% that top Chinese are not concerned with health problems associated with bad sitting postures.
41% think that Chinese are likely to prefer total design concept for their head-offices.
47% of the participants are likely to budget for a label that they familiar with in Singapore for office planning.

Notes:
* Participants to two runs of the 3-day Effective Overseas Project Evaluation conducted by the author (November and December 1993) under the aegis of the Export Institute of Singapore which is a division of the Singapore Trade Development Board.
** Only participants who rate their familiarity with business conditions in China as "some familiarity" or higher are included.
*** Designations include Executive Director, Managing Director, Company Director, Director, General Manager, Assistant General Manager, Marketing Manager, Administrator, and Sales/Marketing Executive.

To confirm these results independently, another survey was undertaken of workshop participants: capturing perceptions of senior Singaporean executives familiar with Chinese conditions. This resulted in a useful methodological insight: perceptions of Chinese customer preferences between Beijing-resident and Singapore-based but China-experienced respondents were closely similar. Participants attending an Effective Overseas Project Evaluation workshop conducted by the author acts as a convenient sample. As shown in Table 3, the effective response rate is 35 per cent (n=17) where all the respondents rated themselves as having at least some familiarity with conditions of business in China. In the next part, empirical results obtained are juxtaposed (Beijing with Singapore-based) and implications drawn.

Empirical Results

In terms of Chinese preference for quality and status office systems, the Beijing-based firms were more optimistic (100%) compared with the Singapore-based sample (95%). Both the Beijing and Singaporean samples have identical results (100%) that confirm the high status-consciousness among Chinese customers. Chinese customers were also found in both samples to be little concerned about ergonomic issues (Beijing 92% and Singapore 82%).

There is some degree of preference by the Chinese customers for European brands (Beijing-based respondents (62%); Singapore-surveyed respondents were more optimistic (76%)). On the total office concept, the Beijing-surveyed firms were less optimistic than those in Singapore: 38 per cent versus 41 per cent respectively.

This is one of the major strengths of the company. It is interesting to discover that the Chinese market was not quite ready for such concepts in office furniture. And the "S" corporation, despite its Swiss origin, is regarded by many as homegrown out of Singapore; it is useful to determine if Beijing-based Singaporean executives still show a preference for "local-bred" brands. As explained earlier, one pull factor stimulating a China interest is the requests from home-based customers to supply office furniture into the Mainland. Just like countering competitors' moves, keeping good custom is an equally good reason for contemplating a China move.

As indicated in Table 3, 47 per cent of Singaporeans surveyed said they were likely to budget in office planning for a label already established in their indigenous home. Such empirical results are likely to be useful further down the road when "S" corporation implements advertising and promotional strategies in Beijing. For instance, to appeal to the Chinese top executives, advertisements on
office furniture such as chairs should emphasize the image of status rather than ergonomics.

As summarized in Tables 2 and 3, the extent of similarity in the findings is striking. It is possible in future to plan surveys capturing more widely the perceptions of Singapore-based respondents familiar with Chinese conditions. Corporations keen in formulating entry strategies into China may use the same methodology.

As the empirical results suggest a possibly huge potential market in status furniture inside major Chinese cities, a field trip to Beijing was planned so as to interview potential clients and survey specific office market conditions.

Fieldwork

The field studies were structured so as to enrich the empirical results obtained through survey studies. Such anecdotal material as reported on a selected basis here merely illustrates how interesting insights can be gained as a result of fieldwork. A deliberate attempt was made to cover as wide a scope of potential customers as time permitted: shopping centre, hotel, airline office, property development office, foreign banks, bar counter, souvenir shops, restaurants (Taiwanese, Singaporean and state-owned), library and university (China-EC Management Institute). Detailed documentation was made of all interviews conducted. The positions held by the interviewees include commercial counsellor (Embassy of Singapore), chief representative (bank), deputy general manager, director, advisor (bank), marketing manager and property director.

From these interviews, it was gathered that currently office furniture in Chinese offices was of an inferior quality. In some instances, it was vividly demonstrated: the foam sank in too easily; one chair almost toppled over when sat on. Yet at the time of the study, there were very few competitors in Beijing who were able to supply high quality office furniture. The potential market for high quality, office furniture must be assessed within the general environmental trends of a growing passion among Beijing consumers for top quality, high-end products such as Mercedes cars and Rolex watches. Even in the streets, one can witness the Beijing consumer going for top brand, foreign leather products. This is despite the fact that drastically cheaper, local versions are widely available.

With rentals then going up by 100 per cent or more, from USD30 to 75 p.s.m., the corresponding future budget for office furnishing is likely to be inflated too. Another motivation for upgrading is that those who imported their furniture sets often found difficulties in ensuring compatibility between one and another.

According to a property director, it is necessary to use a "multiple-method" approach when undertaking any entry strategy study before investing in China. Like the concept of triangulation of data in research work, a

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<th>Major Themes Emerging from Field Study of Customers</th>
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<td>(i) <strong>Time, dates and place</strong>&lt;br&gt;Mostly office-hours, December 1993 and Beijing commercial belt.</td>
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<td>(ii) <strong>Interviewees' designations</strong>&lt;br&gt;&lt;br&gt;&lt;br&gt;<strong>Singaporean:</strong> Commercial counsellor, chief representative, marketing manager, and property director&lt;br&gt;&lt;br&gt;&lt;br&gt;<strong>Chinese:</strong> Deputy general manager, director and advisor</td>
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<td>(iii) <strong>Emerging themes</strong>&lt;br&gt;&lt;br&gt;&lt;br&gt;• Beijing market is ready for top, quality office furniture&lt;br&gt;• Due to rapidly rising costs, Beijing is not suitable as a base for labour intensive manufacturing&lt;br&gt;• Very strong entry of foreign firms likely in the year ahead and for these companies they may be exempt from certain import duties&lt;br&gt;• As a result of favourable past performance, foreign companies here are likely to upgrade their office furniture&lt;br&gt;• Quality furniture is dominated mainly by one single company which has for the past few years nurtured the market&lt;br&gt;• To promote the brand, the company should set up an exclusive showroom in a posh area of commercial Beijing&lt;br&gt;• Aggressive advertising and promotion is essential to build up the image of the brand</td>
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range of methods is to be employed: review of literature, survey, semi-structured interviews, consultations with experts, “eye-balling” of market conditions, and most critically on-site investigation. This interestingly conforms to the process we actually used in this study to formulate an early entry strategy into China.

One aspect cannot be overemphasized, i.e. the need to learn as much as possible about the operating conditions here. A Japanese manufacturer was reported by an interviewee to be making field trips here for more than a year and had yet to set up a plant. The general picture that emerged from these semi-structured and sometimes-open-ended interviews is shown in Table 4.

Other insights were also gained as a result of our field study. In China, secrecy seemed to be the rule. We encountered difficulties in obtaining reliable statistical data through published sources. From our fact-gathering interviews, we learned the going rate for an ordinary worker in Beijing is Rmb500 per month, and for a manager it is currently between Rmb1000 and 2000 with perks thrown in. There is the problem of high labour turnover with staff keen to seek positions one level up the organization hierarchy.

Common problems encountered by foreign firms in Beijing, situated away from a port, are warehousing and transportation. Instead of pre-selecting Beijing, it is clear to us that a multi-site study is needed if the decision is made to manufacture within China. Much will also depend on the strategic purpose of investing in a manufacturing facility inside China. If the goal is merely to tap a cheap source of labour for export back to Southeast Asia, then nearness to a seaport becomes important. Another factor to be considered if corporate control is to be held out of Singapore is the flight schedule from Singapore to the city of interest.

As far as staffing is concerned, it is best to hire young, enthusiastic graduates. Older employees are by far more difficult to train. In the service industry, the productivity levels are generally lower than those in Singapore. Although it is very difficult to verify, one of our interviewees who is experienced in managing a Chinese workforce in a hotel maintained that a Chinese operation equivalent in size to one in Singapore would require at least 1.5 times the number of staff.

Productivity improvement is growing to be a major concern in the future as labor costs are expected to escalate. For Singaporean expatriates, the mean executive compensation is USD 2500 net of taxes with rest and recreation in Singapore of up to seven days for every four months in Beijing. Also in Beijing, there are the usual problems of a long waiting list for admission to international schools. A sizeable Singaporean community is present in Beijing with 250 Singaporeans being members of the Singapore Club. Some of these general aspects of managing in China are further confirmed in our field study of a Sino-Singaporean manufacturing joint venture.

On-site Investigation

Earlier literature review found that Western corporations experienced difficulties when managing in China. The motivations for including a study of a Singaporean-Chinese joint venture is to gain insights into the managerial problems encountered that are unique to Western-style Singaporean management. As there is no Singaporean company that has set up a joint furniture manufacturing operations in Beijing, the decision was made to study the first Singaporean-Sino joint venture in furniture manufacturing based in Xian, a former capital of China. Through such a study, it may be possible to learn from those better experienced the “dos” and “don’ts” and therefore benefit from the learning curves of others.

For preparation, a study was made of the current manufacturing operations of the “S” corporation in Southeast Asia: factory layout, labour characteristics, and production flow. A study too was made of corporate history, organization structure, product range, advertising and promotion strategies, selling policies and team culture. The idea is to determine how well such an organization if transposed into China “fits” the context. Some background understanding of the Singaporean-Sino joint venture may thus be useful.
The Singaporean firm had entered into a joint-venture agreement with a Chinese counterpart. The Chinese party then had an existing furniture operation. The idea for the joint venture was for the Chinese party to contribute land, new buildings and workers. As for the Singaporean firm, their contributions were in management, production know-how, new machinery, accounting and marketing. So far, the contribution made by the Singaporean firm is in the region of $1 million. The Chinese side has also undertaken to contribute to the infrastructure, labour and coping with local bureaucracy. Then it was one of the early Singaporean manufacturing investments into Xian. Yet to be resolved is the thorny issue of how to re-assess the equity contributions of both parties: on the Chinese side, there are land price increases coupled with increased building costs and for the Singaporean there is the cost of new machinery brought in.

From our study tour of the manufacturing plant, which was in the process of being upgraded both structurally and technologically, it seemed possible that physical productivity in furniture manufacturing be increased 10 times through modern technology. Consistent with the literature, problems were anticipated with regard to how effective human resources might be utilized.

The Singaporean partner had sent key staff of the joint venture to Singapore. The plan was to get them to work under a new culture. One unexpected problem experienced was the reluctance of those returning to share their knowledge. For them, what they had gained as a consequence of the attachment in Singapore was regarded as "proprietary" knowledge.

Again, consistent with what we found in Beijing, the most promising employees were young, university-educated. They were highly talented and from this pool of people the company had hoped of nurturing future leaders for the joint venture. The "hard" facts gained from the on site interviews are tabulated in Table 5.

An important though unexpected benefit gained was the opportunity to share in the strategic vision of a very experienced Singaporean entrepreneur (managing director of the joint venture) in the furniture trade. His rationale for choosing Xian is still as relevant today as it was during the study:

- (1) Manufacturing costs in the inner cities are lower than those in the coastal cities.
- (2) Xian, whose literal translation is "eastern peace", has so far in her existence encountered no natural disaster such as earthquakes.
- (3) There is little problem in securing supplies of raw materials as wood is plentiful from the western region of China.
- (4) The completion of multi-lane roads has meant that there is little difficulty with transportation of raw materials or finished products.

Economic reforms will lead enhanced purchasing power among the Chinese population in the coastal cities. Thus his strategy is to centralize manufacturing capability in Xian to meet the growing demands for better quality, modern furniture from coastal markets.

From his scanning of the environment, he was confident that an average coastal Chinese family living in the city should be able to afford a dining set costing $1,000. In the first five years of joint-venture operations, marketing and distribution are to be channelled through about 200
“McDonald-style” franchised outlets currently being planned for within the coastal cities. After that, as further development, the company will export to the regional markets of Hong Kong, Taiwan, Korea and Japan.

The Singaporean entrepreneur was conscious of the need to build up a team of competent managers to translate his strategic vision into reality. At least six managers from Singapore he anticipated would be needed for at least half a year to effectively transfer the soft technology: general management, accounting, production, marketing, engineering and personnel.

As a true corporate strategist, the entrepreneur was highly conscious of the wider image that the company is giving to citizens of Xian the Singapore style of doing things. The Chinese seemed to look up to Singaporean management and saw the joint venture as a possible model to emulate.

Integration with Corporate Strategy

The findings from this early China strategy are then integrated into the long-term, strategic corporate plan. Consequently, special attention was given to act on some of the insights gained. For instance, all key persons would be roped early into the in-company China strategy seminar. These included the regional manager, the departmental managers, executive staff, designer, and sales persons. Their active participation is essential if they are to have any sense of psychological ownership of the any strategy that may evolve as a consequence. These are some of the recommendations that emerged from the strategy study:

- Timely for the Swiss company to aggressively market products perceived by the Chinese to give high status
- Advertising and promotion should focus on building up a strong brand
- Consciousness among Chinese customers
- A China Project Team should be formed to launch intense personalized selling in Beijing with foreign joint ventures as targets.
- The team should develop sales materials that are Beijing-specific, taking into account the cultural contexts as well.

- A multi-site study should be initiated to plan for the longer term setting up of manufacturing in China – that was, even though the conditions then in China did not appear to be entirely conducive for the production of top quality office furniture. The assumption was that these are likely to change to be favourable in the future.

FRAMEWORK FOR EARLY ENTRY STRATEGY

The process that may be generalized for the benefit of manufacturers as a result of this in-depth search for an entry strategy is presented in Figure 3. As shown, the process begins with an in-depth understanding of one’s own organization: Is the firm ready for internationalizing into unfamiliar conditions of emerging markets? This requires insights into the internal organization.

On the other hand, it is also necessary for the firm to understand the latest developments in China: emerging economies are fast changing. So a survey of the literature on the country of interest is likely to prove useful. Then there is the need to grasp the reality of the product-market. As was done in the case study, various survey methodologies (faxed, mailed, telephone, survey, participant-interview, site visits) may be used to gauge the “fitness” of the product for the emerging market.

Another factor that concerns a manufacturing concern ought to be the intended strategic moves by close competitors (in the case study, furniture manufacturers to go regional). These intentions may yield some added insights as to conditions that may affect the feasibility of setting up manufacturing operations.

Then as had also happened in the case and suggested as part of the framework for making a manufacturing decision: visit a similar factory that is already operating in the emerging country. Finally, integrate these insights gained and formulate a manufacturing strategy within the context of corporate current strategic thrusts.
STRATEGEM FOR INTERNATIONALIZING

Another useful insight that really extends beyond the framework proposed for decision making on whether or not to invest in manufacturing facilities in emerging economies is the Regenerative Stratagem. The essence of the stratagem is captured as a diagram in Figure 4. The central idea is to act in a manner so as to achieve one’s objectives of making the manufacturing investment a regenerative one. It connotes a sequence of steps of seven Cs: country, customer, cash, capital accumulation, corruption, control, and cost advantage.

The basic strategy is to achieve “re-generativity” by considering these as fundamental factors. Those “rectangles” reflect steps in sequence whilst “triangles” the hurdles to be overcome. The last arrow circled as (7) denotes the realization of re-generativity in manufacturing investment as cost advantages are likely to lead to more commitments; that is to reinvest, expand or even using that as a base for exports. The sequence of the stratagem is briefly explained.
Third, what is critical is to reach customers so as to accumulate cash through sales. Indeed, one of the pull factors in the case for the company to set up manufacturing operations was the many requests from old customers for their furniture. These were often air flown into Beijing and other major cities.

Fourth, in the longer term and especially when some capital had been accumulated, the issue of manufacturing inside emerging economies may again be reconsidered.

Fifth, there are two factors that must be reckoned with. One is the question (triangle) of how to cope with corruption that may be rampant. The other (also triangle) is how one effectively implements controls over manufacturing operations in order to achieve a cost advantage. For only when cost advantages are realized will it make long-term economic sense to be manufacturing in these emerging economies. Cost advantages despite the low wages may be far more difficult operationally to realize in an emerging economy than is often assumed by corporate planners.

Sixth, only when cost advantage is realized could the investment in manufacturing in these emerging economies be regenerative in the sense of providing independent impetus for future growth in the emerging economy (China as case study). Then and only then is it likely that substantive export sales may be realized.

IN-DEPTH CASE STUDIES FOR DEEPER INSIGHTS

There is still a paucity of empirically based case studies on the early experiences of firms venturing into emerging countries. There is no question of the enormous future significance of these markets considered collectively: Eastern Europe (Russia), China, Indo-China and India. The critical issue at this stage of Western firms internationalizing into these markets is to get it “right at entrance”.

More useful than mere statistical analysis of macro, industry statistics is for manufacturers themselves to gain rich and deep insights. These are only possible through well-designed in-depth studies. As this study has illustrated, it is possible to draw theoretical insights by the consultant-researcher being immersed in the
corporate search process for an entry strategy. Finally, what is the image of China that emerges from this study?

**China is truly a deeply complex society**

China is not so singular an entity as it may appear at first glance. There is undeniably a centrality of political power that flows out of Beijing. However, for the manufacturer, that conceptual model is far less useful. Unless the manufacturer is establishing a manufacturing base in Beijing – as the company then intended before the study – the power-bases are far more extensively spread out. The further geographically the future plant is sited away from the centre, the more likely that influences from Beijing shall be moderated.

My favoured, current visual conception of the Chinese society may be illustrated diagrammatically by the metaphor of the reverse bowl of ice-crackled glaze (see diagram1). Even within a province, there are different power bases and each may be represented conceptually by, say, an ice-crackle. And below each crackle, there are other finer, underlying, unseen layers of power-bases. These power-bases are all interacting upon each other in a complex, sometimes unpredictable fashion. In other words, there is a complex of multi-polarity, hierarchically differentiated, overlapping, interlocking power-bases at work in China.

What keeps China together is a strong centre and in the past a wilful, powerful Emperor. Currently, that centre is the CCP, the Communist Party of China. With a weak centre as in the past of rule by a child emperor (in the declining years of the Han dynasty, giving rise to the saga of *Three Kingdoms*), these “crackles” may loosen altogether from central control. The deep psychological instinct of the Chinese is to favour the sphere of power for moderation – that there be central control but at the same time some devolution of power to provinces (if you like, clustering of “crackles”). But these “crackles” of power-bases must never, however, become so powerful as to peel away from the metaphorical, rice-bowl of China.

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1 Image taken from a Ru Yao bowl.
REFERENCES