

# LOVE IS BLIND, GREED IS INSATIABLE



The Classic Case of a China Business Venture

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Professor Barrell graduated in biology, worked in the National Health Service as a haematologist before spending 20 years in the health care industry. Subsequently he was CEO of two Cambridge based hi-tech ink jet printing companies, and for four years, Managing Partner of the Cambridge Gateway Fund, an early stage technology venture fund. He is a founder shareholder of the investor and research organisation, The Library House Ltd. In 2005 he was honoured with the Award from Queen Elizabeth 2nd of "The Queen's Award for Enterprise Promotion", being one of the first ten recipients of this new Award for "Encouraging Enterprise in Others". His web address is: [www.alanbarrell.com](http://www.alanbarrell.com).



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## The Classic Case of a China Business Venture

### Description

An MBA graduate, originally from China, joined a multi-billion pound sterling British multinational in the late 1990s to assist its senior executives to make multi-million dollar investments in China. He had been involved in the whole decision-making process, consisting of assessing business opportunities and potential partners in China through to establishing and operating a US\$ 25 million pharmaceutical joint venture business.

With vivid accounts of what he had experienced, he reveals that it is human intuition - including the pain and the joy as well as the misery and the hope - that makes up the very fabric of business. In the end, it is a story that shows why business conducted on the basis of partner attraction and for the sole purpose of making money is self-defeating, and why successful business is done not only through people but also for people.

### Learning Objectives

The principal objective is to help students understand the nature of business, in particular with reference to doing business in China. The other objective is to help them develop an appreciation of how business school-taught concepts and tools might be applied to the messy reality of business.

### Subjects Covered

Networking, market research, business alliance, negotiation, business case, management, leadership, business strategy and worldview

### Setting

Late 1990s; China, the UK, and the starch industry

### Teaching Notes

The case can be used in two ways. One is for classroom discussion, aimed at developing an understanding of the key issues involved in doing business in China. First, students are given time to read the case on their own. Then, they are asked to talk about the issues they have identified. Finally, the teacher summarises the key issues for the class.

The other is to use the case as part of an individual/group project. First, students are asked to read the case and identify the issues involved. Second, they are recommended the book *The China Executive*, from which they are required to put the identified issues into context and develop more effective actions were they in the MBA graduate's position. Finally, they are required to write a project report and/or make a presentation.

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### About BC

Being an MBA graduate, originally from China, William joined a British company (BC) in January 1995 when BC was seeking a bilingual business development executive to participate in its investing activities in China.

From the induction programme William learnt that BC was part of a European conglomerate (EC), which was one of the largest food companies in Europe with an annual turnover of over £4 billion and 55,000 employees. It had businesses spread across Europe, Australia and North America. Although publicly traded, over 60% of EC was owned by a billionaire family, from which came “the Boss”, i.e. chairman and CEO of EC for twenty-five years by then. Recognising the growth potential in Asia, EC had long been conscious of saving cash to prepare for investments in the region. By 1994 when “the Boss” gave the spearheading mandate to the CEO of BC, which contributed half of EC’s profits, and also set the grand vision of “building another EC in Asia within ten years”, EC had more than £500 million of cash. In late 1994, BC’s CEO appointed Tony Smith, BC’s former director of research and development, as general manager of business development (Asia) to be based in the posh Lippo Centre in Hong Kong. BC also hired an international investment bank as its financial advisor, and an international law firm as its legal advisor.

But the driver behind BC’s overseas activities was a unit called the “nerve centre” of BC. Heading the unit was not one person but two, i.e. Jack Hunt – director of business planning and development, and John Strain – director of overseas operations. Along with the CEO, the three directors were called the “big three”, making the crucial decisions in BC. On his first day in BC, the CEO personally came down to the “nerve centre”, introduced himself and welcomed William by shaking his hand. He also asked William what he used to do, how he was doing his commuting and what his work plan was for the near future. William felt very warm. But soon, he found that what characterised the organisational behaviour of the “nerve centre” was, in the word of one of his colleagues, “dynamics”.

For a start, indeed, Jack and John and other directors seemed to be in debate with each other about everything, sometimes even with unkind words flying around. Yet, they still worked together. More importantly, it was in these hot debates that quality decisions were made, and one of them was a determined direction that China should be the main target in EC's Asian initiative. After a couple of first visits to the Chinese government arranged by the Shanghai office of BC's financial advisor, the "big three" realised that there were huge difficulties in establishing new businesses in an entirely new environment by BC itself. The CEO commented: "As soon as you walk out of Beijing Airport, you do not know where to go without the help of a local guide, and this applies to our business development too." BC's Board then unanimously decided that the entry approach was to find local partners and establish joint venture (JV) businesses.

At the core of the dynamics was interpersonal networking, though. Aside from Jack who appointed William, the other main mentor of his was David Williams, business development director (starch). David used to be managing director of a wheat starch and glucose business, which was owned by EC and struggling in a competitive environment dominated by a small number of very large international players. After acquiring BC for £880 million in 1991, "the Boss" made it a subsidiary of BC and relied on BC's management to make it profitable. BC's board then decided that the way forward was to develop it in the Chinese context. But in China, starch had to be processed from maize because there was insufficient wheat to satisfy human consumption needs. William learnt from David that BC wanted to be in the business of producing starch from maize first and then establish down-stream businesses to produce added value starch products. David told him that there were three critical success factors for a starch business: "maize, maize, and maize". In other words, their potential starch JV partners must be located in a maize growing region. He also learnt from David that starch could be used as either a feed stock or an ingredient in a wide spectrum of industries, including food, pharmaceutical, and papermaking.

Of course, William also needed to network with other members of staff in the unit, including the sales and marketing director, corporate affairs director, finance director, several middle managers, other junior staff and, last but not least, the secretary. Indeed, it was the secretary who kept the unit's networks alive. There were some thirty people in the unit who were at any time spread around many parts of the world, but the secretary made sure that they could communicate to each other.

When John asked William to join him on one of his trips to China, the secretary had to organise travellers' cheques, executive limousine from home to airport, business class air travel and overnight stay at the posh Marriott Hotel in Hong Kong. When they stayed at a hotel in a remote part of China, she made sure that the first thing they did after checking in at the hotel was to ring her to give her all the necessary communication numbers.

The dynamics was also characterised by a challenging culture. From day one, Jack challenged William like "throwing bricks at you", as one of William's colleagues put it. But Jack also plainly told William that while he "kicked" William, William could also kick him. Indeed, William soon noticed that it was a norm for junior staff to challenge senior staff - even the secretary challenged the directors when the former had a piece of truth in hand. To co-ordinate international personnel policies, "the Boss" assigned a personnel manager from EC's headquarters to the "nerve centre", but three months later he was kicked out of BC because the "big three" found what he had to say to them "illogical".

William therefore learnt that what drove BC's corporate dynamics was "logic", which also squeezed any slack in its organisational activities and ensured everyone's efficiency to the bone. But would logic be the driver in the China business environment?

### **Initial Search**

Shortly after William completed his three-month familiarisation period, Jack charged him with the task of organising a three-week programme for David to visit Chinese companies and relevant governmental bodies to establish a comprehensive understanding of the China starch industry and to look for suitable JV partners.

At that time, they did not have any information as to whom and where the Chinese starch or starch-related companies were. William therefore rang up a friend of his in Beijing, whom he had met when they were studying at a university in the UK, who was by then working at the China Science and Technology Information Centre. She conducted a database search at China's largest information centre but found little useful information for him. After mobilising her contacts in Beijing, she gathered some contact details of a few large food and papermaking companies. However, these companies indicated that unless they had the intention of doing a JV

with them, which William knew they could not promise to have, they were not interested in receiving them. She then suggested that she would ask the Information Bureau of the State Science Commission, which supervised her information centre, to issue a notice instructing these companies to receive them. William did not ask her on what ground they deserved such a notice, but she managed to get it and send it to the target companies, which then all agreed to meet them.

William also got to the library of a China-Britain trade organisation in London. In a dated Chinese Company Directory, he noticed that a Chinese company (CC) specialised in making a flavour ingredient (FI) was one of the largest companies in the Chinese food industry. As the production of FI uses a lot of starch, he thought this company was definitely worth seeing. He also found another large FI producer and one of the largest Chinese papermaking companies in the Northeast. He rang up these companies but none of the telephone numbers was correct. He therefore had to ring up the "114" telephone directory enquiry number in each city and found the latest numbers first. From these companies' telephone operators, he got hold of their fax numbers. He then sent each company's top man a fax, in Chinese of course, expressing BC's intention to visit it. One replied to him by fax two weeks later. Another did not reply but expressed its willingness to meet them when he followed up with a phone call. The most impressive response though was a fax from Mr Chen Huanting, chairman of CC, only two days later. In his fax, Mr Chen said that his company had long looked for a Western partner to do a JV business in starch, and that he was looking forward to meeting them as soon as possible.

Given his experience, David had some high-level contacts in the European and American starch industries. He and William visited a manufacturer in Germany, which was selling starch equipment in China and knew quite a few Chinese starch companies that were looking for Western partners. Executives of this company promised to arrange a visit programme for David and William in the Northeast. William also contacted the Beijing Representative Office of an American starch equipment manufacturer, and found a willingness to make arrangements for them to visit a couple of local companies, to which this manufacturer had sold equipment.

But who could introduce David and William to Chinese government bodies related to the starch industry? William suddenly remembered a former diplomat at the Chinese embassy in London, with whom he became acquainted when he was Chairman of the Chinese Students and Scholars Association at a British university in the 1980s. This diplomat had by then returned to China and became director of the

education bureau in the Ministry of Light Industry, which oversaw the Chinese starch industry. Although he and William had not contacted each other for years, he immediately offered to “help” William when William telephoned him. He gave William the number of a friend of his in the ministry who was to arrange for David and William to meet Chairman of the Fermentation Industry Association. He also introduced William through phone calls to Mrs Liu, a deputy director of the township enterprise bureau in the Ministry of Agriculture. He even promised to personally arrange for David and William to visit an “ideal” JV partner he had identified - a starch plant located between Beijing and Tianjin - because “the factory is located in the great Hebei Plain”, but William was not sure about the location’s business merits.

The last piece of the jigsaw was to arrange the travel and accommodation plan in China. As Thomas Cook could not issue tickets on domestic flights or make accommodation bookings at local Chinese hotels, William had to use a local travel agency in Beijing, whose head was introduced to him by a friend of his in the UK.

Having spent three weeks in the UK to arrange the programme, David and William began their visits in China on 22nd March 1995. In general, each visit was characterised by two-way information flow taking place in a face-to-face meeting, although they also benefited from site tour where available. After they made a presentation of EC and its aim and investment strategy in Asia and also gave their host a copy of the bilingual brochure they prepared, the host would make an introduction to themselves. And when they talked about certain issues in the context of the European starch industry, the host would talk about these issues in the context of the Chinese starch industry. But the quantity and quality of the information they collected varied greatly from visit to visit.

In their visit to the Ministry of Agriculture, six retired experts were invited by William’s contact Mrs Liu to the meeting. Due to time constraints, the experts actually began competing with each other in order to talk to them about what they knew towards the end of the meeting. William met the ex-diplomat in the Ministry of Light Industry who reminded him to prepare a gift for his friend who arranged their meeting with chairman of the Fermentation Industry Association. David was most satisfied with the meeting because the chairman gave him almost every bit of macro data about the local industry he wanted. In their visit to the Beijing Papermaking Corporation, they were delighted to see that two senior engineers had actually prepared in writing the answers to their questions that were sent to them beforehand. However, when they visited a food company in Beijing, although they were received

by a good number of people, the latter were too cautious to give them any information. They also visited the small state-owned starch factory recommended by the ex-diplomat. Although the factory director gathered “all the employees” to welcome them, the factory was in such a dreadful condition that David called it a “nightmare”. An engineer from the Beijing Office of the American equipment manufacturer drove them to a factory in Shijiazhuang, which produced an integrated portfolio of starch and added value starchy products, including a starch derivative (SD) that was uniquely produced using imported European technology and equipment for the pharmaceutical industry. It gave William quite a good impression, but David considered it too small to be JV partner.

After their visits in Beijing, they were on their way to visit CC on 28 March 1995. They flew from Beijing to Zhengzhou in central China, and then were taken by a car. David thoroughly enjoyed the four-hour country journey. They saw endless flat farmland and commune after commune. The driver told them that as a major crop in the region, maize would be planted in autumn. By the time they got to CC, it was later in the afternoon. They were taken to a hotel that belonged to CC. In this very remote part of China, the design and hardware of the hotel impressed them. Mr Chen’s secretary and a girl from CC’s administration office were sent to accompany them at the dinner, but after the dinner, they politely declined their invitation to ballroom dance in the hotel.

The next morning, they met Mr Chen Huanting, the boss of CC, and Dr Tom Song, Senior Advisor to Mr Chen. Mr Chen looked a confident and relaxed man aged at around fifty-five and Dr Song a confident and energetic man aged at around forty-five. Mr Chen introduced CC’s history and future vision. CC was a state-owned enterprise with about 12,000 employees - which David found impressive. It certainly had an impressive development record with its FI production rising from 400 tonnes/year eight years ago to the then 120,000 tonnes/year. Apart from being the market leader in China, its FI was exported to a dozen countries in Southeast Asia. They were particularly impressed by Mr Chen’s visionary and forward-looking style because apart from seeking to grow its core FI business to become the world’s number one, CC was also diversifying into other industries, including mineral water and animal feed.

Commenting on the possibility for CC and BC to work together, Mr Chen pointed out that his company had one of the most advanced fermentation technologies for producing FI from glucose. But his company’s weaknesses were in the production of

starch from maize and of glucose from starch - the respective yields were very low. He said that through working together, CC would benefit from learning BC's advanced starch and glucose production technologies while BC would benefit from CC's huge capability to off-take starch and/or glucose produced by the potential JV business. He also introduced that CC had just imported some key equipment items from a European supplier for a new starch plant, and that if BC were interested in a partnership with CC, CC could wait so as to build the plant together with BC.

During the meeting, William was interpreting for both David and Mr Chen. But towards the end of the meeting, Dr Song surprised David and William by starting to talk fluent English. They then learnt that Dr Song gained his Ph.D. in mathematics and had worked in the US before returning to China to work for CC. After the meeting, Mr Chen and Dr Song took them for a tour around CC's starch and glucose factories. Drawing on his many years of experience, David could immediately see the operational problems with these factories and therefore shared Mr Chen's earlier view of them. He told William that these problems could readily be solved through introducing better technology and more stringent operating procedures.

Over lunch, Dr Song told David and William that the market for FI in China was growing at an annual rate of 15-20%, and that the increase in the demand for FI would generate a huge demand for starch, making any investment in starch production in China a potentially prosperous business. They left CC that afternoon. On their way back to Zhengzhou, William could see that David was very delighted. He told William that there was a strong case for working with CC. William felt the same. That evening, they stayed at an international hotel newly opened by Holiday Inn, and toasted each other at the bar for the good progress they had made.

On the following day, i.e. 31 March 1995, they had a six-hour delay at the foggy Zhengzhou Airport and killed the time by writing their visit reports. By the time they got to Shenyang in Liaoning province it was completely dark. The next morning, they met director of Shenyang FI Factory and some of his managers. But despite excellent hospitality including paying for the use of the meeting room and the lunch at the hotel, David and William sensed that this factory was in trouble, which was confirmed during their tour in the factory that afternoon. The worst bit for David though was that they had to wait for about five hours in a cold office to give twelve people from the factory the chance to enjoy the state-funded banquet at "the best restaurant in the city". On April Fools' Day, David and William were told that the only flight between Shenyang and Jilin City had been cancelled - sadly, it was not a joke.

They therefore had to get on a train at 6:00 p.m. To this very day, David would refer to their fourteen hours on “a crawler stopping at every lamppost” overnight as one of the “most unforgettable” experiences in his life. The following afternoon, they had a meeting with the Chief Engineer and his staff of a paper mill who were only interested in seeking a solution to one of their technical problems. From 3 to 6 April 1995, the Vice President and a Technical Manager of the German manufacturer introduced David and William to two further starch projects in Jilin Province. One was a green-field site project proposed by a county government, and the other the expansion of an existing starch plant. But despite abundant maize supply, local government support and the Vice President’s proposition to have a 5% share in any potential JV of BC, they concluded that BC should forget about these projects because a French starch conglomerate was already active in the region.

On 7th April 1995, David and William left Changchun for Beijing, and got on a British Airway flight that afternoon to return home. Immediately on returning to BC, they produced a comprehensive report, in which they recommended that BC should consider negotiating with CC for a possible JV business. It could consist of initially a starch plant, based on CC’s recently imported equipment, producing starch for CC’s FI production plants, and if successful, a phase-two development made up of added value starch businesses as well as the expansion of the initial starch plant.

### **Conceiving the Business Proposition**

After carefully reading the report of David and William and hotly debating aspects of their findings, BC’s directors thought that their recommendation was worth pursuing. Jack instructed William to inform CC that if they liked, they could wait for BC to build the new starch plant together but BC could not, at that stage, promise that it would definitely commit to the project. CC subsequently informed BC that it chose to delay its starch project and wait for BC.

Over the following eight months, BC sent a stream of technical specialists and business executives to visit CC and to hold discussions with CC’s staff. As William had to be involved in almost every visit or meeting, his initial freshness of travelling between Zhengzhou and CC was gradually replaced by a sense of adventure. On a very sunny day in July, a tyre on the car burst but the driver did not have a spare tyre. They had to wait under the burning sun for three hours before another car

came to take them. On another occasion, as their flight from Beijing to Zhengzhou was delayed, they had to travel on the country road late in the night. While every passenger was half-asleep because of both exhaustion and bumpy roads, the car was suddenly brought to a stop. They then saw that a log was lying right in front of the car. When the driver got out of the car, several local people immediately surrounded him and asked him to pay them for removing the log. It was not until the driver shouted that he was taking some important foreigners that he was allowed to remove the log himself. One of William's colleagues later on described the journey as "the road to hell". Indeed, William soon discovered that scenes of traffic accidents on his trips between Zhengzhou Airport and CC were a norm. After he and Tony once saw two pedestrians lying in blood about fifteen meters apart on the road in a village area, they had a thorough discussion about the root cause of such regular traffic accidents. William managed to convince Tony that the reason for so many pedestrians being knocked down was their Chinese relational view towards the coming vehicles - they failed to realise that when they collided with the vehicles, they rather than the vehicles would lose life.

William's feel for the town where CC was based also became increasingly real. Pollution was the dominant feature. Each time he approached the town, he could see the huge columns of black smoke coming out of the big chimneys of the power and steam generation houses. As he entered the town, the smell of the air was so strong as if it had been fermented. When he walked in the streets, his shirt collar became black and his shoes were covered by dirt within ten minutes. Yet, the local people ate at tiny food stalls just beside busy streets as passing vehicles stirred up clouds of sheer ashes and rubbish. In the evening, they enjoyed dancing in the open-air ballroom, which had the effect of an air filter. Back in the CC Hotel, life was not as good as it initially looked. After a long-day of travel, having a shower was a sensible thing to do, but it was easy to miss it because hot water was only available for two hours in the evening. To make a long-distance call, William and his colleagues had to use the phone at the reception while being timed by the attendant and watched by anyone else in the hall. Despite the variety, food at the restaurant seemed to contain an excessive amount of FI, the stuff CC produced, making all the dishes taste similar.

David led BC's technical team. However, as he was based in the UK and was supposed to report to Tony who had had no experience in the starch industry, they were not in good harmony with each other. Leading CC's technical team was Mr Zhang, who was in his early thirties and had been an official of a town in the

countryside of central China before Mr Chen transferred him to CC during CC's expansion in early 1990. He did his college degree in chemistry and worked in CC as a technical manager. The impression he created to people from BC during all the encounters was that he was bright, full of energy, and willing to co-operate. The technical visits and meetings helped BC's technical specialists understand CC's current technical capability in starch production and form a shared view with CC's technical staff on the technical parameters of the new starch plant, including open land area, local maize supply, utilities, process design, equipment scope and capital budget.

After Tony and David assured Jack of the technical soundness of the new starch plant, Jack visited CC. As an accountant, Jack was particularly keen to have a good grip of the financial capability of CC. In his first meeting with Mr Chen, he gave him a copy of EC's latest annual report. But when he asked for a copy of CC's annual report, Mr Chen smiled and said, "CC is a state-owned enterprise. We only prepare annual report for state authorities." He advised that Jack could develop an understanding of CC's financial capability by visiting its plants and facilities. They also exchanged views on the operating structure of the potential JV, covering shareholding, management structure, maize purchase method, starch selling price, and by-products' selling methods. On shareholding and management structure, Mr Chen said that CC and BC should each hold 50% and that the general manager should be from CC given the huge commitment needed to run a business. But Jack said that BC wanted a majority share and the right to appoint the general manager. Given the differences, Tony proposed a compromise to Jack that Mr Zhang could be sent for training at BC's headquarters for half a year and then appointed as general manager. But Jack remained unconvinced about the reliability of Mr Zhang and therefore suggested to Mr Chen that the differences should be resolved through further discussions at a later date, which Mr Chen happily accepted. On by-products, it was agreed that the JV would sell them to CC at prevailing market prices.

At a dinner held by Mr Chen for Jack, Jack asked about CC's secret of success. Mr Chen replied, "The oneness of politics and enterprise" (*zhengqi heyi*). Puzzled by what Mr Chen had said, Jack asked him to elaborate. He proudly gave an example where officers of the tax authority of the local government could work side by side with his accountants in one office. Jack also learnt from Dr Song that Mr Chen was a committee member of the prefecture government, which oversaw the town, of which CC was a part, and a representative of the National People's Congress. In fact, Mr

Chen's pictures taken together with several central government officials during their visit to CC featured highly in CC's introductory brochure. Mr Chen's political privilege was also vividly demonstrated in that he sent a car with a police flashing light and siren to escort Jack's car on the four-hour journey from CC to Zhengzhou!

In August 1995, BC extended an invitation to Mr Chen and Dr Song to visit BC in the UK, and helped them obtain the visa within three days through its contact in the British Embassy in Beijing. However, two days before the planned departure from Beijing, CC informed BC that the visit had to be delayed because, as a "model entrepreneur" for rural regions, Mr Chen had been asked to attend a meeting organised by the state council. William finally nailed Mr Chen and Dr Song down to a flight on 12 November, 1995 because any further delay would require BC to re-apply for visas for them. The programme BC organised for them was rich and colourful, which included formal meetings, informal chats at bars, dinners at restaurants of various styles, visits to BC's factories and R&D centre, and tours of London and Windsor Castle. Formal discussions were held mainly between Jack, David, Mr Chen, Dr Song and William, but the CEO also welcomed them and made an introduction to BC in his boardroom and hosted a dinner at a Chinese restaurant in his home village. During the week they stayed in the UK, a Chinese national flag was flown outside BC's headquarters. Upon hearing that Mr Chen and Dr Song flew to the UK in economy class seats, Jack asked William to make sure that BC provided them with business class tickets for their return journey.

According to an EC norm, an investment decision could only be justified if the financial model of the business case showed a return-on-investment (ROI) of over 20% in five years time. An accountant at BC had been asked to develop a financial model on the basis of local operating conditions, such as the costs of maize and utilities, but he had no way to verify the reliability of the data provided by CC staff who changed their minds several times. Nevertheless, he eventually produced a financial model that was worth presenting to "the Boss". As the total investment of the starch project was only about £7 million and less than £4 million was needed from EC and the technology involved was pretty basic, "the Boss" decided to meet Mr Chen and Dr Song after the CEO and Jack presented the business case to him.

On entering EC's headquarters, William immediately developed admiration for "the Boss". For a start, his headquarters was just a very small block in central London – he had set an example of efficiency for his many companies around the world. Being one of the richest in the UK, he dressed in a plain style. In his

boardroom, William noticed two replacement chairs. This was in sharp contrast to the extravagant style of some Chinese millionaires he had met in China. When he later mentioned his observations to David who had known “the Boss” for a long time, David said that when “the Boss” walked in the streets, nobody would think he was a billionaire.

William acted as the interpreter for the meeting between “the Boss” and Mr Chen and Dr Song, which was also attended by the “big three” and David. “The Boss” asked Mr Chen about CC’s ownership and who would be running CC if the state made personnel changes. Mr Chen said that it was unlikely that the top job of CC would be taken away from him because the state wanted continuity and stability. “The Boss” then turned his attention to the proposed starch project. He said that in EC’s experience, the technology for starch production was very basic and that competition could easily develop leading to erosion of margin. Mr Chen commented that CC had achieved its success in China through a development strategy of “rolling a snowball”, i.e. one small but solid step at a time. “The Boss” did not directly respond to Mr Chen’s comment but asked David how the big players in the European starch industry made money. David said that in Europe, the leading players all made money through an integrated operation, i.e. producing starch and many other starchy derivatives. “The Boss” then suggested that it might be worth for both parties to explore whether, in addition to the starch project, there were any added value starch business they could do together so as to give the JV a stronger position in the China starch industry. Mr Chen happily accepted his suggestion.

On returning to BC’s headquarters, the CEO asked Jack to initiate another round of internal discussions. David thought that a hydrolysed, crystallised starch derivative (SD) for the pharmaceutical industry and the food industry, positioned in the middle of the starch product spectrum in terms of the sophistication of the required technology, might be the most appropriate entry point. We were all quite convinced by David’s “logical” arguments. At a formal meeting with Mr Chen and Dr Song, the idea of building an integrated starch and SD plant was then proposed to them. Mr Chen and Dr Song said that they did not know anything about SD. Dr Song then made some phone calls to China.

The news from China was that there was potential for a purer SD product for the pharmaceutical industry. In fact, there was only one factory in China that was profitably producing it using imported European technology. David and William immediately recalled that it was the starch and glucose factory in Shijiazhuang they

visited in March 1995. David commented that it should not be difficult for CC and BC to build a SD plant with a capacity of 20,000 tonnes per year using imported technology, with CC's originally planned starch plant supplying the required 50,000 tonnes of starch per year. Dr Song said that no matter how large the SD plant would be CC would "guarantee" the sales of the product. Mr Chen agreed to the capacity of 20,000 tonnes per year and estimated that the SD plant would cost RMB 200 million to build. He also indicated that CC preferred a majority share holding but if this were not acceptable to BC, then he would accept a 50:50 structure. Jack replied that as BC was to invest in a place remote from its home base, a slight majority share holding would give it that little bit sense of security. Mr Chen finally accepted Jack's proposal of a 51:49 share structure.

On the last day of their visit to BC, Mr Chen signed a Letter of Intent (LOI) with the CEO of BC. It was stated that BC and CC would carry out a joint feasibility study, covering the maize raw material supply, the market for SD and the process design for the integrated starch and SD facility, the outcome of which would determine whether the project should go ahead.

### **Feasibility Study**

In 1995, Western business media featured a dire prediction made by Lester Brown of the World-watch Institute that China's grain import needs would likely increase to as much as 300 million tonnes by 2030 – demand that would be far greater than all the global stocks then available for world-wide export. Clearly, if China were to have problems with feeding its growing population, then any BC investment in the Chinese starch industry might have problems with having a secure supply of maize raw material. "The Boss" even cut out a report on Lester Brown's prediction from the *Financial Times* and posted it to Jack, who charged William with the task of studying the maize supply issue.

Given the contacts William already had in China, there was no difficulty for him to plan and organise a three-week study programme. On 1 December 1995, he flew to Beijing to visit deputy director Mrs Liu in the Ministry of Agriculture. By then, he and Mrs Liu were quite acquainted with each other, and they called each other "old friend" (*lao pengyou*). He learnt, over dinners and *karaoke*s with her, her husband (a military officer) and her assistant, that Mrs Liu was daughter of a former Hebei

provincial governor, which explained why she had so many powerful contacts. For William's purpose of studying the maize issue in China, she arranged for him to meet two retired agricultural officials of the central government in Beijing, and then in Shandong, agricultural and grain bureau officials of the province and party secretary and other agricultural officials of Ningyang County. In Ningyang, William also walked into a maize field and talked with a farmer about the economics of his maize farming business. His ex-diplomat friend in the Ministry of Light Industry introduced him to a deputy director of Hebei light industry bureau who arranged for him to meet provincial officials in charge of agriculture and grain distribution. In the province where CC was based, William had a meeting with a provincial agricultural official arranged by a sales representative from CC's office in Zhengzhou. He also phoned up Zhengzhou Grain Exchange and managed to see the manager of the Grain Wholesale Market without anybody's prior introduction. The most detailed understanding of the logistics and economics of maize purchase from a starch factory' perspective was established through his meeting with the supply manager of CC, though.

Upon returning to the UK, William was asked by Jack to write a summary report for the CEO before completing the full report, which included detailed visit reports. In his summary report, on the basis of analysis of hard data from various perspectives (i.e. administrator, producer, distributor, user and consumer) and at different levels (i.e. national, provincial, local and factory) and his feel, he concluded that the potential starch JV with CC would have a secure maize supply. When he met the CEO in the corridor of the "nerve centre", the CEO told him that his report was "good". He felt motivated despite the fact that the long trip around China on his own was extremely exhausting.

BC's management then turned their attention to the market research for SD, which the CEO wanted to be done quickly. Tony's view was that BC should rely on CC to carry it out because CC already had connections in China. But Jack felt that it was premature to have total faith in CC at that stage and that BC should conduct its own independent market research. Nicholas Davies, a technical specialist who had SD technical service experience with his previous employer, and William were then charged with completing the task within two weeks. Given the time constraint, all they could do was make some preparations, travel to China, and visit some of the large customers in Shanghai, Beijing and Tianjin, and the State Pharmaceutical Bureau. They used the Shanghai office of BC's financial advisor to arrange some of the visits. During their study, they found that the market for SD consisted of two

segments, i.e. SD for the pharmaceutical industry and SD for the food industry, each commanding a demand of 80,000 tonnes per year and already oversupplied by a large number of small domestic producers.

However, David's original proposition of 20,000 tonnes of SD per year, i.e. 10,000 tonnes of pharmaceutical-grade and 10,000 tonnes of food-grade, appeared plausible. First and foremost, there had been no foreign investment in the SD industry, and most domestic SD producers had a capacity ranging from 2,000 to 5,000 tonnes per year and produced SD of a very inconsistent quality. They were also in all sorts of troubles, such as cash shortage, backward technology, overmanning, and poor management. Therefore, it would be possible for the JV to drive some of the small producers out of business through its strengths, such as financial muscle, advanced technology, economies of scale, and efficient management. Second, the purer SD for the pharmaceutical industry looked certain to be a product leader because while most SD producers were making losses, the one producer in Shijiazhuang was very profitable. This was supported by China's announcement in 1995 that from April 1996 the new edition of the Chinese Pharmacopoeia was to become effective, in which the purer SD product was for the first time specified for application in intravenous products. Third, according to Nicholas, if the purer SD for the pharmaceutical industry was successful, the process for food-grade SD could easily be upgraded to produce the former through addition of a few equipment pieces.

On the last two days of the two-week programme, Nicholas and William stayed in Hong Kong and produced their report, in which they made the above recommendation. They also identified two critical success factors, i.e. the building of a wide range of technical expertise and the building of a nation-wide distribution network.

When they returned to the UK, they heard that there had been a "split" among the "big three". As Jack "did not co-ordinate with the CEO", according to John, the CEO had deprived Jack of responsibility for overseas business development and given it to him. This meant that it was up to John to read their report. As John had never been involved in the starch project in any detail except being aware of its development, he relied on his sales and marketing director to digest the report. Without either prior experience in the sales of SD or on-the-ground feel of the China market for SD, he could only ask Nicholas and William a few questions of a logical nature on the basis of the information in the report.

The other aspect of the feasibility study was concerned with the design of the SD plant. Although it was straightforward for technical people from BC and CC to decide that they had to use an equipment supplier in Europe to design the process and supply the key equipment items, the decision on the scope of imported equipment was not. After several rounds of discussions at Beijing's Lido Holiday Inn, which was David's favourite meeting place because it required people from both parties to travel, David felt that the decisions were still sub-optimal because Mr Zhang and his staff could only make rough estimates on local purchases. On the other hand, William sensed at these meetings that David had the intention to import more equipment items in order to build the best SD plant in China. After being questioned about the high costs by Mr Zhang, David suggested that the JV could import some second-hand but refurbished equipment items from BC. CC's technical people regarded it a good idea. It was agreed that once the European supplier was selected, BC would undertake to sell these items to the supplier, which would then refurbish them and include them in its supply contract with the JV.

But the technical aspect of the feasibility study was driven much more by a change in government regulation. In late 1995, the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) suddenly announced that any imported equipment used by foreign-related investment projects approved in January 1996 and thereafter would no longer enjoy import duty exemption. MOFTEC later extended the dividing line to 1 April 1996 and required the import activity to be completed by the end of 1996. This meant that to import the required equipment free of duty, which was 25-30% of US\$ 9 million, CC and BC had to not only form the JV before 1 April 1996 but also sign the supply contract with the European supplier well before they signed the JV Contract between themselves!

And that was exactly what happened. To make rapid progress, David suggested that BC should negotiate and select a European supplier on behalf of the potential JV and present the details to CC later on. CC agreed. David then negotiated with a German supplier and a Danish supplier. In the end, it was lower price that made him select the Danish equipment supplier (ES). After David finalised the contract with ES, Tony in Hong Kong took over the task of selling it to CC. He gave CC one week to read and sign the two-hundred-page English contract. As Dr Song was on holiday in the US, Mr Chen delegated the task to Mr Zhang, who rang Tony in Hong Kong through an interpreter and asked for more time, but Tony simply said "no". Mr Zhang also argued that, instead of the JV, ES should pay for after-sales services in

the contract. In the end, Tony forced Mr Zhang to sign it by saying: "If you don't sign it, you'll have to take the responsibility for failing the whole project."

As there was always the possibility that the JV might fail to establish, BC and CC agreed to share the contract cancellation charges at the stages of design, subcontracting, and manufacturing according to the 51:49 ratio by signing a special memorandum with ES.

In the meantime, the CEO still needed a financial model for the integrated starch and SD business showing an adequate rate of ROI before he could present the project to "the Boss". Aside from the uncertainties associated with the capital expenditure budget and local operating conditions, the biggest uncertainty was with the sales forecast, to which the rate of ROI was most sensitive. The project team used current product prices as a reference point in the financial model, but as nobody had any SD sales experience they had very hot debates about the forecast of sales volumes. Eventually, they reached a compromise, but still it was just a big guess. William also contacted CC, and their view was that no matter how much the plant produced they would be able to sell it. After the first version of the financial model was completed, John presented it to the CEO, who was not happy with the rate of ROI.

John then examined the financial model and discovered that the transfer prices of by-products from the starch plant that Jack had preliminarily agreed with CC were "too friendly". He asked Tony to travel to CC to negotiate with Mr Chen again on these prices. Tony explained to Mr Chen that as EC required the financial model showing a satisfactory rate of ROI to justify an investment decision, he needed better transfer prices to improve the model, but Mr Chen refused to change his position. Back in the UK, John saw that to break the negotiation deadlock while realising the vision of "the Boss" to target added-value starch business, the most "logical" thing to do was to take the starch plant out of the JV proposition of building and operating an integrated starch and SD facility. He consulted the CEO whose advice was that it was not until one left the negotiating table that one was able to find the bottom line of one's opponent. John then instructed Tony to inform CC that BC now only wanted to work with CC on the SD business. He added: "This should hurt them."

And it did, because it meant that after keeping its expensive, imported equipment unpacked for over eight months, CC finally had to build the starch plant on its own and would not be able to learn from BC to improve its starch operation.

William voiced these concerns to Tony but the latter told him that he should be clear about which company he was working for. John instructed Tony to tell Mr Chen that either CC accepted the new proposition or there would be no JV business. Mr Chen decided to choose the former.

As if this wasn't enough, the rate of ROI from the financial model for the SD plant was less than satisfactory. John then asked the project team to see if the rate of ROI could be "improved". David found that he could reduce the capital expenditure budget by scaling down the scope of imported equipment. Tony also revised the sales forecast by slightly increasing the sales volumes and prices, and rang William from Hong Kong asking whether William would support his revised forecast. William said that, to a large extent, sales revenue would be the result of the capability and effort of the marketing team that did not yet exist. But he also said that such a marketing team could be built. When John finally got a satisfactory financial model and was preparing to present it to the CEO, William told him that he felt that the biggest risk of this project was the fact that both CC and BC had never been in the SD business. But John simply said: "We'll crack it."

So the above change in government regulation drove everybody crazy. For everybody believed that, by capturing the last opportunity of preferential import policy, BC and CC could build the single best SD business in China. Yet, to do so, BC and CC still needed to complete another step.

### **Contract Negotiations and Project Approvals**

According to Lee Walker at the Hong Kong office of BC's legal advisor, BC and CC had to negotiate and sign the *Joint Venture Contract*, the *Articles of Association*, and any ancillary contracts before an application could be made to the approval authorities for establishing the CC-BC joint venture. Although this sounded to be a mammoth task, it turned out to be the opposite.

For a start, most key issues regarding the establishment of the joint venture had already been discussed with consensus reached between the two parties by then. Although CC's negotiators argued for a bigger board of directors perhaps with the intention to generate more positions for them, Mr Chen eventually agreed to BC's proposal that two directors would be from CC and three from BC. At this point, BC's financial advisor gave BC perhaps the most important piece of advice that

management control was more important than board control. As such, BC proposed to CC that chairman and deputy general manager would be from CC, while deputy chairman, general manager and financial controller would be from BC. CC accepted this proposal happily. On the issue of the fiscal year, although BC's norm was 1 April to 31 March, it accepted that the joint venture should follow the Chinese custom, i.e. 1 January to 31 December. On the duration of the venture, both parties easily agreed to fifty years, which would be long enough for most people not to worry about its ultimate fate.

In preparing the *Joint Venture Contract* and the *Articles of Association*, Lee advised Tony that other than containing some additional clauses for procedural matters, the *Articles of Association* would substantially mirror many of the provisions in the *Joint Venture Contract*. He also advised BC that MOFTEC had issued standard-form joint venture contract and articles of association, which did not protect the interests of the foreign party. Nevertheless, as the approving authorities were used to such standard-form contracts, he was to use them as an outline but to write the substance in such a way that would maximally protect BC's interests. Tony was delighted with his thoroughness and reliability. But when Lee provided Tony with a draft contract, which contained a provision requiring the joint venture to allocate no less than 5% of the yearly after-tax profits to the "Reserve Fund", the "Enterprise Expansion Fund", and the "Bonuses and Welfare Fund", he was unhappy. He told Lee that he had never heard of these three funds, which would reduce BC's ability to bring the joint venture's profits back to the UK. Lee then explained that this term was a requirement of Chinese law. However, he suggested that a term specifying a ceiling percentage, i.e. "no more than 10% of the after-tax profits would be allocated", could be added to the contract, which Tony happily accepted and to which CC subsequently showed no objection.

But the single biggest issue surrounding the *Joint Venture Contract* and the *Articles of Association* was concerned with the dilemma between government approval limit and the 1 April deadline. With capital expenditure budget of the project standing at US\$ 18 million, i.e. exceeding the US\$ 10 million limit for the provincial government, the potential joint venture would require MOFTEC approval, which could take several months. BC asked its financial advisor, who had powerful contacts in MOFTEC, for help but the advisor said that he could not get the approval before 1 April because many multinationals were trying to do the same. John then flew EC's legal affairs director to BC's Hong Kong office to discuss with Dr Song who

held an Australian passport. Lee advised EC's director, John and Tony that there had been examples where a big project was divided into two to facilitate approvals. Dr Song confirmed Lee's assessment and also assured BC that so long as the application was made to the provincial government, CC could guarantee that approvals would be obtained before 1 April. They finally decided that they would divide the joint venture into two and apply to the provincial government for approval. Lee then produced two sets of contracts, one for the "glucose" company and the other for the "pharmaceutical" company. On 14 March 1996, BC and CC signed the *Joint Venture Contract*, the *Articles of Association* and the starch purchase contract and a couple of by-products sales contracts for the two joint ventures in Shenzhen, with party secretary of CC's hometown signing as a witness.

Technically, obtaining the necessary Chinese government approvals was the responsibility of the Chinese party, with the details of the approval process generally regarded by Chinese officials as an "internal" matter and therefore not being open to direct intervention or participation by the foreign party. However, Lee advised BC that without a clear conception of the relevant Chinese approval process, and the patience and persistence to follow it each step of the way, the foreign party could be in for some unpleasant surprises. William therefore did some investigations into the approval process and kept in close touch with Mr Zhang.

But what happened in getting the CC-BC joint venture established could be classified as a miracle. Lee re-drafted the LOI that BC and CC signed in November 1995 and advised CC to use the newly signed copy (dated 22 December 1995) as a project proposal. Within two days, CC organised to get the two separate feasibility study reports prepared in Chinese, and after BC's financial advisor symbolically turned a few pages of the two reports, Tony simply signed them. The rest was almost solely the result of the work of Mr Chen and Mr Zhang. On 25 March 1996, the provincial pharmaceutical administration bureau approved the proposal of the "pharmaceutical" company, the State Administration for Industry and Commerce (SAFIC) issued registration notice of name to both the "glucose" and the "pharmaceutical" companies, and the provincial planning commission approved the feasibility study of the "glucose" company. On 26 March, the provincial planning commission approved the feasibility study of the "pharmaceutical" company. On 27 March, the provincial foreign trade and economic co-operation department approved the establishment of both companies, the provincial people's government issued approval certificates, and SAFIC issued business licences. On 28 March, the Tax

Administration Bureau issued tax registration certificates. On 29 March, the Customs Authority issued customs registration certificates.

### **The Happiest Moment for Everybody**

During the “honeymoon” that followed, everybody involved in the CC-BC joint venture project felt a strong sense of achievement. For BC staff, the great risk associated with equipment import that they had taken on well before the formation of the JV had all gone. CC people, on the other hand, were immediately indulged in happy pictures like the prestigious JV status, more jobs and better pay. Mr Chen commented to the local press: “We are delighted to have a genuine Western conglomerate as our partner that will bring in capital and advanced technology to make this project a success.” In EC’s press release, “the Boss” said: “We are impressed with CC’s development record and are convinced that CC is a strong partner, which we can rely on to develop across China.” BC’s financial advisor happily received 1% of the total investment from BC as its commission. The legal advisor of BC had also been paid handsomely by BC.

The formal start-up of the CC-BC JV was marked by the first meeting of the board of directors held at the Shangri-La Hotel in Shanghai on 15 May 1996. The key item on the agenda was to approve nominations from the two parties, including Mr Chen, Mr Zhang, John, Tony and William as directors, Mr Chen and Tony as chairman and deputy chairman respectively, and Mr Zhang as deputy general manager. According to John, William’s responsibility was mainly to co-ordinate partner relationship and to act as a trouble-shooter. Other approvals were BC’s nomination of Victor Lee as financial controller and acting general manager because few applicants in Hong Kong for the job of general manager were willing to be based on the JV site in this remote part of China, and CC’s nomination of Mr Yu as CC’s financial representative in the JV. Tony introduced Victor, informing everyone that he was a Canadian Chinese, could speak Chinese, and had been an accountant at a company in Hong Kong, while Mr Chen confirmed that Mr Yu was an existing deputy chief of the local tax bureau and was to work part-time in the JV. Suggested by Mr Chen, Dr Song was also appointed as advisor to the board. CC also accepted BC’s proposal to appoint an international accounting firm as the auditor of the JV. To show his support for the JV, the CEO of BC attended the lunchtime dinner organised by BC

at the J C Mandarin Hotel. In private, he told William that his purpose of attending this meeting was “get to know Mr Chen” - William thought he was smart!

After the first board meeting, Mr Zhang managed to make the company seal and the financial seal for the JV. Victor and Mr Yu opened a foreign exchange account at a Chinese bank in Zhengzhou and a RMB account at another Chinese bank in the town. Meanwhile, Tony had rapidly developed a very “friendly” relationship with Dr Song “because he could speak English”. He even suggested to John that BC could use Dr Song as BC’s advisor on other joint venture projects by paying him several hundreds of US\$ a month but John was not convinced. As BC was required by law to make at least 15% of its capital contribution within ninety days after the issuance date of the business license, it made its first cash injection into the foreign exchange account on 20 May 1996. But when Tony phoned up Dr Song to remind him that CC needed to do the same, Dr Song said that, instead of injecting cash, CC preferred to contribute its equity by way of opening a Letter of Credit (LOC) to pay for the equipment imported from ES. A LOC would require CC to pay ES in instalments over a period of time. Having consulted BC’s legal advisor in Hong Kong, whose view was that so long as the LOC was secured on CC’s assets the proposal should legally be fine, Tony accepted it.

The groundbreaking of the JV business took place on 6 June 1996. This date was chosen because, according to Mr Zhang, all the numbers associated with the date were lucky numbers in Chinese tradition, with “six” implying “smooth” and “nine” “long-lasting”. Mr Zhang was in a police car with a flashing light and a siren, and led cars containing BC guests to enter the town with hundreds of school pupils standing by the sides of the street with flowers in hands to welcome them. On the site in the suburb, a band played happy, lively music. But halfway through the ceremony, it began raining heavily. The band had to be called off, the speech from the director of the provincial planning commission cut short, and John had to joke that he had brought the rain from the UK. But the ten-meter-long “meg-firecrackers” resisted the rain with fearless bangs. The grand banquet was held at the CC hotel that evening. William accompanied John and Tony to sit at the table with Mr Chen and several provincial officials. One of the junior officials gave face to the director of the planning commission by saying that the director had abandoned his birthday party to attend this banquet. The director then returned face to his subordinates by saying that Mr Chen was an entrepreneur and that his planning commission had an obligation to support Mr Chen’s project. But strangely, Mr Chen then left the dining table silently

and never returned. William later realised that he left because he felt that he had lost face – he was also an official.

To draw the banquet to a close, the director of the planning commission referred to the water melon on the dining table and expressed his good wishes for the JV: “round” implied “satisfactory”, “red” “prosperous”, and “sweet” “harmonious”. They all applauded his wisdom. But, in the absence of Mr Chen, the representative of the Chinese party of the JV, how long could the two partners’ celebration really last, and would the lucky numbers and wishful words indeed bring any luck to the JV? And would the rain “brought” by John from the UK indeed mean anything to the JV, well, according to Chinese *fengshui*?

### **End of the Honeymoon**

Shortly after the groundbreaking ceremony on 6 June 1996, Victor relocated from Hong Kong to the CC Hotel. When he visited the JV site for the first time using a car and its dedicated driver borrowed from CC, he only expected to find where it was. But to his surprise, many people were busy building temporary offices and access roads. One man told him that they had been transferred from CC to the JV. Victor could not believe it, because, according to Tony’s briefing, this was a green-field site project and the JV would publicly recruit staff and workers. He therefore reported the situation to Tony in Hong Kong.

Tony did not arrive at the site until 6 August 1996 because on completing the formation of the CC-BC JV, he had been asked by BC’s headquarters to develop a new JV business in Indonesia. William also flew from the UK to attend his meeting with Mr Chen. At the meeting, Tony frankly pointed out that according to the JV Contract, the JV would publicly recruit staff and workers but he understood that CC had transferred some employees to the JV. Mr Chen confirmed it and said that if Tony felt that the JV did not need these people, he could call them back. Tony quickly reacted by saying that the JV did need some people from CC but he expected the two parties to work as a team and consult and discuss with each other before taking any action. Mr Chen agreed with Tony in principle but added that CC could not wait forever. Tony then got a red face because by then, BC had not assembled an appropriate technical team. William softened the atmosphere by explaining to Mr

Chen that in any case good communication between the two parties would help reduce misunderstandings.

Over dinner at the restaurant in the CC Hotel, Victor talked to Tony and William about how he was doing. As a single man, he found it quite convenient to live in the hotel, but he had also come across some puzzles. As the locals could not understand his Cantonese, he had to rely on an interpreter from CC to find his way around. When they were trying to buy a few chairs from a local shop to set up his office in the hotel, the shop assistant asked Victor: "How much do you want to be written on the receipt?" He was very surprised but replied that she should just write the amount he had to pay. On their way back to the hotel, the interpreter explained to him that since he told the shop assistant that they were buying the chairs "on behalf of the JV", she only meant to be "nice and helpful" to him, and that this was common practice in China. Victor then complained about the local life style. He said that he could not understand why the locals liked to eat raw garlic. "Imagine the smell after they eat it," he laughed. Tony gave him the advice that he had to feel his way through.

After the dinner, William had a walk in the town centre and was attracted to a local restaurant selling his favourite food, noodles. While enjoying his noodles, he had a casual talk with a customer who had a relative working in CC. The old local farmer told him that all the employees in CC had not been paid any bonuses, which were really part of their wages in China, for nearly a year. When William told this story to Tony later on, Tony simply said: "I cannot believe it."

The following week, William left the site and flew to Guangzhou to attend the first technical meeting on 12 August 1996 after the JV was formed. By then, BC had assembled its technical team, which consisted of only one and a half people - David was full time on this project while a process engineer could only spend half of his time on this project because he had to spend the other half on a project in Indonesia. As David already spent twelve hours flying from London to Hong Kong, he requested that the meeting be held in Guangzhou. And they stayed at the famous White Swan Hotel, which cost US\$300 per person per night. In contrast, Mr Zhang brought an interpreter and nine technical people to a meeting room at the White Swan. William was told that as they failed to get enough railway tickets, they actually came in two batches, one spending thirty-six hours on train and the other forty-eight hours on a coach. And it took them two hours in the morning to get to the White Swan Hotel from their hotel, which cost RMB100 (US\$12) per person per night.

There were three items on the agenda, i.e. BC's presentation of its negotiation with ES on imported equipment, CC's presentation of its plan for building the starch plant, and discussion on the plan to build the SD plant. As the imported equipment was something new to Mr Zhang and his staff, they mainly listened to what David had to say. But when David said that five refurbished centrifuges would be supplied by BC through ES, one local technical guy exclaimed that the JV plant would only need three. David explained that as they were second-hand and cheap, it was better to have spare ones. CC raised no further queries. On the second item, Mr Zhang simply said that the starch plant would be built when the SD plant was built. But when David asked him to give some details about their plan, he said: "This is not your business."

They therefore had to move on to the third item. David first expressed his professional view regarding the construction of the SD plant, including preparing a project plan and making joint visits to local suppliers. But Mr Zhang commented emotionally that CC knew how to build a small plant like the SD plant and that, as deputy general manager, he was in charge of the selection of local suppliers because, although being based on site, Victor had language difficulties. In addition, he said he could not wait for David before making any visits to local suppliers. David then got emotional too, with the meeting quickly becoming a chicken-egg argument. William intervened by saying that a JV was like a family, where both parties need to try to understand each other, focus on the shared goals and seek to incorporate each other's contribution. However, Mr Zhang was unwilling to listen to anybody, and they had to end the meeting early.

### **A New Beginning**

When the story of the Guangzhou meeting was reported to John back in the UK, he was very worried. He had thought that after the formation of the JV, CC would stick to the terms of the contract and work together with BC to deliver the business case. But the reality was that CC had a clear desire to control the operation of the JV. After internal discussions, John decided to nominate William as general manager of the JV. Given CC's familiarity with William, they welcomed the appointment, which took effect from 1 September 1996. John also asked William to relocate his family to Zhengzhou but William and his wife could not possibly imagine bringing up their

newborn son there. He therefore relied on intensive trips between the UK and China and constant telephone calls and faxes to run the JV.

Due to his background in China before 1985 and his broadly-based training and experience in the UK, William was able to understand both the Chinese and Western points of view, grasp the key issues and take the appropriate actions. For example, he managed to change the expectations of his BC colleagues by explaining to them the background of China. In late September, he consulted Mr Chen about the candidates for the first ES-sponsored technical meeting in Denmark. He suggested that Mr Zhang plus two other engineers should go, but Mr Chen wanted Mr Zhang, his daughter who was in charge of finance in CC, and a local official to go. Knowing that this was in China, he went along with Mr Chen's opinion. But still, Victor's language inability and Mr Zhang's unwillingness to respect his authority and BC's technical advice remained a source of trouble. For example, Mr Zhang negotiated the preliminary design contract with a local pharmaceutical design institute to the complete exclusion of BC personnel. He only showed William the contract after he got Mr Chen's signature on it. The total value of the contract was RMB 500,000 but the specification of the institute's responsibility was filled in no more than twenty words by hand. When William questioned, Mr Zhang said impatiently: "There is no problem with the contract; Chairman Chen and I guarantee this."

On returning to the UK, William went to see John for advice. After discussing with Tony in Hong Kong over the telephone, John told William that Tony was to withdraw Victor so that he could work with BC's personnel manager to recruit a new financial controller with both Mandarin and English language skills. However, John was not sure what BC could do about Mr Zhang.

William proposed to persuade Mr Chen to replace Mr Zhang with Mr Huang who had been another senior member in Mr Zhang's technical team at the negotiation stage and appeared to be an "experienced gentleman", as David had called him. Through private conversations with CC employees, William had already learnt that after the JV was formed, Mr Huang had been transferred to a CC alliance in another county because Mr Zhang could not get on with him. William had a two-hour teleconference with Mr Chen. He began by talking about the general principles of the JV, including mutual respect, shared goals and co-operation, quoting BC's move to replace Victor with a new financial controller capable of speaking Mandarin. Mr Chen agreed. He then turned to Mr Zhang's unwillingness to co-operate with BC staff and gave him the example of the RMB 500,000 contract with the local pharmaceutical

design institute. Mr Chen said that he did ask Mr Zhang to consult BC's "technical experts" before signing the contract. William finally asked Mr Chen to consider the possibility of using Mr Huang to replace Mr Zhang as deputy general manager. Mr Chen promised that he would do some investigations and give William a confirmation when he came to the JV next time.

Meanwhile, BC's personnel manager contacted a Hong Kong-based international head-hunter, which after three weeks of work came up with several candidates. On William's next trip to China, he and BC's Hong Kong-based financial manager interviewed them in Shanghai. They found that nobody completely met their requirements, but they decided to choose the best candidate Sam Fang. Born in Shanghai, Sam was in his late twenties and had worked for four years in the finance department of a large state-owned enterprise in Shanghai. He gained his Chinese accounting and English language qualifications through self-sponsored studies, which convinced them that he had the right attitude although his English language and accounting skills needed to improve. According to the employment contract, which BC's personnel manager subsequently drew up and which William signed, Sam was to be paid an annual salary of RMB 144,000 in US\$ by BC plus a four-week annual holiday.

After William got to the JV site, Mr Chen told him that he agreed to his suggestion concerning deputy general manager. However, he said that Mr Huang would not be able to join the JV immediately, and suggested that in the interim he could liaise with Mr Yuan - another senior engineer in Mr Zhang's technical team whom William met at the negotiation stage. To make it easier for Mr Yuan to work in the JV, William suggested that Mr Yuan be appointed as assistant general manager. Mr Chen liked the idea. When William told the agreed personnel changes to John and Tony, they both congratulated him. To show his support for William, Mr Chen specially convened a mass meeting at CC's conference hall. Apart from all the JV employees, BC's newly appointed technical specialist Paul also attended the meeting. Paul was single and had been a senior technical manager at BC's starch and glucose subsidiary for many years. He had been encouraged by John to stay on site for as long as possible and for each day spent on site there was a hardship allowance at the rate of £1,000 per month – but as a minimum requirement, he had to stay on site for four weeks before he could return to the UK for a two-week "working break" at BC's headquarters. That evening, Mr Chen asked his office administrator to arrange for William to join him in the dance hall. Mr Chen did not sing or dance, but his

administrator gave him face by telling William that Mr Chen rarely accompanied anybody in the dance hall.

It was in such a harmonious atmosphere that the second board meeting was held at the Holiday Inn in Zhengzhou on 20 November 1996. During the previous evening, John had a private meeting with Mr Chen to try to persuade him to drop Mr Zhang from the board because BC feared that Mr Zhang might continue to cause trouble to William. But Mr Chen plainly told John that BC had no right to intervene in who could be nominated a director from CC. At the board meeting, William reviewed the progress of the project and presented the project plan, the revised budget, the new management structure and financial approval limits of deputy general manager and general manager, which the board approved. The board also set the long-term goals for William: "to build the plant within budget and on schedule, to produce the correct products, to sell all the products, and to generate profits from the sales". As they reached the end of the agenda, Mr Chen suddenly changed the subject, urging BC to inject more cash into the JV. John said that having fulfilled the first instalment, BC only needed to do so if the progress of the project demanded. Mr Chen then asked Mr Zhang to comment. But before Mr Zhang opened his mouth, John and Tony realised that they had to leave the hotel immediately so as to catch a flight from Zhengzhou to Hong Kong. The last-minute decision was for William to work with Sam and Mr Yu to establish the JV's cash requirement before John could decide whether to inject any new cash.

### **Bringing Things under Control**

One of the first things William did after becoming general manager was to develop an understanding of how the JV was doing against the project plan and the budget. According to Mr Zhang, the plant would be commissioned in the summer of 1997 and would cost US\$ 22 million to build and commission. But the US\$ 22 million reforecast project cost was no trivial matter. When William reported it to John, John told him that according to a guideline from the CEO, it would be fine if the project cost exceeded the budget by a small margin but an excess of US\$ 4 million would not be acceptable. John therefore asked him to look into the re-forecast. By the second board meeting, William had established a reforecast of US\$ 20.5m following intensive, challenging meetings involving all relevant personnel. Compared with the

budget of US\$ 18 million, this reforecast consisted of both items worth US\$ 4.3 million that had been completely missed in the budget and savings worth US\$ 1.8 million on items that had been over-budgeted. The former also included equipment items worth about US\$ 1 million that David regarded as locally supplied items in the budget but Paul found had to be imported through an agency of ES in Shanghai.

Meanwhile, it was not until Mr Yuan's appointment as assistant general manager and Paul's arrival that a proper project plan was developed. Mr Yuan pointed out that during the coming wintertime, no more concrete roads could be laid. William also learnt from Paul that it would take at least four months to fabricate the tanks and other large vessels using imported stainless steel and a further four months to install the equipment of all sorts. But by the end of October 1996 they still did not know which companies in China could do the fabrication job. William therefore made the decision that Paul should immediately visit and assess Chinese fabricators with local technical staff. This was why, in his presentation to the second board meeting, the plant commissioning was planned for December 1997.

Following the last-minute resolution of the second board meeting, William began closely working with Sam and Mr Yu to establish the cash flow requirement of the JV. The financial representatives of the two parties had very different working styles: while Sam used spreadsheet on a laptop computer, Mr Yu relied on his judgement and an abacus. Nevertheless, they concluded that the JV did need new cash. By then John had decided to send an accountant from BC's financial advisor in Shanghai to formally verify that CC had made its first instalment of equity contribution in the form of LOC. After "painstaking" investigations, the accountant discovered that CC had indeed opened a LOC in favour of ES for the supply of imported equipment. However, the deed of security for the LOC was in the name of the CC-BC JV. According to Mr Zhang who had a relative working at the local bank branch, "This is normal business practice in China. We are only using the money of the JV to secure the import of equipment for the JV." But in no way BC could and would accept such "normal" practice. Following collective pressure from BC and its legal and financial advisors, the matter was resolved by Mr Chen, Tony and William signing a memorandum on behalf of CC, BC and the JV respectively, which explicitly spelt out CC's sole responsibility for the LOC, and sending it to the local bank branch. Later on, when William met Mr Chen, Mr Chen complained to him: "You British are doctrinaires."

The LOC incident reminded BC of the need to strengthen financial disciplines in the JV. William subsequently asked Sam to conduct an internal audit. Sam discovered that a cash payment of RMB 50,000 had been made to the local pharmaceutical design institute without fully following cashier procedures. William suddenly remembered the RMB 500,000 preliminary design contract that Mr Zhang had signed with this institute. Could this RMB 50,000 be a rebate to Mr Zhang? A more explicit problem was that Mr Yu had signed on the payroll for some months to receive monthly payments on behalf of a few “external consultants” but he could not describe to William what their background was and what they had done for the JV. When William reported this problem to Mr Chen, Mr Chen was not happy and said that what William was doing was hurting his *guanxi*. But still, William made his own decision to cross these “external consultants” off the payroll. A more widespread problem was that many local employees kept on borrowing money from the JV but never submitted their previous expenses/returns to the finance department, with some people’s borrowings being over half-a-year old. In William’s observations, as soon as these people borrowed money from the JV, it became their own because they could always come back with all sorts of receipts – many being fake ones – months later, by which time nobody was able to figure out whether their money-spending story was true or not. William therefore instructed that no new money would be issued to anybody before their previous borrowings were cleared.

Oddly, locally supplied equipment items that arrived first on site were piles of electrical cables, but Paul found that far too much had been ordered. When William asked Mr Zhang who signed the contract when he was deputy general manager, he said that William should talk to the electrical engineer responsible for the specification of the contract. But when William talked to the electrical engineer, he said that everything was done following Mr Zhang’s instructions. In early December, the JV received a fax from an import/export agency in Hong Kong confirming the delivery of imported stainless pipes. These stainless pipes had previously been classified by David as locally supplied items but then re-classified as imported ones by Mr Zhang, who had asked CC’s import/export department to import them. But Paul noticed on the fax that the pipes to be supplied were of a lower grade. William then had to take the case to Mr Chen who summoned Mr Sun, who was head of CC’s import/export department and also deputy director of CC. After listening to everybody, Mr Chen instructed Mr Sun to cancel the contract. But later on, Mr Sun

told William: "You need to be careful of what you do here; or I will get rid of you." When William mentioned this to Mr Chen, Mr Chen said nothing.

On the construction site, the skeleton of the main plant building had been completed. However, according to the civil team leader, information on the foundations for large vessels was yet to be supplied by ES, making construction of many sections of the building unable to progress. William picked up the phone and raised the issue to ES' technical manager in Denmark, who told him that it had already been supplied to the JV. William then asked Mr Feng, the only interpreter of the JV, who led him to one of the work sheds, where he saw piles of documents buried in dirt. How, on earth, could a multimillion-dollar plant be built by using one interpreter to translate all the English documents for all the local staff, thought William? He therefore made an immediate effort to recruit and build a team of interpreters each specialising in a particular area. He also appointed Mr Feng as project manager to co-ordinate the English-Chinese technical interface and to manage the group of interpreters. To ensure that local staff respected Paul's technical authority, William made Paul his technical advisor. Paul also identified that the JV needed the support of expatriate engineers in civil structures, mechanical engineering, electrical and instrumentation, and building services. William therefore began approaching and negotiating with consulting companies in Hong Kong.

Things could get very hectic. On one occasion, William had to fire a driver. After the driver was informed to take some local staff from the site to the CC Hotel where a technical meeting involving experts from ES was being held, he did not turn up on the site because he gave a lift to a friend of his. William warned him but he said that as he was transferred from CC to the JV, William could not fire him. On another occasion, William had to say "no" to a strange girl who came to his office and asked for a job. She showed him a note written by Mr Zhang saying that she was a relative of CC's party secretary and that the JV should help her. On yet a different occasion, an assistant cook told William that he had been diagnosed to have hepatitis and needed to work in purchase. Although the assistant cook did not get a purchase job, the incident reminded William to investigate further into the conduct of the purchase function. And he discovered that spending company money was indeed the "best job" because of "normal" kickbacks involved. He therefore carried out one-to-one discussions and wide consultations among local managers, and developed a document defining responsibilities, authorities and working procedures for them and proposing a bonus system where an employee's monthly bonus would be awarded on

the merit of their performance. After showing the document to Mr Chen who turned the pages forward and backward and signed on the final page, William copied it to all the employees. With people, jobs, performance and pay much better matched, William felt a great sense of control over the JV. And it was time for him to fly back to the UK to celebrate Christmas!

### **The Same New Deputy General Manager**

William had kept in touch with Mr Huang since Mr Chen agreed to his appointment as the new deputy general manager. On his first day of working at the JV after the New Year of 1997, William phoned Mr Huang from the UK. After welcoming him to the JV, William asked Mr Huang to organise technical staff including Paul and Mr Feng to visit local suppliers and fax visit reports to him. He also faxed Mr Huang the board-approved documents defining their respective financial approval limits and managerial responsibilities and authorities. But for three weeks William never received a fax from Mr Huang. So he phoned Mr Huang but Mr Huang simply said, "There aren't any problems to report." William was annoyed by his communication style but then thought that maybe Mr Huang was doing a good job. A couple of days later, Tony rang William from Hong Kong asking William to immediately solve Paul's problem because Paul had reported to him that Mr Huang had disconnected Mr Feng's direct dial telephone line, making it impossible for Paul to ring Mr Feng because CC's telephone operator could not speak English.

William got to the JV site on Wednesday, 12 February 1997 when Mr Huang had not returned from his visits without Paul and Mr Feng. Paul said that after Mr Huang arrived, his life in the JV became almost impossible. Apart from disconnecting Mr Feng's phone line, Mr Huang had brought all the vehicles of the JV, including the car dedicated to Paul and other BC staff, under his direct control and had apparently warned all the drivers that without his approval they should not take anybody to anywhere. Mr Yuan said: "Shortly after Mr Huang arrived, he held a meeting on the site attended by all local employees of the JV. He warned that only he was in a position to communicate with general manager, Paul or other BC staff." Coming from another part of China, Mr Feng told William privately: "When some locals saw me talking to Paul, they called me a traitor." William also talked to a few more local managers but they were reluctant to tell him much.

After Mr Huang returned, William had a meeting with him in his hotel room. Having first introduced his vision of the JV business, William asked Mr Huang why he had disconnected Mr Feng's phone line. Mr Huang said that Chairman Chen wanted him to tighten the use of money in the JV because from the sort of hotels BC staff chose to stay, Chairman Chen felt that BC did not understand product costs very well. William said that he could understand Chairman Chen's point of view but the costs of BC staff's trips had always been covered by BC and therefore what hotels they stayed had nothing to do with product costs of the JV. Mr Huang then said emotionally: "I am your deputy. You must trust me. If you talk anything to anybody else, it means you do not trust me." But no matter how William explained that reporting structure and personal trust were two different issues, Mr Huang insisted that only he should report to William while others should all report to him. William thought, "Oh, God! He is just another Mr Zhang."

In the morning of the following day, William briefly reported Mr Huang's problem to Tony in Hong Kong. Tony reminded William that as he recommended Mr Huang to replace Mr Zhang, whatever the problem he had to solve it himself. William therefore had to see Mr Chen. He told Mr Chen that Mr Huang did not agree with the documents that they had jointly signed defining managers' responsibilities and authorities. He also told Mr Chen that Mr Huang had made the communication between Paul and Mr Feng almost impossible by disconnecting Mr Feng's phone line. Mr Chen smoked as usual while listening patiently to what William had to say. When he finished, Mr Chen asked him, "Do you expect to run a business by relying on a couple of documents?" William said, "No, but it is an important starting point. And once we've all agreed to it, everybody should stick to it." Mr Chen smiled but did not directly comment. After a short contemplation, Mr Chen then said that he was aware that the telephone bills of the JV were very high, and that if William could not effectively control the costs of the JV, he would not be a competent general manager. They carried on discussion on these and other issues but then William realised that he would not be able to win Mr Chen's support on any specific issues because they were entering a clash in philosophy.

The next day, William asked the financial controller to give him an update on the status of the contracts with local equipment suppliers. He was shocked again to discover that Mr Huang had actually signed a few large contracts without consulting Paul and beyond his approval limit. William immediately called Mr Huang to see him. He asked Mr Huang whether he had read the financial approval limits approved at

the second board meeting. Mr Huang said, "I have, but they were not realistic under local circumstances." William asked, "Why?" Mr Huang explained that if he brought Paul along on the trips and sent information to William in the UK, a lot of time would have been wasted. William said that it only took a few minutes to send a fax to him wherever he was and that Paul's participation in the assessment of suppliers was essential. Mr Huang said, "That's not convenient." "Chairman Chen has also told me that Paul is not familiar with local conditions and he wants me to ensure that local equipment is bought at the lowest possible prices," added Mr Huang. William knew that there was no point for him to argue with Mr Huang anymore about the fact that he had overstepped his authority. To William, the situation in the JV had become very serious. He rang Tony in the Hong Kong office but could not get hold of him because he was on a small Indonesian island where there was a telephone line problem. Out of desperation, he phoned John in the UK who decided that the best way to resolve all this was to hold another board meeting and asked William to draft an agenda and fix a date and a venue with Mr Chen for the next board meeting.

The third meeting of the Board of Directors was held at the Palace Hotel in Beijing on 7 March 1997 because, as a representative of the National People's Congress, Mr Chen had to come to Beijing to attend the annual plenary meeting in March. He took two hours off in the afternoon to attend the board meeting. Aside from the time constraint, another bad sign of the meeting to William was that John sent his newly appointed finance director of overseas operations to attend this meeting on his behalf. After Mr Chen opened the meeting, he proposed that Mr Huang and Dr Song be invited, which BC directors accepted without realising that the invited participants would become heroes of the meeting because of one item on the agenda - the issue of the imported equipment.

### **The Issue of the Imported Equipment**

Entering November 1996, the imported equipment items began arriving at Shanghai Port. According to the Joint Venture Contract, it was CC's responsibility to handle customs clearance formalities. Mr Chen asked William to leave the task to Mr Zhang, who then went to Shanghai. A week later, Mr Zhang came back and said that he needed a lot of money from the JV to secure the co-operation of customs officers. He also asked a graduate interpreter newly recruited by CC to take some documents to

Shanghai on his own. A few days later, the interpreter returned crying that he had lost all the documents and his money on the train and that he nearly failed to come home. As the Shanghai Customs Authority refused to issue a new set of documents, Mr Chen decided that the JV would undertake customs clearance with the provincial customs authority in which CC had many contacts.

By the end of December 1996, all the imported equipment items had arrived at Shanghai Port and had subsequently been transported to the JV site thanks to good work of Mr Yuan and Mr Feng. According to Mr Yuan, customs clearance was “very smooth” because, having been well treated at the CC Hotel, officers from the Provincial Customs Authority hardly asked any questions. But the real shock came following the open-box inspection of the Commodity Inspection Bureau, which issued a “Not-Allowed-to-Use Notice” on the two vacuum pans, the three crystallisers and the five centrifuges. William rang up the technical manager at ES in Denmark, who explained that ES had planned to do the final polishing work on the welding spots of the vacuum pans and the bottoms of the crystallisers on the JV site. But then he laughed on the phone, saying that the five centrifuges were what BC wanted. William asked him what he meant. He said William should ask his boss at BC. William phoned Tony in Hong Kong, who told him that John had done a deal with ES on these centrifuges when David negotiated with ES on the contract for the supply of imported equipment, which allowed BC to make £100,000. William instinctively felt that this could be harmful to the JV.

It was in the above backdrop that the third board meeting was held in Beijing on 7 March 1997. After Mr Huang and Dr Song were brought in, Mr Chen said, “Let’s talk about the ES equipment issue.” Tony who was chairing this meeting said with a red face, “Shall we follow the agenda?” Mr Chen said, “Let’s talk about the most important issue,” and asked Mr Huang to comment. Mr Huang looked very angry. After detailing the problems with the vacuum pans and the crystallisers, he said: “The five centrifuges were rubbish. I’ve never seen imported equipment like these. One motor was made in the 1950s according to the assessment of our mechanical specialist but the plate of the motor had been re-painted to cover up the real date. The control panels were the product of 1960s or 1970s.” “I’ve found brand new Chinese-made centrifuges of the same type in China and their price is 20% of that of the imported ones,” said Mr Huang. He further pointed it out that as civil foundations for the vacuum pans and the crystallisers had been completed, ES would have to compensate for the delay in erecting them. At this point, Mr Chen presented cuttings

from local newspapers, reporting how a European equipment supplier had cheated a local company. He added that the incident had begun adversely influencing the reputation of CC because many people knew the involved local company was CC.

Tony then expressed his view. He said that he was very disappointed by the inspection bureau's notice, but ES was to finish the final polishing work on site and the five centrifuges were not supposed to be brand new. Mr Zhang argued: "The refurbished centrifuges should be like the new ones. Otherwise, what's the point of refurbishing them?" Tony did not respond directly to Mr Zhang, saying that in his view, there were two objectives the JV must achieve. One was to clear the bad influence on the reputation of CC, and the other was to ensure that ES would take the responsibility to remedy the quality problems in time and without affecting the target of commissioning the plant by the end of 1997.

At this point, Dr Song joined in and said that he believed that the JV should begin preparing the legal action against ES. He said that whatever happened next, he could not see how ES could escape from the responsibility of financially compensating the JV for the adverse impact the incident had caused on the progress of the JV project and the reputation of CC. He "impressed" every BC director even further by adding that he had brought a lawyer from a Beijing legal practice and that the board could discuss with the lawyer if they wanted to. Then, Mr Chen's secretary came in and said that it was time for Mr Chen to return to his Congress session. The board therefore resolved within the next five minutes that William was to lead the JV team consisting of Dr Song and Mr Huang to negotiate with ES and that after Mr Chen left, others were to remain and discuss with the lawyer.

For William, the meeting with the lawyer and his three BC colleagues was a complete waste of time because he knew that in no way would BC take a legal action against ES. Yet they had to pretend that they were angry about what ES had done and as a result prepared to follow the lawyer's advice. When the meeting was finally over, William felt extremely exhausted because the board meeting not only failed to resolve or even reduce the problems he had already had in his job but also gave him another mammoth problem.

That weekend, William flew back to the UK. On Monday, he immediately got in touch with the manager of ES in charge of the contract with the JV and fixed with him that the negotiation meeting would be held in Zhengzhou on Monday, 31st March 1997. ES sent its technical manager entrusted with commercial authority to attend the meeting, accompanied by a Hong Kong engineer from its Shanghai office.

Although William was the leader of the JV team, he was conscious that he must be very careful of what to say during the negotiation - otherwise his job as general manager would become impossible to do. For example, when Dr Song suggested at the outset that representatives from the inspection bureau should be invited, instead of rejecting his proposal outright William had to persuade him to drop it in private. When the technical manager from ES said that Mr Huang was trying to pick money from his pocket, William had to state his position by saying: "Are you a fool or what?"

On April Fools' Day, agreement was reached between the JV and ES with a memorandum signed. ES agreed to take the two vacuum pans and the three crystallisers to its workshop in Shanghai for complete repair. On the five centrifuges, ES agreed to replace old motors and fan housings with new ones and renew the cabinets of the panels. It was also stated that no agreement had been reached on whether the equipment issue had caused delay in the positioning and installation of vacuum pans and crystallisers and on whether the JV was in a position to claim the associated financial compensation. After receiving a faxed copy of the memorandum, Tony in Hong Kong congratulated William. Four weeks later, ES informed the JV that the repair work on the vacuum pans and the crystallisers had been completed, and advised that the JV should arrange the inspection bureau officials to come to Shanghai to re-inspect them. Both John and Tony were delighted to hear this news, but William knew that he had to see Mr Chen first.

### **Building the Marketing Function**

Shortly after William became general manager, he pointed it out to John that the biggest weakness of the JV lay in the lack of an existing marketing capability and that they needed to make an immediate effort to build it. John, however, held the view that William's immediate priority was to build the plant. Nevertheless, William took the initiative to build the marketing function. For a start, he asked Mr Chen to recommend a few pharmaceutical sales people to join the JV. Mr Chen recommended Mr Dong, husband of his private doctor, who had been a clerk at a state pharmaceutical company. William asked Mr Dong to gather data on local pharmaceutical companies that used SD but three weeks later Mr Dong told William that he did not know their telephone numbers. Disappointed by Mr Dong's

passiveness, William began a new line of effort. With the introduction of JV employees, he met two youngsters who had just graduated from the marketing department of a local university. Two attributes in them made William appoint them as market development representative, each receiving a monthly salary of RMB 1,000. One was that they were very receptive to new ideas and eager to learn from practice, and the other was that they were energetic and efficient. William also appointed two industry experts, whom he met during his visits to China, as his market consultants to provide him with information on industry dynamics, each receiving RMB 200 per month. One was former chief engineer of a Sino-Western pharmaceutical JV in Jiangsu province and the other was former chief engineer of a Shanghai SD factory.

Gradually recognising the significance of building the marketing capability, both John and Mr Chen accepted William's proposal to appoint a deputy general manager - marketing. With the introduction of a friend of his in the UK, William met Mr Zhao on one of his trips to China. Apart from his lack of SD knowledge and experience, Mr Zhao almost had everything the JV needed. He was in his late twenties, handsome, healthy, energetic and outgoing. His undergraduate study was in chemistry and his graduate study in pharmaceutical analysis. He had been manager for two years in the North-eastern sales office of a Western company specialising in distributing Western pharmaceutical products and analytical devices in China. He was also immediately attracted by the career prospect in the JV. He told William that his current salary was RMB 3,000 per month, which was more or less what William expected. William later offered him a contract where he would initially be appointed as marketing manager for six months and if his performance was satisfactory he would be promoted to deputy general manager – marketing with full responsibility and authority for the marketing function. His salary would be RMB 4,500 per month. The principal goal William set for Mr Zhao's first six months was to develop the customer base for SD and to assist him in building the marketing function.

Mr Zhao was competent in doing his job. Aside from telephone surveys, Mr Zhao planned that each member of the marketing team was to cover several provinces, and that they would gather and summarise and compare results once they had completed their visits in a couple of provinces. He also designed a standard checklist so that each of them knew exactly what to ask. In addition, he was going to visit a few nearby customers together with them so as to show them how to communicate with customers. A month later, Mr Zhao faxed William a progress report and his

team's first results, which impressed William. Meanwhile, a Hong Kong-based BC commercial manager and William began making an effort to explore opportunities in the export market. To support their effort, John instructed David to fly from the UK to Singapore to join their meeting with a major international pharmaceutical company that used SD as a feedstock. Following their presentation of EC's strategy in Asia and of the JV, the company told them that it was importing SD from a couple of SD producers in Europe, believing the JV had a geographic advantage.

But Mr Zhao soon reported a problem to William - when he and his team members returned from their trips, Mr Yu refused to clear their expenses against their cash advances. Mr Yu told them that they had overspent against the caps set by CC. William explained to him that as the JV was a new business and the work the marketing team was doing was new, they had to have new rules to cover new circumstances. But Mr Yu refused to co-operate. William finally decided that it was time for him to see Mr Chen to get this issue and indeed others sorted out.

### **The Moment of Truth**

After the third board meeting on 7 March 1997, William complained to John about his failure to attend this meeting and the resultant failure of the meeting to resolve the problems he had got. But given the pressures of overseas operations on him at that time, John kicked back by saying that had William relocated to China after his appointment, there would not have been so many "headaches" because when William returned to the UK he had left a "power vacuum" on the site. Meanwhile, William's frequent business trips to China had put enormous strain on his wife and their little son. William therefore agreed to relocate. John suggested that William's family should be based in Zhengzhou while William argued that Hong Kong would be a more suitable base. They agreed on Shanghai as a compromise. John then told William that as he could eat local Chinese food, his relocation package would not have "Foreign Service Premium" but William argued that being a permanent employee of BC, he should enjoy the same benefits as other BC expatriates. Eventually, John backed down. Their debate also made the CEO issue a new company policy document, which stated that regardless of ethnical origin, every employee of BC should be treated "equally".

Following the negotiation meeting on the imported equipment in early April 1997, William spent a week in Shanghai to look for a suitable apartment for his family. Advised by a representative of the Shanghai office of Hong Kong-based international property agency First Pacific Davies, he chose a three-bedroom modern apartment costing US\$ 3,800 per month excluding utility bills. Work-wise, before he flew back to the UK to relocate his family to Shanghai, he learned from Paul that there was a Chinese fabricator in Shanghai, which had the previous experience of fabricating tanks from thin-sheet stainless steel. Back in February when William organised an invitation-to-bid meeting for the work that was budgeted at RMB 5 million, eight manufacturers in the local region attended. After visiting them, Paul told William that none was technically qualified for the job but Mr Huang and most local technical personnel argued that CC used to fabricate tanks themselves for CC's FI factories and that for the pharmaceutical SD plant any local fabricators should qualify for the job. William trusted Paul's judgement and asked Paul to keep looking for a qualified fabricator. Now that Paul had found a promising fabricator through his contact in a Western engineering company, William asked Paul and Mr Huang to go to Shanghai to assess it. He also told Mr Huang that as soon as he relocated to Shanghai he would hold a special meeting on the JV site to discuss and decide on the contract.

William completed his relocation to Shanghai on 12 May. When he got to the JV site, he learnt that Mr Huang had signed the contract with a local fabricator because he and the local technical staff were all satisfied with a small sample tank it fabricated. He asked Mr Huang what the fabricator was like. Mr Huang said that nobody had actually visited it and that the decision was made on the basis of a small sample tank it produced. William was utterly shocked by what had happened, but he thought that the most urgent thing was to ascertain whether the chosen fabricator was technically qualified. As Paul was back in the UK for a break, William had to organise three local technical people to visit the fabricator with him. After four-hours driving on the rough country roads, they got to the fabricator and William immediately sensed that the JV was in trouble. In the workshop, there were only a handful of basic, poorly maintained machines; the JV's precious, imported stainless steel sheets were scattered around, with the coated surface of many sheets, which one of the technical guys told him was specially applied to prevent acid corrossions, already badly scratched. On their way back, one local technician commented that the factory was certainly poorer than all the other local fabricators he had seen.

William saw Mr Chen two weeks later because Mr Chen was “too busy”, according to his office administrator. He told Mr Chen that ES had completed the repair work and requested the JV to arrange the inspection bureau to carry out the re-inspection, and reminded Mr Chen that the imported equipment issue must immediately be resolved, or the progress of the project would be badly affected. He also informed Mr Chen of Mr Huang’s repeated overstepping of his authority to sign important contracts – in particular the tank fabrication contract – and Mr Yu’s refusal to clear the expense accounts for the marketing team. After listening to William’s account, Mr Chen asked his secretary to get Dr Song and party secretary of CC to join their meeting. She also brought a plate of melon seeds and all but William began cracking them.

Mr Chen first briefly told Dr Song and the party secretary what William had said. Dr Song then looked at William and said, “Don’t you think it’s time for us to take a legal action against ES?” William said, “Our priority should be to resolve the issue as soon as possible and get on with the construction of the plant.” Mr Chen then said, “You cannot do the project.” William said, “What do you mean?” Dr Song responded, “Ten of you cannot match with one Mr Huang.” William said, “Mr Huang has overstepped his authority to sign the contract worth RMB 5 million for the fabrication of tanks with a local fabricator nobody from the JV has even visited. I have visited the fabricator with a few technical people and we all felt that it is going to ruin the precious imported stainless steel materials.” Mr Chen said, “Mr Huang has told me that you and Paul always want to use expensive contractors. If the project is overspent, BC must pay the balance.” William said, “For any contracts, meeting basic technical requirements is the first priority.” Mr Chen then struck the table: “I trust my people. If the fabricated tanks are not usable I will pay for them out of my own pocket.” He also went on expressing his dissatisfaction with William recruiting people from other provinces to work in marketing on the grounds that they cost too much and expressed his support for what Mr Yu had done. Mr Chen’s secretary ended the meeting by saying it was time for dinner.

After William got back to his office in the CC Hotel, he phoned John in the UK reporting that he had had a meeting with Mr Chen but no progress had been made in resolving the three key issues obstructing his job. John told him that BC was organising a review of this project and that in July 1997 a panel of directors would come to the JV from BC’s headquarters to review the situation there. John also advised him that he could discuss the details with them when they arrived.

But soon, William fell very ill because of poor hygiene conditions in the local town and work and family pressures. Work-wise, while he had little control over what was happening in the JV he was expected by John and Tony to deliver the budget. Family-wise, although the apartment he found was one of the best in Shanghai, his wife kept on complaining about almost everything, such as the impure water from the tap, the crowded pedestrians and the polluted air. On 1 July 1997, BC's review panel, consisting of operations director, sales and marketing director, personnel director, finance director and Tony, arrived at the JV. They spent half a day visiting the construction site and talking to various people. William told them that he felt the JV was in a big trouble because the imported equipment issue had produced a conflict of interest and CC clearly wanted to use BC as a bank. Following internal discussions, BC decided to appoint Tony to replace William as the new general manager while retaining William's directorship in the JV.

### **The Future**

During the review of the JV in July, BC and CC also made two joint decisions. One was to suspend civil construction for three months so as to conduct further research of the market for SD. BC's overseas sales and marketing director led the market research. Given the time available, much more comprehensive, detailed hard data had been collected than in Nicholas and William's initial two-week market research. Yet the conclusions were similar. Mr Chen assured BC that he would use his official power to instruct hospitals in his prefecture to buy SD from the JV. The other joint decision was that as CC had been asked by the provincial government to consider taking over Zhongyuan Pharmaceutical Company, China's largest ever pharmaceutical project but which had been closed since 1996, BC was to explore the possibility of any participation in the take-over. Following visits to Zhongyuan, BC's technical specialists made a positive recommendation. But from an "internal report" of a leading Chinese consulting company under the directive of the government, which William obtained from a deputy chief engineer of a Shanghai pharmaceutical design institute that had been involved in designing Zhongyuan, BC could see that whoever took over Zhongyuan was asking for trouble. BC then cooled down and eventually gave up the idea.

In October 1997, the local fabricator delivered its fabricated tanks to the JV, but it was found that they were not to the required standards. Tony eventually resolved the issue by re-importing the required stainless steel materials from Europe at the cost of the JV and by choosing the fabricator in Shanghai to do the job. With respect to the imported equipment issue, the resolution William and his team reached on April Fools' Day of 1997 had indeed proven to be fools' work because the issue did not get resolved until the next April Fools' Day. In early 1998, the governor of the province led a delegation of senior provincial officials to the UK to promote investment opportunities. BC's CEO managed for them to visit the BC headquarters, where the governor was briefed about the fact that the inspection bureau had consistently refused to allow the erection of the imported equipment on the JV site. Then on 1 April 1998, the inspection bureau issued a notice declaring that all the imported equipment items were now qualified for use by the JV. Of course, nobody could fool Mr Chen. Later on, he insisted on not paying the last instalment of CC's LOC worth US\$ 100,000 on the grounds that the five refurbished centrifugal sets had been charged too much by BC. BC could not do anything but to accept what CC wanted to do and settle the outstanding balance with ES.

By 1 April 1998, BC had according to the Joint Venture Contract, i.e. within twenty-four months of the issuance of the business license, injected all US\$ 9.18 million it had subscribed for. Entering June 1998, the JV ran out of money but even the construction of the plant was yet to complete. The JV thus sought to take loans from local banks. Most of the banks refused the applications straightaway while the best chances were that the loans might be offered in a year's time subject to the JV satisfying all the bank's information needs, such as detailed market research reports and convincing financial projections. Given that the JV immediately needed money, BC proposed to increase the equity of the business; but CC responded by saying that it did not have the required cash to maintain its share. BC thus had no option but to increase its equity share in the JV to 57% and subsequently injected an additional US\$ 2.5m.

In July 1998, the police of the local town arrested Mr Huang for soliciting bribes from local equipment suppliers. Another piece of evidence was that while the construction of the SD plant did not progress well, he had used local civil contractors to complete building two new houses for his family. Given the personal ties and Mr Chen's official power, Mr Huang retired with no criminal charges. Mr Chen then appointed Mr Wan, deputy director of one of CC's FI plants, to succeed Mr

Huang as deputy general manager of the JV. Meanwhile, BC realised that it was not an effective, long-term solution to have Tony as general manager of the JV because of his language weakness and high cost. With the introduction of the local general manager at another joint venture in Southern China, John appointed Mr Jiang, an “experienced” director at a state enterprise, as general manager of the JV. Tony was recalled back to the UK as BC’s director of technological development. Two months later, Mr Zhao, deputy general manager - marketing, quit the JV because he had had enough of Mr Jiang’s “bureaucratic state-enterprise style”.

Despite all these dramas, the JV had somehow progressed. Entering 1999, the commissioning of the SD plant began, and this was the time when ES could show off. In January 1999, when two ES engineers travelled in the four-wheel-drive minibus from the JV site to Zhengzhou Airport, one tyre burst. The vehicle made several turns and was only stopped by the steel bars on the edge of the motorway bank. The horrified engineers later recalled that the driver was driving at a very high speed. Paul had successfully managed to continue as BC’s principal engineer on the site, although he found it very difficult to digest local dishes on a daily basis. He therefore relied on biscuits he brought from Hong Kong or bought locally and lost an amazing 25kg over the period – probably a positive thing if seeing from the fact that he had long been over weight.

After the Chinese New Year of 1999, ES declared that the SD plant was ready for commercial production. Yet, the JV had little working capital to keep the plant running and little marketing capability to realise any sales. What was worse, nobody at BC genuinely cared about the JV because of changes in EC’s top management structure. Back in March 1998 when EC’s financial report for the financial year 1997-1998 was released, its turnover dropped for the first time in 1990s by 5.5% and operating profit by 7.6% due mainly to the disappointing performance of investments in Asia. Its joint venture in Indonesia had to be mothballed because of the financial meltdown in the country. In China, the food ingredient joint venture established in May 1995 had also suffered from an oversupply in the market. “The Boss” thus decided not to make further investments in Asia but to consolidate the ones already made, and also relinquished his CEO role to the CEO of BC. Following comprehensive review of its businesses, EC sold its UK starch and glucose subsidiary to a European player in late 2000 and sought to sell its stake in the CC-BC JV to CC but Mr Chen offered an unacceptable price. Following consultation with a consulting

firm, BC decided to withdraw all BC personnel from the JV site, provide the JV with a shareholder's loan, and leave its operation to CC.

After transferring his job as general manager of the JV to Tony in July 1997, William was asked by John to co-ordinate the feasibility study of BC's second food ingredient joint venture in Southern China and to steer its management development work. Later on, William's family base was also changed from Shanghai to Hong Kong. The contract of this new venture was signed on 30 October 1997 and the commissioning of the expanded plant successfully took place on 1 December 1998. But life in China remained an adventure. One day, when William had a shower in an expatriate flat, he was knocked down by carbon monoxide from a fake gas-fired shower unit and only regained consciousness after being taken to a hospital two hours later. In the wave of expatriate redundancies in late 1998, William became a candidate. BC's personnel director flew to Hong Kong and offered him a choice between an expatriate redundancy package and a new start in the UK through re-training. Upon deep reflection, William decided to choose the former because he remained convinced that making a successful investment in China was the most challenging business task in the world but no real effort had been made by anybody to tackle it. He strongly felt that he should be the one to play this role.

But the challenge for William was: how?

**Exhibit:** Maize Starch Products – Processes and Applications

