

TheLINK

CEIBS Alumni Magazine

2006 Summer

A portrait of WU Jinglian, an elderly man with white hair and glasses, smiling. He is wearing a dark blue blazer over a light blue and white striped shirt. A small black microphone is clipped to his shirt.

WU Jinglian

**“My Life is Closely
Connected with
China’s Reform”**

To JV or Not To JV:

How MNCs Choose Local
Partners?

Engaging Leadership:

An Interview with Corporate
Strategist-Henry Mintzberg

Listen, Speak and Think:

How Do We Do Marketing
in B&Q?

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executives
China
savvy?

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Student Perspective

"The CEIBS EMBA programme provides you as an executive with the whole spectrum of knowledge necessary to understand the modern China and international business environment."

Andreas Tschirky (Swiss), EMBA 2005 Intake Head, R&D China of Roche (China) Ltd.

Fast Facts:

- The only B-school in mainland China accredited by EQUIS, European Quality Improvement System
- The first EMBA programme in mainland China, over 3,800 students enrolled since 1995
- Top 10 most international faculty in the world by the *Financial Times*
- The strongest and largest EMBA alumni network in China
- The largest EMBA programme in the world, enrolling 630 students each year
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- 06 English class represents 15 countries in Asia, Europe and America

2007 Shanghai classes will open in March, 2007. For more information about CEIBS EMBA, please contact

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MESSAGE FROM THE EDITOR

“If there’s one economist in China always worth listening to, it’s Wu Jinglian.” This is a statement in an article about China’s economy in *Wall Street Journal* on December 22, 2003. Wu earns him a nickname of “Market Wu” for his role in promoting the market economy in China in the 1980s and 1990s. Today, “Market Wu” becomes “Good Market Wu”. He realises that a market economy is not sufficient for China; on many important occasions, Wu argues for the rule of law to create a “good market economy” and the transformation of government functions to realise the change of economic growth pattern. The “Cover Story” of this issue will go inside Wu, revealing what shapes his personality, perceptions, and thoughts, and how he grows from a naughty boy to the most prominent economist in China.

Indeed, “Market Wu” is not alone in the debate for a good market economy; with and behind him are a number of scholars with the same vision, conscience, and sense of social responsibility, including the renowned economist Xu Xiaonian and law expert Jiang Ping. At the recent “China Policy Initiatives Forum” co-sponsored by CEIBS in Beijing, they echoed Wu’s concerns over China’s economic growth pattern, stressing that China must continue its reform and opening-up and improve its legal environment to build a real socialist market system, where the change of government functions is the key to success. Quoted in this issue are their speeches at the forum.

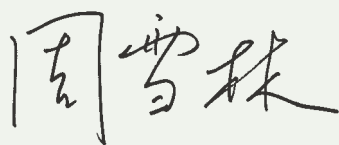
For multinationals, China remains one of the most appealing areas for foreign investment in the world; however, a study shows that over 50% of multinationals are not financially successful in the first five years in the Chinese market. There seems to be a correlation between the financial performance and the entry strategy chosen by the multinationals. To JV or not to JV, this is a question for any multinational planning to enter the Chinese market. Juan Fernandez and Laurie Underwood’s interview with over 20 CEOs of multinationals will provide us innovative ideas and hands-on experiences on the entry strategy and successful operation in China.

The same important is human resource management: companies are increasingly aware that, in a competitive environment, human resource is the only source of sustainable advantage. In this issue, we will introduce the DDI hiring model and HR practices of the Ritz-Carlton Hotel which have helped them excel in the competition.

In “Case Study”, we invite three experts from the industry to explore the challenges facing an IT company in its overseas expansion initiative. The case is more than about project management: it talks about globalisation, or more specially, how Chinese companies can go global successfully.

From this issue we will also add a new column – “Thought Leadership” – to create a platform of open dialogue with the world’s most renowned business thinkers. Our first guest Henry Mintzberg, who is known for provocative and controversial thinking on leadership and MBA education, will examine what it takes to be an effective manager and why an MBA is not necessarily part of that equation.

While most of the articles in this issue are serious in nature, some are amusing and insightful. “No Need to ‘Understand’ Music” and “The Campus Life of Some Entrepreneurs” offer us new perspectives and feelings side by side with great fun and amusement.



Dr. Snow Zhou
Managing Editor

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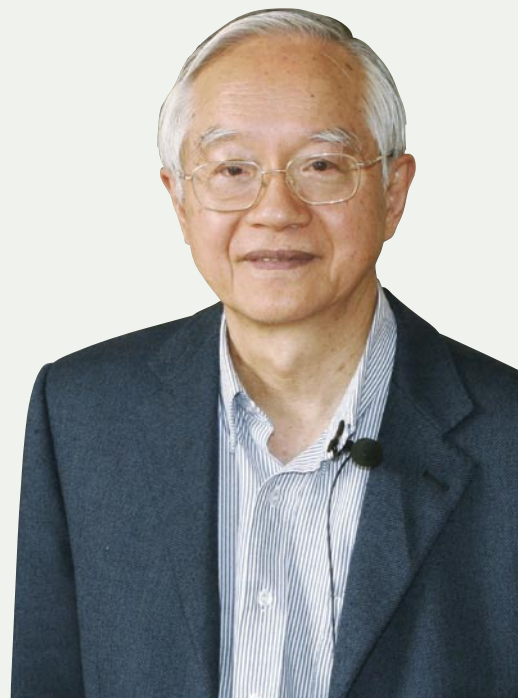
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PEOPLE

“My Life
is
Closely
Connected with
China’s
Reform”



WU Jinglian 08



CREMER'S COLUMN

- 7 “How will the teachers behave when they become students?”

CEIBS KNOWLEDGE

- 16 Setting People Up for Success:
How the Portman Ritz-Carlton
Hotel Gets the Best from Its People?
- 21 To JV or Not To JV: How MNCs
Choose Local Partners?

25 ECONOMIC & FINANCIAL DATA

IN FOCUS

- 26 The 11th Five-Year Programme
and the Change of Growth Pattern
- 29 Broaden and Deepen the Financial
Reform

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- 32 The Construction of China's Legal System in Prospect

THOUGHT LEADERSHIP

- 36 Engaging Leadership: An Interview with Corporate Strategist-Henry Mintzberg

VOICE FROM ENTREPRENEURS

- 40 Listen, Speak and Think: How Do We Do Marketing in B&Q?

EXECUTIVE FORUM

- 45 Better Hires, Less Waste: How HR Can Make a Million Dollar Difference?

CASE STUDY

- 48 The Dilemma of a Project Manager
- 51 No Giving Up, No Gain
- 53 Yida's Difficulty: Problems Beyond Project Management
- 55 Before Going Global

BUSINESS PRACTICE

- 58 Effective Performance Management

SCHOOL UPDATES

- 60 New Appointment
- 61 Spring 2006 CEO Forum: Reinvigorating Talent Management in China



- 62 News Briefing

CEIBS FOUNDATION

- 64 Interview with Mr. Frank Christiaens, MD, Barco China
- 66 Atlas Copco (China) Investment Co., Ltd. joins CEIBS Corporate Sponsor Network
- 66 LVMH Asia Scholarship Laureates Announced
- 67 Carrefour China partners with CEIBS for the Development of Future Talent

ON CAMPUS

- 68 CEIBS EMBA Welcomes New Classes of Shanghai and Shenzhen
- 70 An Ever-lasting Memory: the Journal on CEIBS EMBA's Entry Residency Module
- 72 MBA Activities
- 74 A Pool of Elite with a View Beyond

LIFE STYLE

- 75 No Need to "Understand" Music: On Music Appreciation

ALUMNI ACTIVITY

- 78 The Campus Life of Some Entrepreneurs
- 80 The Alumni Photo Album

WORDS AND THOUGHTS

- 82 A World with Chinese Characters
- 85 A Glimpse at EFMD

NEW BOOKS

- 88 Intellige ut credas
- 89 CEIBS Recommendation

“How will the teachers behave when they become students?”

Dear Alumni

For the past two to three decades, ever since Deng Xiaoping committed China to the “gaige, kaifeng” (reform and opening up) policy, China has absorbed foreign knowledge, technology and know-how.

China has, and continues to receive foreign direct investment, worth hundreds of billions of dollars. In 2005 alone, foreign direct investment totalled US\$ 60 billion.

The number of foreigners visiting China, or working in China, has also increased from an insignificant number in the late 1970s to a huge number of visitors and resident foreigners. In 2005, more than 20 million tourists, plus some 90 million from Hong Kong, Macau and Taiwan visited (mainland) China. The number of foreigners living permanently, i.e. at least a year, in China is about 400,000 - an increase of 100 per cent since the year 2000. These numbers will surely increase further.

In education, China has been importing knowledge. Hundreds of thousands of Chinese students have studied abroad. At the same time, many foreign teachers and professors, either as employees of Chinese schools and universities, or with their own foreign institutions are teaching and researching in China.

All of this means that over the past few decades, China has been absorbing knowledge and know-how from the rest of the world. China has been a learner, a learning society and economy. And foreigners have often been, and see themselves in the role of teachers. This has been a positive and necessary development, which is certain to continue.

But in recent years, the one-way street has become a two-way street. China is no longer only a recipient of foreign direct investment, but has itself become a foreign direct investor internationally. Similarly, China no longer only receives tourists, but the Chinese travel and tour the world in

fast increasing numbers. Last year, 31 million Chinese tourists travelled the world, seven times more than ten years ago. This number will grow to 100 million by 2020. No change in the international tourism industry will be as important as the changing demographic mix of travellers that will result from the demand for international tourism from China. And finally, Chinese scientists and teachers are increasingly going out. They teach and educate abroad about China.

CEIBS is leading in this new era. We are cooperating with some of the best business schools in the world, to take knowledge and understanding of China to foreign countries, and to the headquarters of multinational companies. CEIBS works closely together in joint programmes with Harvard, Wharton, INSEAD, and IESE. For example, we are offering for the first time in 2006 the CEIBS-INSEAD Multinational Management Programme to help Chinese and Asian companies go global. Together with Harvard and IESE, CEIBS offers the Global CEO Programme for China. The number of foreign students who come to CEIBS' MBA and EMBA programmes, is increasing all the time. By September 2006, 70 foreign students will be enrolled in CEIBS' MBA.

With China investing overseas, with Chinese tourists travelling the globe, and with Chinese creativity, science and know-how going global, the old roles of teacher and learner are becoming less clear.



China is no longer just a learning society, importing knowledge and know-how from abroad. And foreign countries are no longer only in the role of teacher. As China is re-emerging as a major power in the world, it naturally aims to be an exporter of knowledge, creativity, business know-how – and of course of culture.

This change is not easy. It means that the former foreign teachers have to become learners, and have to get used to learning from China. It means, more generally, that the rest of the world has to learn and accept that China is an equal partner, a reliable friend, and a formidable competitor.

I am not worried about China being able to fulfil this role well. I am less confident about the rest of the world accepting that there is now an additional, big player, who does not simply follow rules developed earlier, but is shaping new rules for the future.

CEIBS, with its international and Chinese roots and governance, is uniquely well placed as a thought-leader and as a place for learning about this new international business environment with Chinese characteristics.

R. Cremer

Prof. Dr. Rolf D. Cremer
Dean and Vice President



“My Life is Closely Connected with China’s Reform”

--A Brief Biography of Professor Wu Jinglian

By Liu Hong

“If

there’s one economist in China always worth listening to, it’s Wu Jinglian.” This is a statement in an article about China’s economy in *Wall Street Journal* on December 22, 2003. In it, it called Wu “the master diagnostician” of Chinese economic problems. During a series of debates in years 2000 and 2001 over China’s stock market, Wu was dubbed “China’s Greenspan”. But the most widely known title of Wu was “Market Wu”, due to his advocacy on market-oriented reform in the 1980s and 1990s. Some overseas scholars call him “Mr. Market Economy”. For some others, Wu was undoubtedly “Mr. Economic Reform”. In recent years, while Wu has been calling for establishing a good market economy (with the rule

of law), “Market Wu” gradually shifted to “Good Market Wu”. No matter how people keep changing his titles, Wu has always been who he is: steady and calm through all ups and downs, devoting himself to high-impact research, and living a simple life.

In the past two years, China’s reform had reached a critical period with an increasing skepticism and criticism among some scholars and constituencies. However, Wu has been ardent in his stance, using every chance to articulate his idea of a market-oriented economy. Without surprise, he wins the debate with his insights as a visionary thinker, commitment as an economist, loyalty as a Chinese, and conscience as an intellectual. Indeed, the way he has been influencing China in transition already goes beyond what an economist could have done: he has become a public figure in China.

How did Wu Jinglian rise from an intellectual to a prominent economist?

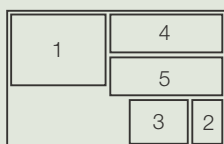
To understand how far one has jour-

neyed, we have to examine where he started.

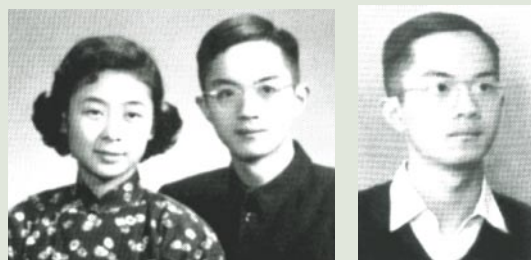
GROWING UP

In January 1930, Wu Jinglian was born in Nanjing. The next year, Wu Zhushi, little Jinglian’s father (co-founder of Xin Min News) died of lung disease. Hence, his main source of family influence came from his mother, Ms. Deng Jixing.

Ms. Deng’s grandfather, Deng Huiji was among the earliest modern industrialists of Sichuan province in the late 19th century. Ms. Deng earned her first degree in law. After graduation, she worked in the Judicial Department, actively involved in the feminist campaign, organising Women’s Association of Cultural Promotion and initiating “No.1 Kindergarten of Nanjing” where she served as headmistress. In 1935, she launched a weekly magazine *New Women* attached to Xin Min News, aspiring to “pull together all strength to rapidly change the world of women”. Later, she resigned her position in the government and registered as a professional lawyer,



1. Young Jinglian's Family:
Back Row (from left to right): Wu's eldest sister, Wu, Wu's second eldest sister
Middle Row: Wu's mother and step-father
Front Row: Wu's niece, daughter of his second eldest sister
2. Graduated from Fudan University in 1954.
3. Married Zhou Nan in 1956.
4. At the wedding ceremony of Wu Xiaolan, the younger daughter, with Wu Xiaolian, the eldest daughter, as the bride's maid, in 1992 in the U.S.A.
5. Accompanied his sisters in a park in 2004.



committed to helping the women under oppression.

In 1937, Ms. Deng joined Xin Min News and took charge of management and finance. The Xin Min News Co., Ltd. was set up since then and further developed into eight regional editions with five chapters after the resistance war against Japan. This was a monumental work in the history of China's news media development. Nonetheless, under the Kuomintang Regime, the idea of maintaining a neutral stand and upholding the freedom of speech as a newspaper for the public was frequently suppressed. The Nanjing branch of Xin Min News was terminated eternally in June, 1948. Ms. Deng had to escape to Hong Kong with her son Jinglian.

In an article commemorating his mother, Wu Jinglian wrote emotionally that his mother "was characterised by entrepreneurship, realistic approach and persistent efforts in pursuing her dream of life. By these, she set a role model and left behind a valuable heritage for us. As her children, if we can imitate her in this

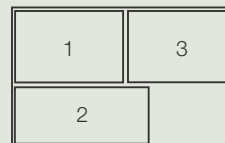
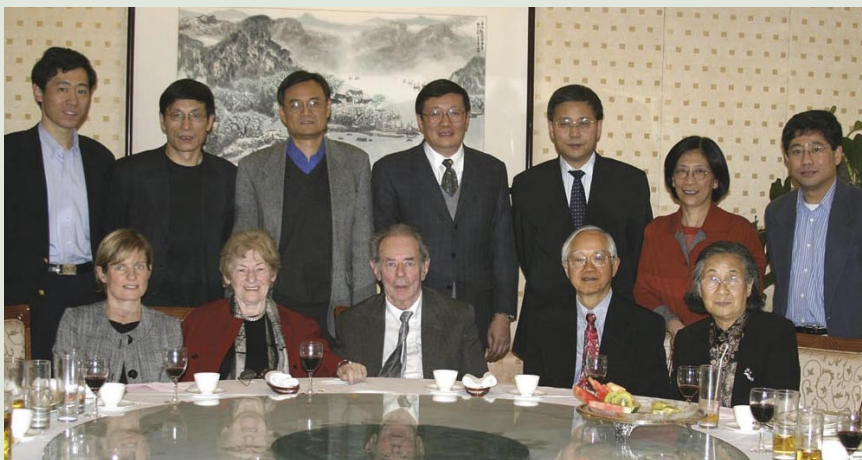
respect so as to contribute a little bit to our country, it will be the best way of remembering her."

During the resistance war, Xin Min News was moved to Chongqing where Jinglian went to Bashu Primary School. The school aimed at establishing a brand-new educational environment and experimenting new ways of primary education; pupils there were encouraged to "use minds as well as hands" so that they might develop "a mind of scientists and hands of labourers". Though occupied by her job, the mother still managed to teach the children to recite ancient poems, take them to factories and mines for visits, and employ private tutors to teach them ancient classics and other subjects. Usually in the morning of the weekends, the children would find that their parents were at work while discussing social affairs in front of all sorts of newspapers spreading over the bed (Ms. Deng Jixing was remarried to Mr. Chen Mingde, a colleague of her former husband, Wu Zhushi).

Young Jinglian was admitted into Nankai Middle School in 1941. The

schoolmaster, Zhang Boling stressed a comprehensive education with character training and morality nurturing as the focus. Nankai was in those days widely known as an "elite" school, but the only feature of the "eliteness" that young Jinglian experienced was none other than rigorous discipline, which was reflected in harsh lifestyle. When Xin Min News was moved to Chengdu in 1943, young Jinglian followed his mother and was transferred into a local middle school, Gaoqi Secondary School, where he and his peers organised a literature society "Jing Jie Society" and published blackboard newspaper and even wrote comments. In 1945, Wu was enrolled by Jinling Middle School attached to Jinling University.

Both Wu's grandfather and mother were convinced that only science and industry could save China. Following their examples, young Jinglian excelled in all subjects of science. Also, he was adept at handiwork and keen on exploring. No watch and clock in his household had been spared from his inquisitive nature: they were all taken apart and put togeth-



1. On Yangtze River during the Bashan Boat Conference in 1985.

From left to right: Xue Muqiao, Ma Hong, Li Kemu, Wu Jinglian

2. At the Birthday Dinner Party on behalf of Professor Wu Jinglian and Professor Janos Kornai.

3. Meeting with Wang Yung-ching (the chairman of the board of Formosa Plastics Corporation, one of the largest plastic manufacturers in the world), in Taiwan, in May 2005.

er again. Hence, everything out of order was handed to him for repair. This became his lifetime hobby. When he was in the “reeducation camp” specifically built for intellectuals during the 1970s, he had worked as plasterer, electrician and carpenter. He had such nimble hands that people often turned to him for help with broken bicycles and radios. After returning home in Beijing from the camp, he even started to assemble a radio from scratch.

However, saving China through science and industry was merely an illusion in China immediately after the resistance war against Japan. He came to realise that the development of science and industry was constrained by the social system and political framework. With a few years’ extensive reading and contemplating, young Jinglian grew politically closer to the Communist, actively taking part in the patriotic and democratic movement. Whole-heartedly accepting what Mao Zedong illustrated in his works about a new China, young Jinglian was anticipating China to be transformed into an ideal socialist society.

SEEKING THE TRUTH

Wu Jinglian went to study in the Department of Economics of Jinling University in 1950, which was later integrated into Fudan University where he eventually graduated with his first degree. Then he was allocated to the Institute of Economics of Chinese Academy of Social Sciences.

Working as an assistant to a renowned expert from the Soviet Union who later became a leading reformist, Wu soon began research on corporate finance. When China initiated the reform of economic management system in 1956, he took part in the investigation into the current system and came to see the incompatibility between actual socialist economic operations and the picture presented by the Soviet Union’s textbooks of politics and economics. The economic management system borrowed from the Soviet Union seemed deficient in nature. Coincidentally, it was the time when many economists of Eastern European countries in the socialist camp raised questions to the traditional socialist economic model. The Chinese economist, Sun Yefang (1908 – 1983), a leading economist

and an architect of China’s modernisation programme, was also attempting to build a neo-socialist economic theory by applying the law of value. Hence, the younger generation of economists was inspired and began to explore the role played by the law of value in the socialist economy. However, the Anti-rightist Movement and the campaign against “Yugoslavian Revisionism” were sweeping over China. Overwhelmed by the conviction that he had to wash away the “original sin” of being a “bourgeois intellectual” and a “democratic revolutionary”, Wu persuaded himself painstakingly that to govern the economy by economic means and to stress the functions of material stimulation and currency supervision was a dangerous capitalist or revisionist thinking, which had to be turned around and put back to the right track. Apart from voluntarily transforming his idea, Wu went further to produce more “leftist” treaties such as “the Transitional Nature of Socialism”, which received positive responses.

Then came the Cultural Revolution, which plunged China’s society into an absurd state and worsened its economy speedily. Under such circumstances, Wu



With CEIBS' MBA students

was getting more and more suspicious towards this movement that he got involved in sincerely and voluntarily. He began a profound reflection on the underlying basis of all those bizarre social phenomena and the historical root of China's economic and political development over the past decades. In the "reeducation camp", Wu became a good friend with Gu Zhun (1915-1974), a leading economist and pioneer of post-Marxist liberalism in China. Together with Gu, he set off on a journey to seek the truth by extensive reading. Wu later commented, "Gu Zhun had a profound influence on me; I should say that it was under his influence that my life journey took a radical turn. His teaching permeates my political orientation, academic view, research attitude and even my lifestyle."

It was the intellectual preparation during this period of time that enabled Wu to write a series of treatises which sharply exposed the "feudal-socialist" and autocratic nature of the leftist, emphasising the importance of developing the commodity economy, the independence of enterprises, and material stimulation and bonus system.

In early 1980s, W. Brus of Poland and O. Sik of Czech both visited China. In their lectures, they brought to China new ideas, experiences and lessons of the Eastern European School of Reform. For the first time, Wu Jinglian learned the methodology and concepts of Comparative Economic Systems (which is now called Comparative Institutional Analysis), but was not satisfied with the answer offered by those

Eastern European economists to the problems of socialist economic system. He insisted that the first and foremost questions be as follows: what were the actual functions of an economic system? What were the metrics to determine whether an economic system was good or bad? On what conditions could an economic system operate effectively? What principles should be followed in selecting and designing a suitable economic system?

In January, 1983, Wu Jinglian went to the Department of Economics and Institution of Social and Policies Studies (ISPS) at Yale University as a visiting scholar, researching the history and current situation of the reform in the Eastern Europe. By then, the academic world in China had been secluded from the international community for a fairly long time and urgently needed to learn from the outside world. Apart from doing research, Wu participated in the seminars of the postgraduates and sat in on the undergraduates' courses, assiduously making up for studies in micro- and macro- economics which he had missed.

This laid a firmer foundation for Wu's research on China's reform of economic system. And he was getting increasingly convinced that the reform should be market-oriented.

In 1990, after an intensive debate of "planned-versus-market economy" in a top meeting, Wu Jinglian was dubbed derogatively "Market Wu" by the adherents of the planned economy. But this nickname

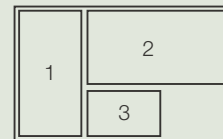
was turned into an honour after Deng Xiaoping's Southern Tour Speech in 1992.

Wu had always been contemplating on the issue of a socialist path. In 1997, he proposed that the Stalinist dogma adopted from the Soviet Union must be abandoned. To re-define socialism was imperative: the socialist system should pursue the goal of common wealth and should be based on dominant position of public ownership in diversified forms with the common development of various other economic sectors; the market economy should be established and improved, but not at the cost of social justice.

Hence, Wu kept analysing and criticising the phenomenon of failing law enforcement, moral degradation and rampant corruption from the rational perspective of an economist. As early as in 1988, Wu and his colleagues introduced into China the theory of "rent-seeking" to uncover the real nature of the corruption as the deal between power and money. In the 1990s, he courageously exposed the misconducts in the securities market where some officials and business people colluded with each other to manipulate the market and cheat medium and small investors.

Based on his ongoing observation and research, Wu Jinglian differentiated among different social groups with different attitudes towards the reform: the first group included those who were more inclined towards the market-oriented reform, for they wanted to build a market economy based on the interest of the general public for the pursuit of social justice and the gradual realisation of common prosperity; the second group consisted of those who favoured the planned economy, for they believed the market economy is of capitalist nature and regarded state ownership as the economic foundation of socialism which should be reinforced but never be weakened; and the last group included those who have taken the advantage of the gaps and loopholes in the dual-track and become the vested group in the "incremental reform". They desired to maintain or even intensify the existing disorder and the extensive administrative invention so that they could continue rent-seeking to make a fortune. Hence, in 1998, Wu Jinglian warned China against the danger of getting stuck in the mire of so-called "crony capitalism". He called for the establishment of a good market economy based upon fair and transparent rules - a market economy with the rule of law.

The social force represented by the



1. Speaking at the China Automotive Industry Forum hosted by CEIBS in November 2005
2. Exchanging ideas with students after class
3. Lecturing in the class at CEIBS

third group was liable to deviate China's market economy from the track of regulation and the rule of law. To safeguard the social justice in this epoch-making transformation, Wu Jinglian strongly suggested on the fundamental role of the government in accelerating political reform, promoting political civilisation, developing democratic politics and constructing a country with the rule of law.

JOURNEYING THROUGH THE REFORM

Reviewing Wu Jinglian's thoughts and ideas throughout the years of reform, one will find a consistent theme with gradual development.

In July, 1984, Wu participated the drafting of the proposal, "Rethinking Socialist Commodity Economy", under the direction by Ma Hong(1920-), a leading economist in China who strongly advocated a micro-reform on state owned enterprises (SOE). This successfully made a new case for the commodity economy, and gained public support

in advance for the Third Plenary Session of the 12th CCCPC (Central Committee of the Communist Party of China), which decided to develop socialist commodity economy as the objective of the reform.

Between April-June, 1986, Wu served as deputy director of the Economic System Reform Programme Design Office of the State Council. During this period, he led a team to draft the first framework for coordinated reforms, which, after amendment and replenishment, was approved by the CCCPC Financial and Economic Leading Group in August, 1986. Although it was not eventually implemented for some reason, it did some ground-breaking work for the reform design and prepared the way for the overall reform launched in 1994.

In April, 1992, Wu presented to the CCCPC a proposal that China's reform take the establishment of a socialist market economy as the objective. With a joint effort by Wu and many other economists and politicians advocating reform, this was officially adopted and defined as the goal of the reform by the 14th National Congress

of the CPC in October of the same year.

During 1992 and 1993, the project team of "Overall Design of the Reform of China's Economic System" conducted an in-depth research under Wu's leadership and drafted an "Overall Design of the Economic System Reform in Short- and Long-Term" together with reform plans in specific areas such as fiscal and taxation system, finance, foreign exchange administration, SOEs, social securities and market system. It provided important reference for the Third Plenary Session of the 14th CCCPC, which finally endorsed the *Decision on Issues Regarding the Establishment of a Socialist Market Economic System*.

In May 1997, Wu led a project team in the Development Research Centre, the State Council, to produce a report titled "Realising Strategic Restructuring of the State Sectors" and submitted it to the CCCPC. Together with it was another report authored by Wu himself – "Promote the Theoretical Innovation of Socialism to A New Level - Regarding the Issues of



1. Visiting the site of the Battle of Waterloo with President Liu Ji of CEIBS, in October 2003.
2. Answering the questions from the media in Shenzhen in 2005.
3. Visiting a private-owned enterprise

Redefining Socialism". Both documents made significant preparation for the theoretical innovation and policy breakthrough in the 15th National Congress of the CPC.

In April, 1998, faced with the severe challenge of large-scale lay-offs in the SOEs, Wu suggested that China should take it as a key strategy to aid and support the development of small- and medium-sized enterprises.

In 1999, Wu was in charge of the project on SOE reform and development sponsored by the Development Research Centre of the State Council, and offered a series of important proposals to the Fourth Plenary Session of the 15th CCCPC. The fundamental ideas such as following the principle of "advancing in some areas and retreating in others" and establishing an effective corporate governance for modern corporations have been written into the *Decisions* of this CCCPC session.

In 2001, Wu co-founded the Research Institute of Laws and Economics with

Professor Jiang Ping. The institute set up a platform for economists, law experts and academics from other disciplines to share and discuss views on China's economic reform.

In 2003, after the SARS epidemic, Wu wrote an essay, calling upon the government to build an open, transparent, accountable and service-oriented administration and stressing the openness of the government affairs and transparency of public information. He also advocated the improvement of self-organising capability of social groups.

During April and May, 2004, after two visits of inspection to Zhejiang, Wu articulated a different voice to the so-called "the era of heavy industries". In his view, resource allocation was over-biased towards heavy industries, because on one hand, the performance evaluation system with the growth of GDP and fiscal income as key indexes put great pressure to regional government officials, and on the other hand, the governments at all levels still tightly controlled the resource al-

location and used huge land and loans to support the projects of heavy industries. The consequences included reduced efficiency, wasted resources, damaged environment, increased financial risks, and more job-losses. Therefore, Wu pleaded with the central government for more attention paid to the issue of economic growth pattern. In the Chinese People's Political Consultative Conference (CPPCC) in March 2005, Wu presented a report, "A Solution Must Be Found to the Path of Industrialisation and Economic Growth Pattern During the 11th Five-Year Plan Period", which gained wide support. Eventually, to change the economic growth pattern was included in the 11th Five-Year Programme as a fundamental national policy.

REALISING THE IDEAL IN EDUCATION

Wu Jinglian holds a professorship at the Institute of Economics in Chinese Academy of Social Sciences, and the Department of Economics at Peking University. He also serves as Professor of

Economics at China Europe International Business School (CEIBS).

The connection between Wu and CEIBS is dated back to the 1980s when he taught and served as a Chinese member in the Academic Committee of China-EU Management Institute (CEMI), the precedent of CEIBS. After CEIBS was officially established in Shanghai in 1994, Wu stayed in the Academic Committee of CEIBS until 2005 and continued to give lectures at CEIBS. In 2002, he accepted a formal invitation from CEIBS and became its full-time professor and the first Baosteel Chair Professor.

China is now on a threshold of modern market economy, which relies on thousands of professional managers for a good operation. For this, Wu Jinglian took his teaching post seriously as a way of realising his ideal in education.

At CEIBS, Professor Wu Jinglian lectures on “China Economy”, using a comparative institutional analysis to interpret the entire process of China’s economic reform and to help the course participants establish a basic framework. In Wu’s logic, there are two wheels on which the history keeps rolling forward: one is technology and the other is institution. In the case of China, the wheel of institution plays a more critical role. The institution here refers to systems at each level, ranging from the system of ownership reform to the organisational structure and compensation scheme of enterprises. The first lecture of his course is always devoted to expounding why economic theories have to be paid much attention. He insists that entrepreneurs need to be equipped with modern economic knowledge to guide their business practices. Moreover, he expects that CEIBS not only produces skillful businessmen but also competent managers with many other qualities, such as business ethics. Teaching promotes learning. As an economist, Wu cherishes his teaching experience as valuable assets.

The year 1998 saw the publishing of Wu Jinglian’s work *China’s Contemporary Economic Reform: Strategies and Practices*. The book was based on his teaching notes of the preceding years. He went on to make great efforts to revise it, both in content and in style. The book was renamed *China’s Contemporary Economic Reform*, and reprinted in 2002. It was so widely applauded that it was awarded the best-seller of economic and

management books of 2004. In the following year, the book’s English version *Understanding and Interpreting Chinese Economic Reform* and traditional Chinese version were published overseas.

At the age of 76, Wu Jinglian is now giving lectures almost tirelessly, including eight hours for four days every week for EMBA programme and eight hours for eight days within three weeks for MBA programme. After class, he is usually surrounded by students who want to have further discussion with him; even in the dining hall, he is never left alone. When night comes upon the serene campus, he often stays in his office and keeps on working. The school is concerned with his health and has, for several times, tried to persuade him to give fewer lectures, but all in vain. He simply carries on, as if nothing could ever exhaust him. His conscientious and meticulous work gained for him twice the Teaching Excellence Awards at CEIBS.

In June of 2004 at CEIBS, the International Academy of Management honoured Wu Jinglian “the Outstanding Achievement Award” to acknowledge his excellent contribution to the field of management. Wu becomes the first Chinese and the first Asian scholar receiving such an honour.

LIFE IS MORE THAN ECONOMICS

The most prominent characteristic of Wu Jinglian is his conscientiousness and meticulousness. As a person with extensive interests, he goes deep into everything that he is fascinated with in a researching manner, which inevitably makes him an expert in many aspects. Unfortunately, his work schedule is getting tighter and forcing out of his life more and more hobbies. His love in classical music started in the 1950s when he joined the Music Appreciation Society at Fudan University. On the arrival of tape recorder in China market during the earlier days of the reform and opening-up, Wu Jinglian paid dearly to buy one, which now looks more like a heavy brick. Later, when FM radio was available, Wu took great troubles to record classical music played in the radio, to make a case for each cassette and finally to compile a catalogue for all his collections. More recently, compact disks were getting more popular, but he did not throw away all those cassettes – they are now well kept in his drawers. Mozart’s piano concertos are his favourites. He enjoys

the brisk, bright and vivacious melodies by Mozart, for they express the musician’s benevolent will towards human kind and profound insights into human nature.

Wu Jinglian has a considerable collection of coins. His fascination with computers made him a real fan: he is among the first group of computer users in China, continuously taking enormous pleasure in upgrading the hardware and software for his PC.

EPILOGUE

On March 24, 2005, Wu Jinglian received the highest award for economics in China, the China Economics Prize, together with other three senior economists. This was the first time that such an award was created in China. In his thank-you speech, he said:

“I take this award as an affirmation and compliment to the group of Chinese economists for their contribution to China’s reform....Chinese economics has been treading an uneven path. It was born in deficiency and brought up in malnutrition. However, even in the days of prevailing evil of the extreme leftist, when the science of economics could hardly survive, those Chinese economists with scientific conscience and sense of responsibility as a Chinese citizen never gave up their efforts.”

He paid special tributes to his precedents, including Sun Yefang, Gu Zhun and Xue Muqiao (1904-2005, a leading economist and a veteran leader on economic affairs in the central government), and expressed his persistent anticipation in the speech:

“There is still a long way for China’s market economy to move towards the rule of law. There shall be no end for the growth and improvement of Chinese economics. It is my wish that all of us working in this field shall support and encourage each other with more sharing and communication such that Chinese economics, as a scientific discipline, will stride forward more steadily in the future!”

To summarise the life and learning of Wu Jinglian, one cannot find a better footnote than his own words, “My life is closely connected with China’s reform.” **TheLINK**

The author is the research assistant of Professor Wu Jinglian and authored a book titled *A Biography of a Contemporary Chinese Economist, Wu Jinglian – His Life and Learning*.

SETTING PEOPLE UP FOR SUCCESS

HOW THE PORTMAN RITZ- CARLTON HOTEL GETS THE BEST FROM ITS PEOPLE



By Arthur Yeung

Prior to 1998, the Portman Hotel in Shanghai was a five-star property much like any other in the city. Employee and guest satisfaction ranged between 70 and 80 percent, and finances were unspectacular. But after Mark DeCocinis and Ritz-Carlton took over management of the hotel in early 1998, employee satisfaction soared, guests were much happier, and finances improved. In just a few years, General Manager DeCocinis and Ritz-Carlton lifted the hotel to a level all its own, using a proven business approach and sound human resource management practices. In recent years, the Portman Ritz-Carlton has won award after award in recognition of its successful formula. For three consecutive years, it was named “Best Employer in Asia” by Hewitt Associates and “Overall Best Business Hotel in Asia” by Bloomberg TV. For the fifth time, it has been selected the “Best Business Hotel in China” by Business Asia magazine. For five consecutive years, its annual employee satisfaction rate has been the highest among all of the Ritz-Carlton’s 59 hotels worldwide, reaching 98 percent last year. And while the staff turnover rate for Asia’s hotel industry is 29 percent, the rate at the Portman Ritz-Carlton is a modest 15 to 16 percent.

In China, where many multinational companies face a constant shortage of talent and high employee turnover, how does the Portman Ritz-Carlton cope with these challenges to ensure sustainable growth? While other multinational companies may find local service attitudes and skills deficient, how is the Portman Ritz-Carlton able to ensure the high quality of guest relations consistent with the hotel chain’s properties elsewhere? What have DeCocinis and his leadership team done to transform an ordinary hotel into one of the Best Employers in Asia, and achieve the highest rate of employee satisfaction among all the Ritz-Carlton hotels worldwide?

In the following interview, Mark DeCocinis, General Manager of the Portman Ritz-Carlton and Regional Vice

MARK DECOCINIS AND PORTMAN RITZ CARLTON

A native of Salerno, Italy, Mark DeCocinis was brought up in the U.S.A. He brings more than 20 years’ hotel experience to his position. He was formerly general manager of the Ritz-Carlton, Aspen, following posts as hotel manager and general manager of The Ritz-Carlton, San Francisco. He has held food and beverage director positions at Ritz-Carlton hotels and resorts in Amelia Island and Naples (Florida) and Boston, Massachusetts, U.S.A. During his 16 years with the company, Mark DeCocinis has been a member of the Ritz-Carlton hotels and resorts pre-opening teams in Asia and U.S.A.

The 578-room Portman Ritz-Carlton, Shanghai is a landmark located in a retail, dining and entertainment complex on the famous Nanjing Road. Under his leadership, DeCocinis has led the Portman Ritz-Carlton to win multiple outstanding awards. In recognition of his contributions to Shanghai’s economic and social development, DeCocinis was made a permanent resident of China this year and honored with the Gold Quality Award by the Shanghai Municipal Government. He also received the “Friendship Award” by the People’s Republic of China in 2004, Shanghai’s prestigious “Magnolia Gold Award” in 2003 and the “Magnolia Silver Award” in July 2001.

The Ritz-Carlton Hotel Company, L.L.C. of Chevy Chase, MD, (U.S.A.) currently operates 59 hotels in the Americas, Europe, Asia, the Middle East and Africa. Over 20 projects are under development around the globe with hotel openings planned for Grand Cayman, Moscow and Beijing over the next year. The Ritz-Carlton, Guangzhou will open 2007, while the Ritz-Carlton, Shenzhen opening is scheduled for 2008. The Ritz-Carlton is the only service company to have twice earned the prestigious Malcolm Baldrige National Quality Award, which recognizes outstanding customer service.

President, Asia-Pacific of the Ritz-Carlton Hotel Company, shares his successful formula with Arthur Yeung, Philips Chair Professor of HRM at CEIBS.

Arthur Yeung: The Portman Ritz-Carlton has been consistently elected the Best Employer in Asia. What’s your secret to success in people management?

Mark DeCocinis: The secret is consistency in execution. Our priority is taking care of our people. We’re in the service business and service comes only from people. It’s about keeping our promise to our employees, and making that an everyday priority. Our promise is to take care of them, trust them, develop them, and provide a happy place for them to work. The key is everyday execution.

AY: How do you know your employees are being taken care of every day?

MD: We look at each other, and we smile at each other. You can feel that people are engaged. In a survey just completed, we scored 98 percent in overall employee satisfaction. For the last five years, we’ve had the highest satisfaction rate of all the Ritz-Carlton properties worldwide in an annual survey.

Of course we have employee issues, but we work together to solve them. We communicate what actions can and are being taken. Most things that cause satisfaction are small and can be corrected every day; for example, does my uniform fit well and is it clean, is the food for employees good, or is the work environment clean and is it representative of the public areas? In our hotel, where we work and where we rest have the same standard as the public areas. That’s what “ladies and gentlemen serving ladies and gentlemen” means to me.

These are little things. For the bigger things, we also communicate so employees understand and we work together to solve them. If it’s a money issue, we work it out, if it’s a construction or purchasing issue, we talk about it.

Employee satisfaction involves trust, communication, involvement, and engagement. There’s also another word we often use: empowerment. We allow them to do what is necessary to take care of customers. We select the best people, we train them, give them the environment to do the job, and allow them freedom to do the job. Everyone feels very good about having

that ownership and that purpose.

AY: The idea is to set up people for success so they have pride in their jobs. But in China, where employees have relatively poor service attitudes and skills, what management practices do you put in place to help them succeed?

MD: The key starts with selecting the right people. Our selection focuses on talent and personal values because these are things that can't be taught. Our culture is special, and we can't expect to bring someone into this culture if they don't have the same values and purpose.

We focus on a person's theme. What do they enjoy? What's their purpose in life? What motivates them? We look for people who genuinely enjoy contact with people and helping others. It's not about being introverted or extroverted, it's about caring for and respecting others. You can work at the front desk or behind the scenes, but you must enjoy contact with others, whether they are guests or other employees.

AY: What's the hiring process to ensure you've selected the right candidate?

MD: Candidates apply for a position and are interviewed by Human Resources. If they pass the interview, the manager interviews the candidate to find out more about their skills, then the Division Head and General Manager will interview the candidate. So it's really a group decision.

The General Manager is involved in the interview process of all employees, to show the importance of that individual to the company. In 99 percent of the cases, I usually agree with the selection decision.

AY: In most companies, the general manager is not involved in the selection of frontline employees. What do you ask during these interviews?

MD: I usually ask them about themselves and try to make a connection. But the important question is: why do you want to join? Whatever they say, the most important notion needs to be "I enjoy working with people" and it's not just using the term "I like people." Do they have a genuine connection with people? And are they fulfilled in making people happy?

I really want to find out what motivates them. If the person smiles naturally,

that's very important to us because this is something you can't force. And if you're happy on the inside, you're happy on the outside. That makes others feel good.

AY: Do you find it difficult to find good people in China? Many executives complain about the talent shortage they face here. Does the Ritz-Carlton experience a similar challenge?

MD: It certainly is a challenge in China. I believe part of it is due to the growth and prosperity of China. For us, there are some positions that are more difficult to fill than others, but I would say that's very rare. Overall, we don't have an issue finding talent. We have a talent bank and have people waiting for positions. We have trainees from universities who work as interns for several months. We also have employees recommend others when we do have openings. So, we're not having difficulty filling positions.

We're very fortunate that our turnover is low. This is partly because we look at it as a long-term relationship and we try to select candidates who also seek a long-term relationship. When someone is applying for a cook's position, I will ask him if he would like to be executive chef someday. You can see from his expression he is thinking, "I can't believe it. I've not even been selected as a cook and I'm being asked if I want to be an executive chef!" If you put that idea in their mind in the beginning, it shows them there is a future for them and that you also see a future for them.

AY: How many people are promoted from within? What's the average tenure of employees here?

MD: Many senior positions are filled from within the hotel or within the company, approximately 70 to 80 percent of the leadership positions. We took over management of the hotel in January 1998 and over 60 percent of the employees have a tenure of more than five years, and over 30 percent have a tenure of eight years or more.

AY: Besides the selection process, what else does the Ritz-Carlton do to motivate its employees to provide excellent service?

MD: We spend two days of orientation with new employees before they come in contact with any guest. They must understand our culture and philosophy. The General Manager, the executive team or

Guidance Team, and HR are all involved. Each of them explains our Credo: we are here to take care of our guests; our Employee Promise: we are here to take care of you; our 20 Basics; and our Motto: we are ladies and gentlemen taking care of ladies and gentlemen.

Then they receive 30 days of training with a certified trainer from the department. Following that, we have reinforcement training on the 21st day and we get feedback on how we can improve our training program for future retraining and recertification. Then throughout the year we provide a minimum of 130 hours of training for every employee, including specific training for their department, training on culture, language, and computer skills.

We also have a daily line-up or briefing for every department that lasts 15 to 20 minutes that starts every shift. Different departments may conduct briefings differently, but one thing that's consistent is the message. We talk about one of the 20 Basics every day and it's the same Basic that's discussed in the line-ups in Ritz-Carlton hotels throughout the world. For example, Basic 11 is "Cleanliness is important to everyone." We all discuss the same Basic with different examples. The Basics remind us of our first day at the company and they are reinforced every day. That's the answer to your first question, how do you maintain consistency?

Communication is important. Having interaction with the manager every day and speaking freely about what we enjoy and how we can improve is important. The General Manager has a breakfast meeting with 10 to 15 employees from different departments once a month. We all speak openly and it's an informal gathering. The purpose is to understand what they're working on and what can be improved, and it's usually very positive. I always learn something from these meetings.

Employees also document mistakes in their department. It's very important that when someone makes a mistake that they identify the mistake so they can take action to resolve it, otherwise the same mistakes may reoccur. So you also recognize people for taking ownership of a problem and being part of the solution.

From the employees' point of view, there's a lot of interaction with the General Manager beginning with the in-

interview. The General Manager's interest in you establishes what is expected of you as you step into your work area. And with the monthly breakfasts and lunches held every month, you feel more relaxed because you already have a relationship with the General Manager and you're just continuing it. There's no fear of reprimand if you say something's not working well. We don't identify a person and say you've done something wrong, we look at it in a positive way.

AY: This clearly requires a lot of effort and energy to apply such employee-centric management practices. This is manageable for the Portman Ritz-Carlton with 750 people, but what about operations with 5,000 or 10,000 people?

MD: If you have a 5,000-person operation, you have to come up with a system to take care of 5,000 people. We don't change our values, philosophy and culture because we want to grow and expand. Can the General Manager be involved in the interview process if you have 5,000 staff? You have to come up with a process and system that expresses that same feeling.

When I joined the hotel, we had just opened the eighth hotel in the United States. We were going to open 18 additional hotels and everyone speculated that the company's personalized service was going to suffer because we were going to lose our values and service. That never happened. Now, the Ritz-Carlton has almost 30,000 employees worldwide.

AY: You start with a philosophy that employee satisfaction leads to guest satisfaction, which in turn leads to good financial results. How do you know such a relationship really exists?

MD: I'll give this hotel as an example. Our employee satisfaction rate is 98 percent. In the last five years, it's been 95, 97, and 98 percent. Our guest satisfaction rate is between 92 and 95 percent. Financially, our year-on-year growth has been 15 to 18 percent. If employee satisfaction were to decrease, I guarantee the other factors would decline. Let's say the employees were happy but the guests were not, that means we are not balanced.

AY: How do you make sure employee satisfaction and engagement lead to customer satisfaction and engagement?

MD: All our performance goals are aligned with our company goal, and

from the company to our hotel, and from the hotel to each division. This means that everyone is part of the whole. Each employee comes up with a plan to reach the goal for the next year, measured by guest satisfaction, financial performance, and employee satisfaction. The bonus at the end of the year is based on improvements. If you improve the numbers, you will be rewarded at the end of the year. This is not the key motivation, but you are rewarded.

AY: If the Ritz-Carlton worldwide adopts the same culture and philosophy, what makes the Portman Ritz-Carlton the best?

MD: It's our priority every day to make sure we're walking the walk, starting with me and the people around me. The General Manager and the executive team are setting an example. People believe what they see, not what is said. I can say "I care about you," but when I look you in the eye and say it, you know I mean it. I listen and take action on what you say and recognize you. Recognition is a very simple thing, it should be personal and individual. If you get to know people as individuals and recognize them the same way as guests, that means more than anything else.

AY: You mentioned the importance of role modeling, starting from the top. Looking back at the last seven or eight years, are there any major incidents that really sent a powerful message to employees that you really care?

MD: During the 2003 SARS crisis, business started to deteriorate. By April, our occupancy rate, which should have been at 85 percent, dropped to 35 percent. We told our employees that this was not caused by us or them. These were factors out of our control. Their first thoughts were, "What's going to happen to me? I have a family to take care of." The first step was that I and the executive team took a 30 percent pay cut, and we asked everyone to work five days a week.

Then it got worse. In May, the occupancy rate was 17 to 18 percent. We reduced the work week to four days, and people were asked to take their outstanding paid leave days. And then, when these reserves were getting used up, that's when everyone really pulled together. Employees who were single gave their shifts to colleagues who had families to support.

We also renewed contracts without a second thought. Some employees were worried that their contracts would not be renewed given the low occupancy rates, but we told them if their performance and behavior were good, of course we would keep them on. Our employee satisfaction rate that year was 99.9 percent. We used to have a high level of trust with employees, but it got even better. This was one of those negative things that turned out to be extremely positive.

AY: When you took over the Portman in late 1997, the number of employees was higher. Can you talk about the transition period?

MD: I arrived three months prior to the January 1, 1998 handover of management. The hotel didn't stop operating, it just changed its name. We had 1,060 employees then, and we wanted to keep everyone. We told them that we're a good company and we take care of people. We would work with them and train them, but we expected them to perform. We were there to take care of each other and our guests, we were not there for individual benefit. But there were a number of employees who were there for their own benefit, they were in business for themselves.

AY: Some of the early employees were there for personal gain. Do you mean integrity problems?

MD: Of course. We didn't select them. Even though people liked what we represented, they didn't have the same intensity, energy, or purpose. We had to find out by working together. We gave



everybody the opportunity, but there are people who don't fit the Ritz-Carlton culture. We had a high turnover the first two years, 20 to 25 percent. Some left and others we let go. We didn't let go of anyone in the first six months because we needed to observe them.

When we took over, there were a lot of people standing around complaining, "The work is hard, we need more people." But in fact, there was a lot of waste in the system. To make things more efficient, we combined jobs, cross-trained and offered better pay.

Employee satisfaction was 71 percent in 1998, and at the end of the first year it was 72 percent. Guest satisfaction was 80 percent. Then we had a complete renovation of the hotel. The first two years was about learning and understanding and about moving forward. By the end of 1999, I realized that we went through the most difficult period. Then things started to turn around.

We noticed that on the employee surveys, about 40 percent were in the middle, they didn't agree or disagree. So we told them, "Look, we're doing our best. We're communicating with you. If we're doing a good job, tell us. If we're not doing a good job, tell us. It doesn't help us if you stay in the middle." They were afraid to tell us we were doing a good job, thinking we might relax but we didn't. That was the breakthrough, and that's when trust was built.

We have 780 employees now. Employees who can do multiple tasks are recognized and rewarded. Through training, you have consistency in the leadership, which improves efficiency. And we pay them well. If you expect your people to be the best, you must pay at the top of the market.

AY: Based on your extensive management experience in many countries, how does talent management in China compare with Ritz-Carlton elsewhere?

MD: People are the same everywhere. Everyone wants to be treated with respect as an individual. You hear this saying: In Asia, people want their boss to tell them what to do. But this isn't true here, not in Japan, not in Korea, not in Indonesia. People have pride and want to express themselves and they want to have the freedom to do their jobs. Everyone wants the support to do their job. That's the best benefit of Ritz-Carlton.

What's the difference between China and other countries? I've opened

many hotels in Asia, but I chose to come to Shanghai because it's such an exciting city and it has such great potential. I've worked with Chinese people before and I admire them. They work very hard, are nice, and have good values. It's in line with our company. Yes, you have to be patient, you have to listen and understand, and believe in relationships. That's your foundation, build the relationship and get understanding first. And when we bring leaders from elsewhere to Shanghai, we have to pick people who can adapt to the culture here.

If you respect someone, you say nice things but also things that help them improve. If you don't care, you wouldn't say anything. Many times we have had employees who say they want to join another company for a higher salary. We will say to them, "Look, I want to make sure this is a good opportunity for you. Have we exhausted all the opportunities for you and can't provide this for you?" I will always ask, "Have you talked with your family?" Many times their family will not want them to leave because they see they are very happy here.

AY: You mentioned that people are similar whether they're from Japan or Indonesia. This observation is different from other expatriates who say you need to pay attention to cross-cultural differences. What are your thoughts on this?

MD: I hate making general statements about people. That's really a mistake. Everyone is different. Of course, the culture representing that country is pretty similar, but to say that Chinese people are like this and Japanese people are like that, these are stereotypes and I don't think it's fair.

But to say expatriates believe this, I have to believe you. I hear that. I always like to focus on the positive and look at people and areas on how they can be part of something good and create something, rather than try to make myself look more important. I think being humble is the best. I've learned so much in the time I've been here and I'm still learning so much. I've received the best education of my life in these eight years. So I think those generalizations are a misconception. We're here as foreigners to share our experience and we bring something good to every country in which we work. But we also learn a

great deal, and that's something that needs to be recognized.

AY: Is it fair to say that in spite of some national differences, Ritz-Carlton selects a certain type of person to fit your company culture and reinforces the company culture so it's consistent worldwide?

MD: Absolutely. Look at the leadership team for all these new hotels. In China we have six other hotels and we have another 10 to 12 hotels opening in the next two to three years. The General Managers will all come from within the Ritz-Carlton because the leadership of the hotel must be someone who understands and has experienced our culture and standards. Some of the senior leadership will come from Ritz-Carlton and some will come from outside the company.

In China alone we'll need 4,000 employees in the next few years, and 95 percent will come from local cities. We'll need 60 General Managers and senior executives or guidance team leaders, and 250 department heads. We don't have that many resources within the company. We'll take people from within the company that are being developed in other hotels in Asia and internationally. It's important to have people who have worked in China and have some language skills, so there'll be a core of people from here, Hong Kong, Singapore, and other parts of Asia. Also, there'll be people from Europe, the Middle East, or United States.

We'll also look at people from other companies. We've had many people approach us already. I feel very good about our people. For all these new hotel openings in the next two years, I've filled over 60 percent of the senior positions. We've filled most of the jobs that are starting next year [2006] and at the beginning of 2007. We've already received many resumes from managers and employees in the cities we're opening, and we've not even started recruitment yet.

I've been going to Beijing for eight years and people who know that we're opening in Beijing are sending me resumes and are saying that we want to join you because of your reputation as the Best Employer and because of your company culture. **TheLINK**

The author is Philips Chair Professor of Human Resource Management at CEIBS.

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To JV, or Not To JV

How MNCs Choose Local Partners?



“In choosing a JV partner, some people may want [first] to make sure the partner has business experience. But if I am the person choosing, trust is very important. This basically means that we can share the same vision. Character is very important — more than business experience. A JV is like a marriage.”

Seiichi Kawasaki, Director and President, Sony China

By Juan A. Fernandez
& Laurie Underwood

STAY SINGLE OR MARRY (TO JV, OR NOT TO JV)?

If your company does have a choice concerning partnering, the first rule in deciding which route to take is: don't rush. So says General Electric China's Steve Schneider. He advises foreign companies entering China first to spend time understanding the business environment. "If you don't know the market, it won't make a bit of difference whether you operate as a JV or WFOE," he says. "The reason we've been pretty successful [in China] is that we spend a tremendous amount of time understanding our customers before we commit anything." Only after clarifying the areas in which your company

may be weak can you determine whether or not a joint venture is the best choice. GE operates 12 JVs and 24 WFOEs in China. In determining which method to adopt, Schneider keeps in mind the three factors he considers responsible for the fact that each of GE's divisions is profitable: understanding the market, controlling costs, and building cost effective facilities.

Another test for whether a JV makes sense for an MNC is the scale of the planned China operations. BP China's Dr. Gary Dirks, who leads 22 JVs and one WFOE, explains how he determines whether or not to form a partnership. "It all depends on the complexity of the [operations] and how it fits into the notion of national interest or provincial interest. For something that is deeply fundamental, with far-reaching consequences, I still feel much better having a Chinese partner." Of BP's large-scale chemical

complex in Shanghai, he says: "Frankly, I wouldn't even conceive doing a project of that scale and of that complexity without a Chinese partner." The domestic partner company, which owns 50% of the venture, helps in handling special interest groups, working with PRC government officials, and providing insight into the market and the industrial environment in Shanghai. For such a massive project, Dirks says, "You just need a Chinese partner."

But smaller-scale ventures, he says, are often best undertaken alone. For example, BP China prefers to operate its LPG terminal and distribution points as independent entities that are managed directly by BP's global operations. For LPG operations, he says, "I would choose 100% owned by us every time. It's so much simpler and so much easier to be on our own. There is nothing a partner could offer strategically to assist in that activity."

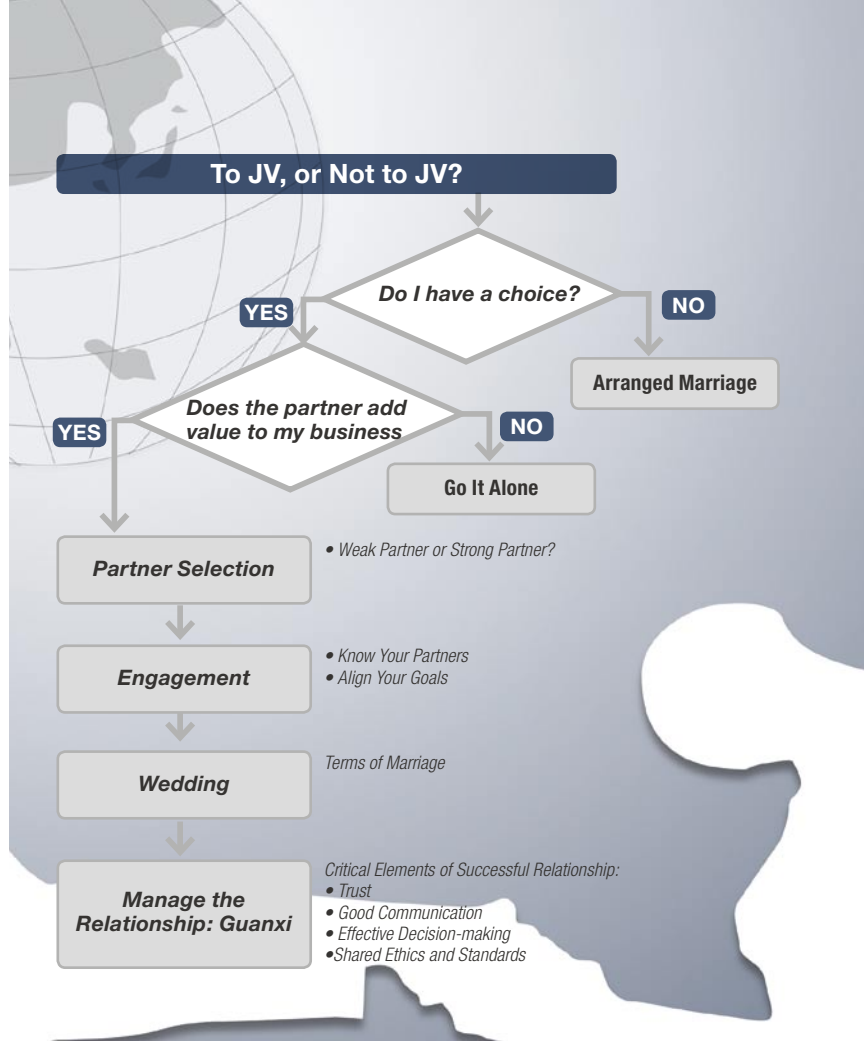
Unilever China's Alan Brown uses a simpler method of determining whether or not to form a joint venture. "If you are working in a highly regulated industry, then JV partners are almost essential," he says. "If you are working in a highly deregulated industry, they can be a damn nuisance."

One helpful characteristic of today's business environment is that many MNCs can now alter the structure of their existing partnerships. International managers advise monitoring regulatory changes constantly to see if you can, and should, adapt your business structure.

A look at Alcatel China illustrates the value of adaptability. One of the first foreign investors to enter China after its economic reforms, ITT (acquired by Alcatel in 1986) began negotiating with the Chinese central government in 1977. Six years later, the company won approval to form one of the earliest foreign-Chinese JVs: Shanghai Bell, minority owned. Today, Alcatel has regrouped the majority of its operations into a company limited by shares, Alcatel Shanghai Bell, in which it owns 50% +1 shares. Ten-year China veteran Dominique de Boisseson says Alcatel's primary strategy is: be adaptable. In some instances, companies still face stiff restrictions. For example, one interviewee explained that for his operations in central China, his company was forced to form a JV with a government-recommended partner. "The government said, 'You either choose this company or forget it,'" the CEO says. "The location wasn't ideal, the partner wasn't ideal, but that was the only chance. We accepted the JV; otherwise, we would have lost the market."

But Alcatel has been able to restructure its operations in China. The company has switched at least one JV to a WFOE and another JV to a company limited by shares. The new structure better suits the telecom business, says de Boisseson. "Before, all the decisions in the JV had to go to the board. It was far too slow, especially for fast-moving products, as they are out of the market in one year. If we lose time, we lose the market."

The overriding advice from our interviewees on JVs is that international managers should assess each China venture case by case against current regulations. In addition, China operations should be reviewed regularly, and perhaps restructured, as regulations are constantly changing.



PARTNER SELECTION, PARTNERSHIP TERMS

If you have decided to (or must) form a joint venture in China, the challenge is to find the perfect partner. As Sony China's Seichi Kawasaki points out, a JV is like a marriage: selecting the right mate is the most important step.

The advice of our international manager interviewees on finding the ideal match can be boiled down to five messages:

- Choose a weak, silent partner, or
- Choose an active, value-added partner
- Know your partner
- Align your goals
- Set the correct "marriage" terms

The process of forming a JV begins by determining which type of partner best suits your needs in China. Our profiled top executives described two ideals: (a) a weak, silent partner that won't interfere with operations; or (b) a stronger, more active company that brings to the venture valuable government-relations savvy, business connections, and/or industry knowledge. Our interviewees were divided on which type makes the best

Chinese JV partner, but the tide seems to be turning away from weak partners toward stronger, value-adding ones.

Finally, a word on the importance of financial health in potential partners: one difference in searching for a JV partner in China is that the criterion of financial strength (or at least financial stability) is not generally considered to be as important as it would be in a developed economy. In China, other qualities are very often more important—and more available. Even so, several interviewees did warn against working with a partner that is in serious financial trouble. They also stressed that MNCs can and should demand to see full financial records of any potential partner.

Strategy #1: Choose a Weak, Silent Partner

From the mid-1980s to the mid-1990s, when most foreign enterprises were forced into JVs, international managers assumed that their Chinese partner could not contribute much to the partnership. Thus, the best match was a company that would at least not hinder business operations.

One option was to form a short-term partnership that could be dissolved after its

initial mission was accomplished. This was the *modus operandi* used by L'Oréal's Paolo Gasparrini in setting up operations in China in 1997. L'Oréal formed a partnership giving 5% ownership to the Suzhou Medical Hospital. Gasparrini says the hospital was "not an active business partner" but did allow L'Oréal to "understand China better" and to acquire some useful relevant expertise (medical information on the characteristics of Chinese skin). After three years, L'Oréal bought back its 5% shares, the JV was dissolved, and both partners had accomplished their goals. Gasparrini sums up the situation this way: while foreign companies entering China in the early 1990s tended to "feel more secure with a JV," such a need is diminishing now. Today, he says, MNCs generally benefit from operating independently.

Other MNCs have maintained long-running partnerships in which the domestic company is not directly involved in the JV business. The Shanghai Hilton, for example, operates with a local partner that owns the property but does not interfere with day-to-day operations. Hotel general manager Volkmar Ruebel says the primary means of communication is via a monthly report issued to the property owners. Only rarely does the Chinese partner want to approve decisions. "The owner trusts us as an international company; we are the custodian of the property," says Ruebel. "It is relatively smooth. We don't have any operating problems." He adds that the partnership gives Hilton "relatively strong autonomy in the way we deal with personnel and quality standards."

Carrefour China's Jean-Luc Chereau also partly attributes the successes of the hypermarket chain to its policy of choosing relatively passive local partners. The company entered China in 1995 and now operates 19 JVs and one WFOE. Chereau oversees local ventures according to Carrefour's corporate-wide policies—some of which have evolved over 40 years of trial and error. During the chain's first 20 years of international operation, Chereau says, Carrefour "made a lot of mistakes" in selecting business partners. In the last 20 years, the company has followed a policy of not "sharing" the management with a local partner. "In China, when we establish a new JV, we share the investment but never the management," he says. "You cannot have two bosses." Even weak partners can bring value to the JV, insists Chereau, who demands several characteristics from the Chinese side, "First, all of our partners in China must have a long-term view. If they just buy shares and sell them within two years, what's the use? Second, the company must have some cash. Third, the company

must have a very good network at local level. To succeed in Shanghai, your partner should be Shanghaiese. To succeed in Guangzhou, your partner should be Cantonese."

(*Note:* In December 2004, WTO-related regulations opened up the retail sector and many aspects of distribution to WFOEs. Despite the fact that relatively few MNCs were approved to enter these sectors during 2005, and many were frustrated by the government's slow approval pace and confusing procedures, retail and distribution are two of the most promising sectors formerly closed to direct foreign investment.)

Strategy #2: Choose an Active, Value-added Partner

Not all MNCs seek meek and mild local partners. In recent years, more MNCs are forming partnerships with active domestic companies that bring real value to the partnership.

A look at the JVs formed by Bayer China illustrates this trend. Company CEO Dr. Elmar Stachels says that in years past, Bayer had little choice but to form JVs with government-selected partners. "The contribution of this partner to us was very often just the land and the building—no real contribution to marketing, services, technology, or production," he says.

Today, Bayer selects its partners according to its own criteria and standards. "We not only look at the activities, assets, and performance of a company, but also at the management, the people," says Stachels. He points out that, in recent years, Bayer has begun recruiting management personnel for the holding company directly from the top executives of its Chinese JVs. Thus, if the management of a potential partner company does not impress Bayer, Stachels keeps looking. Also, following deregulation, Bayer has recently (for many reasons) restructured some of its JVs into WFOEs.

At British Petroleum China, which operates 22 joint ventures, Dr. Gary Dirks looks for JV partners that truly contribute toward the corporate goals. "No matter where you go in the world, the key to success for partnerships is the alignment of your strategic interests, your ability to maintain the alignment over a significant period of time, and making sure your partner can contribute to those strategic interests. If both parties are perceived to be contributing as well as expected, then it can go very well."

Dirks rejects the JV model based on a say-nothing, do-nothing Chinese part-

ner. "Where you tend to have problems is when there is a perception on the Chinese partner's side that their contribution ends the day the JV is formed—you contribute your technology and your know-how and the Chinese partner just sits around."

Today, companies that do form JVs advise looking for partners that offer these benefits: skill at negotiating with the Chinese government, business connections, insight into the local business culture and environment, an established workforce and operations, or a strong existing client base.

Our interviewees explained that many Chinese partners can offer real value to a JV. Thus, if you are going to form a partnership, it is possible—and often beneficial—to demand that the local company contribute toward your goals.

Strategy #3: Know Your Partner

No matter what type of partner an MNC is seeking, it is critical to fully assess potential partners before committing. International managers warn that while MNCs often face pressure to establish in China quickly, spending more time upfront can help to avoid serious trouble later. Says GE's Steve Schneider: "Part of the learning I would offer for folks coming in [to China] and setting up JVs is: spend a tremendous amount of time getting to know your partner first. It's better than any due diligence on the financial records."

Charles Browne of Du Pont China gives similar advice. "The key for a successful JV is that you spend a lot of time in partner selection," he says. "Some companies rushed in and picked what was available without doing enough research about the value of the partner—whether their interests are aligned with yours, what they can contribute to the JV. We put a lot of time in partner selection to make sure the values are there."

Knowing your partner entails reviewing detailed information and records, making site visits to see the operations and facilities first-hand, and spending time gathering impressions from industry insiders.

Strategy #4: Align Your Goals

International managers warn that many JVs fail because they fall victim to the Chinese idiom, "same bed, different dreams," which refers to a husband and wife with divergent hopes and ambitions. Du Pont's Charles Browne says that many failed JVs are victims of "split vision"

between partners—for example, if the MNC's primary objective is to build market share for its goods within China, but the domestic partner expects to focus on overseas sales. Browne has seen several of Du Pont's China ventures end in failure. "In many cases, the major reason was that we had different interests and different ways of doing business," he says.

Most problems that arise are innocent misunderstandings rather than malicious efforts to cheat an MNC, stresses Ekkehard Rathgeber of Bertelsmann Direct Group Asia. "Ninety percent of [Chinese] JV partners are very serious with their time," he says. Still, problems arise simply because the two partners have "very different targets, different ideas, and different mindsets," he says. As an example of the gap, Rathgeber explains that while many MNCs focus their operational goals tightly on profits, the Chinese partner may place a higher priority on other goals, such as impressing government officials by adopting

advanced technology. Problems can also arise when the MNC introduces the Chinese partner company to operating procedures used globally. One common rough spot: the domestic partner may balk at the salaries offered to foreign managers in China. Working through such issues can be extremely time-consuming, Rathgeber warns.

Strategy #5: Set the Correct "Marriage" Terms

Setting the best terms of the partnership is, of course, extremely important in alleviating problems once the joint venture starts operating. During negotiations, both sides typically struggle to obtain the largest percentage of ownership possible, and to protect their rights while limiting their obligations. Our international managers offered several bits of advice on surviving this process in China.

Microsoft China's Jun Tang, who oversees two JVs and one WFOE, advises establishing the JV as an entirely new

entity. "If you do want to set up a JV, it is better to start from scratch," he says. Starting from zero allows both partners to adopt a new mindset, rather than continuing operations according to established methods. For example, in staffing, both partners can choose key personnel to send to the new company. This avoids a mindset of "outsiders" and "insiders"; everyone is an outsider in the new venture. "With a new entity, you can create a new culture, a new business model, a new atmosphere," Tang says. "To change an existing organization is very difficult. That is why we see a lot of JVs fail." Tang insists on establishing a new company even if nearly all members of the partner companies are hired into it.

One rule of thumb which attorney Norman Givant of Fresh-fields Bruckhaus Deringer shares with international clients in China: steer clear of 50-50 joint ventures. "That just builds gridlock into the structure," he says. Unless regulations require 50% Chinese ownership, Givant encourages MNCs to demand a majority share.

Givant also advises considering alternatives to straight joint venture models, as more options are opening for MNCs as regulations liberalize. Givant expects MNCs to undergo more mergers and acquisitions in the future as foreign companies take equity interest or procure stakes in listed Chinese companies, or buy companies outright. He also predicts that foreign companies will become more active in China's financial markets as regulations are liberalized. "You will see a growing sophistication both in terms of acquisition and participation in financial markets," he says.

Meanwhile, two of our international managers mentioned the benefits of establishing as a joint stock company (or "company limited by shares") in which the Chinese partner company is given a minority interest in the company. This allows the MNC to retain management control. Both Unilever and Alcatel have used such a method. Regulations were changed in 1994 to allow MNCs to register as joint stock companies, although relatively few have been approved. [TheLINK](#)

Juan A. Fernandez is Professor of Management at CEIBS. Laurie Underwood is CEIBS MBA02 alumna and now working as Director of Communications & Publications Department in American Chamber of Commerce in Shanghai. The article is an excerpt from *China CEO*, Chapter 3, "Working with Business Partners".

For managers taking up an assignment in China-or those overseeing the transfer of staff to China- *China CEO* is essential reading.

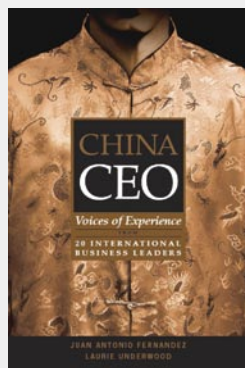
The authors interviewed 20 international business leaders working in China to learn how they work in this challenging business environment. These executives were from major companies like Airbus, Coca Cola, General Motors, Microsoft, Sony and Unilever. Each business leader revealed how he deals with crucial issues, like:

- What skills are needed to manage business operations in China today?
- What is the secret to forming successful joint ventures or business partnerships?
- How can companies attract China's newly demanding and fickle consumers?
- How can international executives and their families lead a satisfying life in China?

China CEO summarises the experiences, anecdotes and advice of these experienced and successful business leaders. The result is a collection of first-hand, battlefield-tested insights on how to lead the China operations of a multinational company. The advice and strategies focus on two main

themes: maximising the opportunities, and overcoming the challenges inherent in the business environment of China.

The book prescribes the essential qualities needed to succeed in China and is full of sound tips for success. Apart from covering extensive topics including managing Chinese employees, working with local business partners, facing competitors, battling intellectual property rights infringers, winning over Chinese consumers, and negotiating with the Chinese government, the book also explains the steps that companies can take to ensure that both the expatriate professional and his or her family members adjust well to life in China.



The book has sold more than 8,000

copies and aroused great interests from corporations and academia since its release in late February 2006 and was rated "Book of the Month" for March in bookstores in Hong Kong (the Hong Kong Airport HBS store), Singapore (Borders and Kinokuniya), Malaysia (Borders), Indonesia (Kinokuniya) and Thailand (Kinokuniya). This spring, the book has been released in mainland China.

Economic & Financial Data

MACROECONOMICS

National Economy Indicators	range	accumulated
GDP(RMB 100 million)	2005 Q1	37,957
	2006 Q1	43,313
Investment in fixed assets (RMB 100 million)	2005 Q1	9,037
	2006 Q1	11,608
Current account (USD 100 million)	2005 Q1	166
	2006 Q1	231
National Economy Indicators	range	year-on -year growth
GDP growth	2005 Q4	9.9%
	2006 Q1	10.2%
Fix assets investment growth	2005 Q4	27.2%
	2006 Q1	29.8%
Price Index	Range	average
CPI	2005 Q4	101.4
	2006 Q1	101.2
PPI	2005 Q4	103.5
	2006 Q1	102.9

FINANCIAL DATA

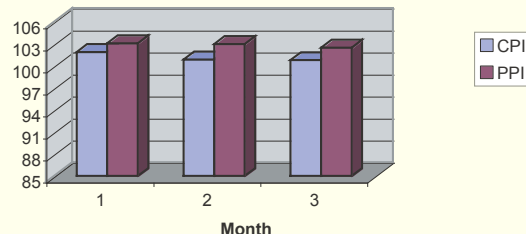
Currency	range	balance
M0 (RMB 100 million)	2005 Q4	24,032
	2006 Q1	23,472
M1(RMB 100 million)	2005 Q4	107,279
	2006 Q1	106,737
M2 (RMB 100 million)	2005 Q4	298,755
	2006 Q1	310,491
Stock Market	range	average
Shanghai Stock Exchange Composite Index	2005 Q4	1118
	2006 Q1	1279
Shenzhen Stock Exchange Composite Subindex	2005 Q4	2734
	2006 Q1	3297
SSE 50	2005 Q4	768
	2006 Q1	875
SSE 180	2005 Q4	2095
	2006 Q1	2400

ENERGY and HOT INDUSTRIES

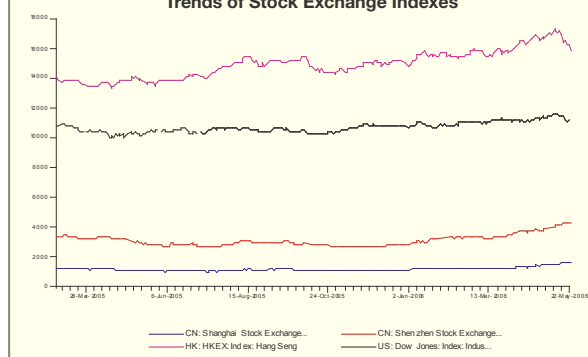
Oil	range	dollar/barrel (average)
West Texus(WTI)	2005 Q4	60.3
	2006 Q1	62.9
Brent Crude Oil	2005 Q4	57.1
	2006 Q1	61.3
Real estate	range	average
Shanghai Real Estate Composite Index (China)	2005 Q4	1401
	2006 Q1	1335

Data source:DRCNET, www.valuer.org.cn/index.php3, CEIC.
Compiled by CEIBS Library.

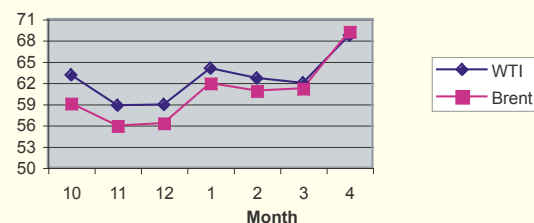
CPI vs. PPI



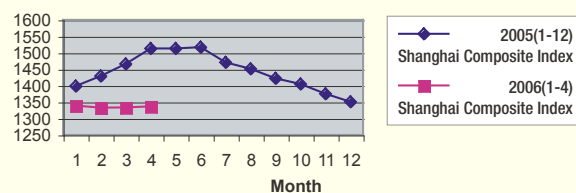
Trends of Stock Exchange Indexes



Trends of International Crude Oil



Trends of China Real Estate Shanghai Composite Index



Policy Initiatives and Implications of 11th Five-Year Programme

On April 6, 2006, the Delegation of the European Commission to China and Mongolia and the China Europe International Business School (CEIBS) present "China 2006: Policy Initiatives and Implications" co-sponsored by *China Daily's* CEO Roundtable and the *Wall Street Journal Asia*.

CEIBS, known for its leading industry forums and events, again leads in the awareness on major policies and issues affecting the country. This time, this forum looks at the newly approved 11th Five-Year Programme of the China's National People's Congress (NPC). Three of the country's outstanding economic and law scholars from CEIBS presented their outlook on the implications of this new programme.



The 11th Five-Year Programme and the Change of Growth Pattern

By Wu Jinglian

The 11th Five-Year Programme endorsed by the recent plenary session of the National People's Congress (NPC) in March catches the world's attention by its clear-cut message: China decides to change its economic development from extensive growth to intensive growth.

The new programme has several important features, among which the most important three are as follows: The first is the paradigm shift from "plan" to "programme". The word "plan" that has been used over the last few decades is adopted from the former Soviet Union. It refers, in essence, to the command economy under which resources were allocated through administrative means and orders. In 2000, China declared the establishment of a market economy, but without any fundamental

changes in the way the government controls economy. Now, the Chinese government announces its decision to adopt a new approach to economic management for next five years (2006-2010), involving how the government will guide the economic development in a market economy. The transition from "plan" to "programme" is more than a change of word; rather, it signals a fundamental transformation of the government functions. In each of the past five-year plans, there was a series of imperative in-



next five years is the change of the growth pattern: from extensive growth that relies mainly on input of resources to intensive growth that is supported by improvement of efficiency.

NECESSITY OF A CHANGE IN THE GROWTH PATTERN

Ever since the first Five-Year Plan in 1953, China had copied the model of former Soviet Union to realise its industrialisation and modernisation. The Soviet model had two important features: First, the economic growth was pulled by investment and input of resources; and second, the priority was given to the development of heavy industry. Such an extensive growth pattern had given rise to a confluence of economic and social problems, especially the catastrophe of the “Great Leap Forward” movement since 1958.

As early as in the mid-1950s, Chinese leaders became aware that such a road would bring about severe economic and social problems, but little could have been done to change the direction until 1976 when the “Cultural Revolution” was put to an end. Only then was the central leadership determined to heal the wounds and attempted to rectify the road. As a consequence, China’s economic structure was readjusted twice, respectively in 1979 and 1981. The key to both readjustments was to restore agriculture, light industry and service sector that were damaged in the preceding decades. Soon afterwards, it was proposed that the growth pattern be changed, which was especially verbalised in the 9th Five-Year Plan that the extensive growth would be replaced with intensive growth. Unfortunately, the prior efforts did not turn out to be effective, because they were only corrective measures dealing with the distortion of industrial and consumption structure, which was the result of the old growth pattern, or the old road of industrialisation. However, the root of the problem remained intact. In other words, the problems of the old road of industrialisation or old growth pattern had not been addressed.

Another main reason for the incomplete change of the growth pattern was that the heritage from the old system and the old road of industrialisation was still inhibiting the progress; governments at all levels went back to the old track spontaneously in dealing with economic issues. To conclude, (1) The power of resource allocation was still in the tight control of governments at all lev-

els; (2) The GDP growth was still used as a key index of performance evaluation for government officials; (3) The fiscal revenue of governments at all levels came mainly from production-based VAT, both of which were directly connected with the production value; and (4) the factor price was seriously distorted. In a planned economy, the factor price was set by administrative organs as low as possible, including salary, loans and natural resources. The situation remained unchanged even after 2000. During the 10th Five-Year Plan period (2001-2005), in particular, some of the problems were aggravated instead of being eradicated. For example, due to the accelerating urbanisation, a huge amount of land resource fell into the hand of the governments at all levels for arbitrary allocation.

On the other hand, the development of the market economy increasingly required the government to provide a healthy legal environment. But in reality, efforts in legislation and socio-political reform lagged behind. A natural consequence was that many of the economic contracts could not be performed. As governments at all levels played an important role in protecting the security of businesses and ensuring the performance of contracts, some businesses colluded with or even bribed the local officials for their own gains.

Given the realities, the growth pattern problem has become more acute during the past five years.

During the 10th Five-Year Plan period (2001-2005), all regions vied with one another in increasing the growth rate through huge input of capital and resources, which gave rise to a new round of overheated economy in China since the fourth quarter of 2003. Admittedly, all the negative impacts of this overheat were caused by the reinforcement of the old growth pattern. The comparative advantage of China lies in the abundant human resource, whereas our natural and capital resources are in severe short supply, not to mention a very vulnerable eco-system. However, our resources were not allocated in accordance with the comparative advantage, but were rather invested to develop capital-intensive heavy and chemical industries, causing serious deterioration of the environment and the shortage of resources. The most prominent problems were as follows: (1) Improvement of economic efficiency was sacrificed as the weakness was fully exposed while the strength was not given a play; (2) There was a grave shortage of coal, electricity, petroleum and other re-

dexes, whereas the number of restrictive indexes has been greatly reduced in the new five-year programme. In the chapter titled “Objectives of Economic Development”, the programme puts forward 22 numerical criteria, among which only 8 are restrictive, or obligatory for governments at all levels to achieve, and the rest are all anticipative, pointing out the direction to head for. On top of that, the programme demonstrates the resolution of the Chinese government to implement a major change in the way it manages the economy.

The second is the notion of scientific development, calling for a balanced and coordinated growth between industry and agriculture, between economy and society, and between human and nature. An important element of this harmonious growth is the change of the growth pattern.

The last is the emphasis on promoting development through reform.

A central theme running through the

sources, and a great tension in transportation; (3) The ecological environment was damaged; (4) The unemployment problem was worsening; (5) The development of the service sector was inhibited; and (6) Long-term and short-term financial problems were invoked.

In the last two years of 2004 and 2005, the government was fighting bitterly with various socio-economic problems brought about by the old growth pattern. The economic overheat and the subsequent quench gave us a good lesson. Just pointed out by President Hu Jintao, also Secretary General of the Central Committee of the Communist Party of China (CPC), should we fail to change the growth pattern fundamentally, we would eventually use up all our resources and destroy our ecological environment; then we would be too shamed to face our people, our history and the coming generations.

Behind all these economic consequences are not only short-term risks, such as distortion of investment and consumption structure and problems of resources and environment, but also long-term risks - under the law of decreasing investment returns, investment efficiency keeps declining, and excessive investment relies solely on bank loans, exposing the banking and financial systems to a financial crisis following an accumulation of huge non-performing assets. Especially given the fact that the transition period of China's accession to WTO is coming to close by the end of this year, Chinese enterprises will be facing intensive global competition, and if they and the Chinese economy fail to improve efficiency, grave problems are almost inevitable. Not only China itself will be affected, and eventually, the global economy will suffer.

In the recent two years, a debate has been going on in the academic community as well as among practitioners. Through a comprehensive retrospective review of the history and theories of China's economic development, most people have come to a practical consensus. It has not been easy to arrive at such a consensus, given that, for many years in the past, China has long been under the influence of the Soviet Union and the so-called Stalinist Socialist Road to Industrialisation. This school of thought has been regarded as the orthodoxy of economics, or Marxist economics. Through serious and extensive discussions in the past two years, most people have recognised that it is an out-dated theory mirroring the earlier growth pattern of the

leading industrialised countries from the late 18th century to the late 19th century. This obsolete theory has been criticised thoroughly by modern economics, and some of the early industrialised countries have shifted to modern growth pattern as early as in the late 19th century, relying primarily on technology development and efficiency enhancement. The shift was realised through a series of measures and means: the first was the wide application of science and technology; the second was the fast growth of the service sector, especially of the production-based service sector; and the third was the information-alisation that had helped the post-industrialised countries improve the national economy and efficiency.

MEANS OF REALISING A PARADIGM SHIFT IN GROWTH PATTERN

Based on the historical experiences, the 11th Five-Year Programme identifies the strategic focuses for next five years, and maps out the four basic means to realise the shift in the growth pattern. The first is to enhance the capacity of proprietary innovation to "build an innovation-oriented country" in the words of President Hu Jintao. The second is to develop advanced manufacturing and to upgrade the Chinese manufacturing industry through optimising the industrial structure and adding the knowledge content in products. The third is to speed up the development of the service sector, especially the production-based service. The last is to push forward the construction of the new countryside in the process of urbanisation.

The means to realise the change of the growth pattern is feasible in theory and practical from the experience of other modern economies. However, the anticipated change requires the support of a viable economic system that can only be built through reform.

No matter from what perspective, the key to the success is the establishment of a viable system that can facilitate the change. Take for instance the advance of science and technology. The notion was put forward as early as in the mid-1950s, calling for more efforts in technological advance and innovation. But under the old system, these goals were difficult to attain, because we had adopted from the former Soviet Union a set of bureaucratic systems of education, science, and R&D at the cost of academic prosperity and technological

advance. To reverse the situation, a key challenge is to form an independent and self-disciplined science community and an incentive system with scientific discovery priority as the core. With regard to technology, the most important thing is to create a healthy environment of market competition and a sound system of intellectual property rights protection such that innovators can gain real benefits. As for the development of the service sector, a good legal environment has to be created to effectively protect intellectual property rights and ensure the performance of contract.

It is an imperative to remove all the structural barriers to realise the change of the growth pattern. At the Third Plenary Session of the 16th National Congress, the Central Committee of the CPC approved the decision on improving the socialist market economic system. The decision developed an overall programme to further advance the newly established market system, covering the areas of enterprises reform, financial reform and socio-political reform. However, the implementation of the decision has met with great resistance. On one hand, the newly established market system is not without deficiencies, and as a result, many social and economic problems have arisen during the process. On the other hand, a few followers of the old system have tried to take advantage of these problems to ignite an anti-reform emotion. This leads to a heated debate over the market-oriented reform in the past two years.

The debate was put to an end at the plenary session of the NPC this year when the Chinese leadership expressed explicitly its strong support for the reform. When joining the discussion of the Shanghai delegation on March 3, President Hu Jintao pointed out that the socialist modernisation must be pushed forward from a new historical height, and that the socialist market system must be improved through further reform and opening up, allowing the market to play a fundamental role in resource allocation. At a press conference on March 14, Premier Wen Jiabao echoed President Hu's determination, emphasising that the reform and opening up must be carried out unwaveringly, and that the path of socialism with Chinese characteristics must never fall back regardless of difficulties and setbacks.

Therefore, a key issue in the next five years is the deepening of the reform and improvement of the market

and legal systems, which in turn is conditional on the improvement of economic environment and social-political system, and more importantly on the change of government functions. Many of the difficulties in the change of the growth pattern can be attributed to the governments at all levels who are managing lots of things that they should not manage and are not capable of managing well. Consequently, a huge amount of resources are invested to increase the growth rate of GDP at the cost of economic efficiency and environment. On the other hand, the governments have failed to take the due responsibility for what they should be responsible, for example, the creation of a sound legal environment. As early as in 1997, the 15th National Congress of the CPC proposed that we build a socialist country with the rule of law; but not enough efforts have been done in creating a sound legal environment and ensuring the justice in law enforcement. In the end, intellectual property rights were inadequately protected, and the service sector was underdeveloped due to lack of a necessary legal environment. To conclude, it is the government that determines whether the market system based on the rule of law can be improved. It should stop muddling with things beyond its responsibilities and capacities, and focus on what it should take due care but have failed to manage well, including providing a healthy legal environment, maintaining the stability of macro-economy, delivering public service products, like obligatory education, and building a basic social security network, etc. The genuine change of government functions involves the integration of these two aspects. Once it is done, we can secure a healthy institutional environment, and subsequent change of the growth pattern. This is nevertheless a daunting task that is often accompanied by misery and resistance; it takes great courage and wisdom for anyone in the world to revolutionise him- or herself. However, no matter how difficult the task will be, we must work together to materialise the change of government functions and to improve the market economic system for a long-term and sustainable development of China's economy. **TheLINK**

The author is Baosteel Chair Professor of Economics at CEIBS. This article is based on the speech delivered by Prof. Wu Jinglian on April 6 at the forum, "China 2006: Policy Initiatives and Implications". The original version is in Chinese and has been approved by the author.

Broaden and Deepen the Financial Reform



By Xu Xiaonian

China is reaching a critical pass, after over two decades of reform and opening-up, in the development of social, economic, political, and legal systems.

The past few years have seen increasing debate over the economic reform. There are basically two camps. The first camp argues that China is not yet a country with mature socialist market economy, and its economic reform is still under the way. Consequently, the government continues to play an

important role side by side with the market in resource allocation, while the dual-track system formed in the past is yet to be fully changed. Given the co-existence of the market and the government in resource allocation, a cascade of problems have been incurred, such as ecological degradation, decline of overall economic efficiency, waste of resources, sacrifice of minority groups' interests, and social injustice. To a large extent, these problems arise simply because the past reform has not been full and thorough. However, there is another camp that tends to put the blame on the reform and opening-up itself, citing the prevailing economic and social problems to underlie their

suspicion of the validity of the policy.

The recent plenary session of the National People's Congress (NPC) held in March has provided a periodic conclusion to the dispute: China's economy can only develop through the reform and opening-up, and so can China's modernisation. Very likely, the significance of the NPC's plenary session will not be fully understood until years after. In the government work report endorsed by the NPC on March 5th, Premier Wen Jiabao unequivocally pronounced that, to attain the development goal of the new stage, the reform must be deepened and the opening-up must be broadened in an all-round way. He also added that the economic reform must be pushed forward along with the reforms of political, cultural and social management systems, making the opening-up a key driver of the reform and development. Premier Wen's speech has provided a clear-cut direction for China's future policies and development. In discussing the means of further reform and opening-up, he emphasised that the administrative reform must be stepped up, and the government functions must be further transformed, pushing forward the separation between ownership and management, and reduction and regulation of administrative licenses and approvals. This implies that anything that should not be undertaken by the government must be given to the hands of the market, businesses, social organisations, and intermediaries. In other words, the government should have its hands off from anything that can be handled by the market. When it specifically comes to finance, an important sector of China's economy, how shall we understand the essence of the plenary session of the NPC? How can we further deepen the reform and broaden the opening-up? As a scholar, I would like to share with you some of my views.

THE NECESSITY OF BROADENING AND DEEPENING THE FINANCIAL REFORM

China's economy is bound to be affected if the financial sector remains unreformed. One major reason for low efficiency of China's traditional growth pattern and waste of resources is the distortion of factor price which is directly related to the financial system. The price of financial capital has long been artificially kept on a low level, resulting in huge capital waste and low capital productivity.

The ultimate goal of financial reform

is to serve real economy. It is of little value to focus on the number or market cap of listed companies, or the stock index; what is significant is the extent to which China's financial system serves its national economy and sustains the development of its real economy. Such a concept needs to be firmly established in academic research, policy formulation and practices. When we are talking about financial reform, we quite often forget what the ultimate goal of this reform is. We take it for granted that the financial reform aims to create a booming and mature financial sector and financial market. However, a healthy and prosperous financial sector is the means, with the development of real economy being the ends. In a market economy, or in any economy, real economy is the major force of value creation, whereas the financial sector is merely a reflection of the value of real economy.

To support and promote the development of real economy, the financial system must be able to accurately price financial assets. Only with accurate price signals, can the market mechanism effectively allocate resources and can the economic entities reasonably leverage and allocate capital. The pricing in this sense has dual implications, including pricing for revenues and pricing for risks of financial assets.

Apart from serving real economy, the financial system has an important role to reduce risks of the financial sector and to maintain the stability of finance and economy.

FOUR SPECIFIC OBJECTIVES OF THE FINANCIAL REFORM

Based on the ultimate goal, we have identified four specific objectives of the financial reform.

First and foremost, the financial reform should aim to build properly-behaved financial institutions that are profit- rather than policy-oriented organisations with the constraint of hard budget. Only with hard budget, can financial institutions develop an ability to identify and manage risks. We have seen too many examples in the banking sector or the securities market: huge losses were incurred by poor risk management. When the budget is soft, there is no hard measurement of the performance of financial institutions, and it is the government who eventually pays the bill for any loss. Under this system, problems are al-

most inevitable when financial institutions have no incentive to identify and manage risks. Apart from the ability to identify and control risks, properly-behaved financial institutions should also develop an ability to innovate to meet the demand for diversified financial products.

The second objective of the reform is to establish a financial market with considerable scale, depth and high efficiency. Such a market should be able to offer a wide spectrum of products with diversified participants. Only by meeting these requirements, is the market able to accurately price financial assets, send accurate price signals to the society, and guide the society to allocate resources effectively.

The third objective is to build an independent and effective financial regulatory system. Presently, the financial regulatory system in China is not independent, but affiliated to the government. Consequently, it is burdened by numerous social targets, serving as a government tool of policy implementation, rather than an effective means of market regulation. To improve regulatory efficiency, the regulatory system must be independent from the administrative system and subjects of regulation. Without independence, justice will be hampered and regulatory efficiency will be reduced. An independent financial regulatory system should operate by the law and for the law instead of by administrative orders. The practitioners of the regulatory system should be professionals in the market, rather than government officials and public servants.

The fourth objective is to develop a rational investor group. Without this element, the healthy development of the financial system is built on the sand. The rational investor group refers to those who, as investors, have a sound understanding of their rights and the access to information, and who, as shareholders, are endowed with right to vote and all other rights stipulated by the company charter. However, guaranteed return on investment is excluded from their rights; no investors have the right to require anyone, including the government, to warrant their returns on investment. Protecting investors' interests does not equal to guaranteeing their returns on investment. These are two different concepts. A rational investor enjoys the potential benefits and takes the potential risks simultaneously. Additionally, a rational investor should develop the concept of value investing, rather than follow the trend or pure speculation.

The financial reform has numerous objectives, but the above four are among the most important ones.

HOW TO REALISE THE OBJECTIVES?

How can we realise the objectives of the financial reform? Premier Wen has offered a solution in his words: “Anything that should not be undertaken by the government should be given to the hands of the market, businesses, social organisations, and intermediaries.” Guided by this principle, we need to further lower the ratio of state ownership in the financial sector. In SOEs where the government is the major shareholder, the incentive for profit-making is insufficient, with the profit goal giving away to social goals. Also, fiscal and financial organisations are often mixed with each other under the state ownership, constituting the primary source of soft budget constraint in financial institutions. Corporate governance is another serious problem when the state remains the overwhelming majority shareholder. Therefore, the split-share reform is more than necessary, which should be carried out unswervingly. Equally problematic, the remuneration for employees at the state-owned financial institutions is not based on the market but on the package for public servants. Last but not the least, state ownership also gives rise to inequality, as the state-owned financial institutions have a natural advantage over private institutions in information, capital, policy and regulation.

Therefore, the government must withdraw from the financial sector to realise the reform objectives. It has been proved by global experiences that state-owned financial institutions are not likely to secure a sustainable development. Be they commercial banks, securities companies or insurance companies, financial institutions with genuine global competitiveness and sustainability are unexceptionally private-owned. In the case of China, it is imperative for the government to deepen the financial reform and to further reduce the proportion of state ownership. The existing state-owned or state-controlled financial institutions need to be privatised. If privatisation has to take long, they should at least be freed from policy tasks, with profit-maximisation as the top priority. In the meantime, their operation and management should be marketised, recruiting the management and employees from the market with a market compensation scheme.

Another important measure of the reform is to deregulate the financial trading and remove the approval system, endowing businesses with the right to issue stocks and bonds. At present, companies need to have the prior approval of the competent authority before they issue stocks and bonds. The approval system has been replaced by the filing system, which in many cases is the approval system de facto. The quota system for corporate bonds should be removed immediately; in the meantime, the price regulation over loans, stocks and bonds should be lifted gradually. The market should be open to develop a diversified body in the market, and the banking, securities and insurance sectors should be open to domestic private capital. Simultaneously, financial legislation should be accelerated to legalise the private placements, private equities, and underground money houses that have been active in the financial market. With laws in place, the government can better regulate.

In addition to withdrawing from financial institutions, the government should stop using public resources to rescue financial institutions. Instead, it should formulate legal procedures so that the rescuing efforts could resort to legal actions, not to officials’ will powers. Which financial institutions should or should not be rescued? How should the rescue be conducted? What procedures should be employed? All these issues should be included in the legislation. Moreover, the government should stop all sorts of administrative measures to rescue the securities market, and resolutely leave both prices and indexes to the market.

BROADEN FINANCIAL OPENING-UP

There is a tendency in China to contradict financial opening-up with financial safety. However, we must recognise that the major factors jeopardising China’s financial stability and safety are from inside, rather than from outside. In a basically self-closed market with virtually no foreign capital, our commercial banks have accumulated trillions of non-performing assets; over half of the securities companies are plagued by liquidity problem; the trust sector is still in a predicament in spite of several straightening-out efforts; and the reform of urban and rural credit cooperatives is in exploration and experimentation. All

these realities demonstrate unequivocally that we haven’t done a satisfying job of a thorough reform. The root cause for financial risks is the lack of incentive and ability for financial institutions to identify and control risks. To ensure the nation’s financial safety and stability, the top priority is to develop or to reform a group of financial institutions into properly-behaved organisations, capable of identifying and managing risks and able to compete with foreign counterparts. This is the fundamental strategy to safeguard our financial safety.

The ultimate goal of financial development is to offer a diversified portfolio of low-cost financial products for businesses, institutions and individuals to promote national economic development and to enhance people’s living standard. Therefore, whether a financial institution is foreign-owned or Chinese-owned is always secondary. The introduction of strategic foreign investors helps break the existing interest structure, and improve the corporate governance of financial institutions. Additionally, it reinforces the profit-seeking motivation, enhances the ability to identify and manage risks, and promotes innovation in products and services. Such a reform direction should be maintained, instead of being halted or even reversed.

How shall we increase the scale and depth of foreign investment? First of all, the upper limit of shareholding by foreign investors should be lifted gradually. Second, joint venture securities companies should be reopened. Third, foreign invested institutions should be allowed to be engaged in stock and bond rating business in China.

To conclude, the government must pull out from the financial industry as soon as possible. However, as Rome was not built in a day, the four objectives are not to be realised overnight. The reform takes enduring and assiduous efforts. But as a scholar, I feel obligated to contribute to the discussion and help form a consensus in the society. When rational policy and market expectations are built, our financial reform will move on smoothly. [TheLINK](#)

The author is Professor of Economics and Finance at CEIBS. The article is based on the speech by Prof. Xu on April 6th at the forum “China 2006: Policy Initiatives and Implications”. The original version is in Chinese and has been reviewed and approved by the author.



The Construction of China's Legal System in Prospect

Given the tremendous achievements made by China's reform and opening-up nearly three decades in the past, we are ever more confident that the legal system construction in China will maintain its momentum in the following five years despite potential setbacks.

By Jiang Ping

According to the 11th Five-Year Programme endorsed in March by the plenary sessions of the National People's Congress (NPC), we can anticipate that in the next five years China's legal system will be developing in the following lines.

First and foremost, a goal has been set that a socialist legal framework will be instituted or at least initially established before 2010. This requires a certain quantity of legislations. Judging from the current pace, we can expect that most blank spots in our legal system will be removed before 2010, with the exception of a few basic laws, the formulation of which might be delayed for various reasons.

With the increase of the quantity of legislations, the quality problem is getting increasingly acute. The revision of the existing laws, especially the laws involving the market economy, has become a significant part of the legislation. The majority of the laws were formulated in the 1990s, or following Deng Xiaoping's "Southern Tour Speech". The Company Law, for example, was adopted in 1993, together with the Securities Law and many others during the same period. After over a decade of socio-economic development, the contents of these laws can no longer be adapted to the new legal environment, or meet the new demands of the market economy. Admittedly, major changes need to be made in laws every ten years or so in China. Only when laws are continuously updated to reflect and be adapted to new developments, can the quality of legislation be continuously improved. Similarly, only when there is a certain quantity, or a considerable number of laws that can follow the pace and meet the demands of the reform and opening-up, can we claim that China's legal system construction is successful.

Another problem plaguing China's legal system construction at the moment is the contradiction and gap between legislation and law enforcement. Although such a gap can be found in any country – if the law is 100% enforced, the legislation itself will become redundant – it is particularly prominent in China. With the increase of the quantity and improvement of quality of legislation, the gap in law enforcement is expanding. The level of law enforcement is relatively low, be-

cause on one hand, many laws are merely principles with low operationality, and on the other hand, there is strong local protectionism in many places. Aware of the problem, the government and the NPC Standing Committee are reinforcing the legislation review; legislators at all levels are constantly exercising supervision and examination, and submitting reports on some key laws for resolutions and measures of improvement. A typical example is environment protection. The Environment Protection Law has prescribed a number of rules – though not very specific and with a need for further improvement -- which are hardly taken seriously as a law for implementation. In the same way, there are laws and regulations regarding safety in production, but they fail to be enforced to the letter. How can we strengthen the supervision over law enforcement? This is becoming a pressing issue that demands our due attention in the future.

Second, from the perspective of legislation procedure, an increasing number of legislations are directly linked with the public interest, making legislation itself increasingly sensitive. Since different interest groups and individuals have different demands, the law cannot possibly meet all the demands simultaneously. In the next five years, legislation surrounding market economy will inevitably involve more and more conflicts among different interest groups. Therefore, legislators need to be more democratic in legislation so that the demands and conflicts of diverse market entities can be taken into account. It requires that legislators openly solicit public opinions and listen to people from all social walks and from different interest groups. The Property Rights Law, for example, received over 10,000 responses when it solicited public opinions. This showed that the public was developing a strong sense of rights and the rule of law. Among the public feedback, there were pros and cons, and some of the opinions were very sharp. This, on one hand, allowed the legislators to take in views from all sides, and on the other hand, posed a big challenge to balance different interests.

In the next five years, more legislations will be enacted to protect the disadvantaged, such as the Social Securities Law, Labour Contract Law and Compulsory Education Law, etc. Different voices can be heard, for example, on the exposure draft of the revised Labour Contract Law. Some argue that the amendments

should be biased towards the employees. Admittedly, the protection for the interests of the employees should be reinforced; however, an over-biased law will lead to another extreme. A similar situation can be found in the public debate over the Bankruptcy Law: if too many assets are taken for the employees' social securities after an enterprise goes bankrupt, banks are likely to refuse to grant loans for lack of warrant. The measurement is always a difficult issue even from the perspective of social equilibrium. In this sense, how to balance various interests of different interest groups is indeed an overwhelming challenge.

In the meantime, the amendment of the Taxation Law should be increased in the next five years. China has begun to levy consumption tax on luxury goods, but more demands have been made to strengthen this practice. The problem of income tax has been partly solved. But whether or not to levy property tax, including inheritance tax, still remains unsettled and invokes extensive debate.

Third, the legal system of a market economy needs not only to balance the interests of different groups, but also to establish a healthy and orderly legal environment. It has two basic purposes: to safeguard the interests of economic entities and to maintain the order of the market. While much work has been done in the first aspect, little progress has been made in the second aspect. Hence, continuous and increased efforts should be made in the next five years in legislation and enforcement of laws surrounding market order and environment. The legal system construction in this field should be centered around the Competition Law, including the revision of the Anti-Unfair Competition Law. Another example is the Anti-Dumping Law: what we have now is merely some regulations, not a real and suitable law. In the next five years, there will be a strong demand for a detailed Tort Liability Law. An important part of the law is the sanction system in the case of violations of the rights of fellow citizens or legal persons. The related rules do exist, but are dispersed among diverse laws; therefore, to draft and enact the Tort Liability Law is of great necessity. One case in point is the Product Liability Law that is widely adopted in the West. It prescribes how to compensate consumers when they or their property are injured during the use of product. China developed a similar law in the 1990s

called Product Quality Law, which entails civil liability of product quality as well as measures for administration. For a fairly long time, we have been reinforcing the law from the perspective of administration rather than from the perspective of product quality liability. At the NPC session in March, some scholars and deputies proposed that an environment pollution compensation law be made as soon as possible. The idea was directly evoked by the incident of Songhua River pollution. Why did the company responsible for the pollution fail to undertake its due responsibility for compensation? Improvement of related laws has become a pressing issue for China. The market environment of a society includes not only an orderly market transaction system, but also a safe environment

Fourth, as it does in the academic community of economics, the debate over the reform also finds its way into that of law. One example is the accusation that the Property Law is unconstitutional. Now with the settlement of the directions for the market economy and reform, our legislations will be more in alignment with international practices in future. Indeed, China has been drawing on the laws of developed countries and neighbouring regions to integrate international experiences with China's realities of the market economy. The recent criticism that China's Property Law has largely copied the foreign laws is totally groundless, because land is owned by the state in China. On the other hand, alignment with international practices is an important process to improve China's legal system. The Bankruptcy Law and Anti-Trust Law, for example, are completely in line with international practices. The Partnership Enterprises Law will soon be amended to absorb international experiences. All these represent our firm stance on the reform. After its accession to WTO, China's trade conflicts with the USA, the EU and other countries are increasing in number, which are mostly settled through bilateral negotiations and agreements. As a matter of fact, WTO has its own dispute resolution mechanisms. We should carry out careful research to find out how applicable these mechanisms would be in the Chinese context so that we can better leverage them instead of relying merely on bilateral talks.

The fifth point is the shift of government functions. In the 11th Five-

Year Programme and the Ten -Year Programme on Performing Official Duties in Accordance with the Law, it was made clear that the government's decision-making mechanism must be transformed. To put otherwise, the collective decision-making of major issues, expert consultation, public exposure and hearing, and the investigation system for wrong decisions must be improved so that our decision-making mechanism will be transformed from the rule of people to that of law. Presently, many of the economic decisions still rely on leaders' instructions and orders. How can we make our decision making mechanism more scientific and more in line with the law? This is a question that demands our greater efforts. But one of the key issues is to transform the government functions, i.e. to leave with the market what it is able to and should do, which has actually been fully expressed in the Administrative Permission Law, and created a precedent for the change of government functions. In the legislative report and the main body of the law, it is made clear that anything that can be handled by the market should be settled by the parties concerned in the first place; civil organisations or intermediaries won't interfere until the parties concerned fail to settle the case; only when all the above fail, the government intervenes by establishing the permission process, or censorship or approval system where the due responsibilities of the government are prescribed. Nonetheless, the reform of government functions is facing huge resistance, as demonstrated in the drafting of the Anti-Trust Law. Some people from the administrative bodies objected to including the clause of anti-administrative trust, arguing that it would hinder the administration of the market. As a matter of fact, this clause has already been written into the Anti-Unfair Competition Law, which stipulates that any government body should not use its power or authority to designate certain market behaviours. Also, publicity of government affairs should be adopted to help change the government functions. It is shown in the SARS epidemic in Beijing that great progress was made in this aspect. In the Ten-Year Programme on Performing Official Duties in Accordance with the Law, one may find many significant measures of transforming government functions: openness of government affairs, disclosure of government information, credit of public power, credibility system, and the procedure of government officials' resignation.

The last aspect involves the amendment of the State Compensation Law. A huge gap exists between civil and state compensation systems in both standards and procedures. Normally, the indemnity by state compensation can hardly match the actual loss, and also there are very few successful cases of getting state compensation. Therefore, to improve State Compensation Law and to make it a significant part of China's democratic construction is of great importance. With the revision of the State Compensation Law, some have proposed that the Administrative Litigation Law be amended to allow individuals and legal persons to sue the government for both specific and abstract administrative actions violating the law. An abstract illegal administrative action might refer to a regulatory document issued by the government that violates the law; in that case, the government will be sued and the requirement will be made to nullify the concerned document – this is a common practice in the West called the judicial review system. With such a system in place, the protection of civil rights will be tremendously improved. Along with the judicial reform, three major litigation laws – the Criminal Litigation Law, the Civil Litigation Law and the Administrative Litigation Law – will have to be amended to better safeguard civil rights.

To conclude, we are safe to say that, with an increased sense of the rule of law and the acceleration of the legal system building, civil rights will be better protected on one hand, and on the other hand, there will be inconsonant voices trumpeting control over civil rights in the name of stabilising the social unrest. Therefore, it can be expected that in the forthcoming years efforts to strengthen civil rights and practices of restricting them will exist side by side. But nothing in the world grows without pain. Given the tremendous achievements made by China's reform and opening-up nearly three decades in the past, we are ever more confident that the legal system construction in China will maintain its momentum in the following five years despite potential setbacks. **TheLINK**

The author is former president of China University of Political Science and Law and also the visiting professor at CEIBS. The article is based on the speech by Prof. Jiang on April 6th at the forum, "China 2006: Policy Initiatives and Implications". The original version is in Chinese and has been approved by the author.



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Engaging Leadership

An interview with corporate strategist Henry Mintzberg

On 18th and 25th of April, 2006, at the invitation of China Europe International Business School (CEIBS) and the *CEO & CIO China* magazine, Henry Mintzberg delivered a speech, "Where Is Management Going?" at the forum of "Interpreting Management Gurus" in Shanghai and Beijing. Over 600 Chinese business leaders and academics attended the forum to have face-to-face dialogue with Mintzberg.

Henry Mintzberg is a world-renowned business thinker. He first came to prominence with his book *The Nature of Managerial Work*. Since then he has written a number of books covering a diverse range of subjects, from corporate strategy to the ordeals of international travel.

Currently the Cleghorn Professor of Management Studies at McGill University, Montreal, Canada, Henry Mintzberg is also a visiting professor at a number of business schools including INSEAD and London Business School. He was the driving force behind the creation of the International Masters Program in Practicing Management (IMPM), a unique business education programme.

Mintzberg has a deserved reputation for provocative and controversial thinking. Yet, while he may be controversial his observations are invariably amusing and insightful. His recent book *Managers Not MBAs* develops one of his favorite themes: the shortcomings of the world's gold standard in business education – the Master of Business Administration (MBA) degree. It also touches on subjects he has written about earlier such as organisational design and corporate strategy.

In the following interview, Mintzberg spoke about a variety of subjects including what it takes to be an effective manager and why an MBA is not necessarily part of that equation.

By Steve Coomber

What are the key skills that successful managers need?

I am always reluctant to talk about what the key skills of effective managers are, as it becomes an infinitely long list. I think it's more about what the characteristics are that lead to effective management. I think managers need to be informed, I think they need to know what's going on, at the ground level in the organisations they are working in.

I think effective chief executives are candid, and thoughtful. They don't follow

the crowd. They think things through for themselves, something fewer and fewer chief executives do these days. They are not big on managerial correctness, they know what they think is right. But I think that the key factor for me is that they do what they do based on a deep tacit understanding of what they are managing; both the industry, and the company itself.

So are these the kind of skills you get from taking an MBA?

No, you don't get any of it. The MBA does exactly the opposite, it trains people out of context. It gives them the impression that you can manage anything. Because there is no context in an MBA program. Even when people have experience it is rarely

used. The traditional style MBA does not use experience at all.

Take case studies for example. Learning from case studies isn't experience, it is voyeurism. People who are already practicing management can learn from cases written about other people. But people who haven't practiced management can't learn from them that easily. Worse still, case studies are not used just to expose people to other kinds of experience; they are used to force people to make decisions based on the most superficial of knowledge. What do the people know about these companies that they are forced to make decisions about? They read twenty pages the night before.

There was a survey of MBAs in Business Week a little while ago. The MBAs named their favorite chief executive. It was a top five list and none of them had an MBA.

In *Managers Not MBAs* you outline three different types of management style: calculating, heroic and engaging. What is the difference between them?

We've long been dominated by calculating managers, right back to Robert McNamara, ex-Ford president and Secretary of Defense during the Vietnam war, and his obsession with numbers. Then there was ITT and Harold Geneen with all his numbers. Now it's in the form of shareholder value. Everybody is looking at the stock price every few hours. It is like playing tennis and watching the scoreboard instead of the ball. That is the calculating manager.

Heroic managers are ultimately not much different but they think they are artists, they think they are very creative. So they come out with these strategies like at Vivendi, AOL Time Warner, or AT&T. They come out with all these lovely looking strategies, which ultimately are not that interesting. I call them pretend artists. These are the heroic managers, engaging in the great

massive mergers, with all the drama that entails.

Finally we have the style I prefer, which I call engaging. This is where managers and chief executives first go about engaging themselves. They know the industry. They know the people. They are committed to the company. They are not there for a few years just to drive up stock prices and run off with their bonuses. And by engaging themselves, they engage other people.

You suggest that the dominance of the MBA as an educational standard has corrupted managerial practice. Why is that?

Well, because you have people coming out thinking they are prepared to manage, and they are not. And what is even worse you get people coming out who don't even go into management, they go into consulting or finance. They do an end run around management and end up leaping from consulting jobs, or financial jobs, into chief executive chairs. And I think the performance of many of them is just plain dreadful. There are exceptions, but a lot of them fail terribly.

But what is it about an MBA education which you believe often makes people ill-equipped to be leaders in corporations?

Confidence without competence, which to me is equivalent to arrogance.

MBA courses tend to attract people who aren't necessarily sensitive to people issues. We have a lot of evidence that these are people more concerned with numbers, and getting themselves ahead, than dealing with people. There is a wonderful quote which comes from an interview with Harvard professor John Kotter. He did a study of the Harvard MBA class of 1974, tracking their careers. A journalist asked him if the people he tracked were team players. He said no, they want to run the team, create the team and lead it to glory rather than be a member of someone else's team. And that is the antithesis of team working, wanting to run the team.

We talk about top managers. But anyone who's on top of the team is outside the team, and doesn't know what is going on. We describe organisations as networks, and we talk about top managers, but anybody who's on top of the network is outside the network. That is exactly what the Kotter quote suggests. These people don't want to be part of the team, they want to run the team. It is the obsession with having to be in charge.

You know leadership should be earned. Leadership shouldn't be granted because you have a degree and an old boys network.

So how do you earn leadership?

You earn leadership from those that you lead. You earn leadership from earning the respect of the people. Kofi Annan was put into his position at the United Nations with tremendous support from the UN staff, he earned his leadership. McKinsey & Co elects its senior partner, its chief executive in effect, by a vote of the senior partners. I wonder if it has ever recommended that to any of its clients.

Can you learn leadership, or do you think it is an innate quality?

Well, you learn it in the sense of experiences and exposures, challenges, and all those sorts of things. That's how you learn leadership. Nobody has ever been made into a leader in the classroom. Courses that claim to create leaders are dishonest. You can't create a leader in the classroom. What you can do is take people and enhance their managerial skills, and enhance their understanding of their job, if they are already in positions of leadership.

And I am totally against this notion that you can separate managers from leaders. This implies that leaders don't have to manage, which means that leaders don't have to know what is going on intimately in their organisation, which is wrong.

Nobody wants managers who aren't leaders. So why would we want leaders who aren't managers, leaders who don't know what is going on, who aren't connected. It's a phony distinction.

What are the key issues facing CEOs today?

If you are in a publicly traded company, then it is probably coping with shareholder value. Trying to get past the short-term pressures, the need to impress the media for example, and really build the company substantially.

How can senior management best cope with a disproportionate emphasis on shareholder value?

Taking the company private is one way. Another way is to open up the representation on the board of directors. If you had other constituencies represented you would be better off.

Shareholder value is corporate social irresponsibility. Because it implies that only one constituency matters, and it is

probably the least important constituency. The people who really make companies successful are the employees, not the stockholders.

So you have to empower the employees at board level?

You don't have to empower the employees. I don't like the term "empower", because it implies that they need some gift from the gods to do what they are hired to do. They should know what they have to do, and just do it. No, you have to inspire the employees. And the first way to inspire them is by being part of the organisation, not just grabbing huge bonuses for yourself. That inspires nobody. That's why I think there is a leadership deficit in the Anglo-Saxon corporate world today. I think things are better in Japan for example. They have a different tradition. There is certainly a lot more humility in Japanese companies.

You have said great organisations once created don't need great leaders.? Do you still believe this? And what do you mean?

What I was trying to say is that it takes a special kind of leadership to start something from scratch. Because you're really fighting all the odds. You are up against all the pressures, having to carve out your own niche. An established organisation that is sizeable really needs a motivated, enthusiastic workforce. That might take quiet, concerted, sympathetic and engaged management more so than heroic management. There are all kinds of self-appointed heroes out there, running around trying to fix companies that aren't broken.

Why is that?

Because people are paid obscenely for impressive gains in stock price. I think the press is mainly responsible because it wants to write about dramatic actions, not about steady, boring companies. What if really good management may be boring to observe? No mergers, no big dramatic acts. You don't fire thousands of people every time the stock dips. Imagine that. **TheLINK**

The articles in this column are kindly provided by EFMD (www.efmd.org) and Suntop Media (www.suntopmedia.com).





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Listen, Speak and Think: How do we do marketing in B&Q?

By Wei Zhe

Marketing strategy is part of corporate business strategy. However, many companies either isolate the former from the latter, or confuse the two by only investing on the former. These are the two tendencies of most Chinese entrepreneurs, which, unfortunately misleads their businesses in many cases.

Since marketing strategy is a component of the business strategy, we have to understand what a business strategy is. In simple words, it is a way in which you leverage your competitive advantages to create the differentiation from your competitors both in products and services, and by doing so, bring maximum value to your customers.

The first and foremost point in this perception is to concentrate on customers. Customers have to become the focus of your business strategy. You might take this for granted, but in many companies, the business strategy centres on the shareholders, and people there just work to satisfy their boss. But for us in B&Q, there is a motto we believe in: Satisfying customers is the precondition of satisfying shareholders. Without meeting customers' needs in the first place, it is impossible to meet the shareholders' requirements.

Your business strategy will not be easily copied and plagiarised by others. It must be based on the company's relative advantage. What is this advantage expected to achieve? Differentiation. This is the key in making YOUR strategy. If it is similar with others', it fails to become YOUR strategy. You provide value to your customers by your relative advantage and differentiation. It means that what you offer to your customer contains value which he is not able to obtain in any other ways. So the first conclusion comes out here: Stop



talking about what marketing actions you are to take today or tomorrow; take some time asking yourself whether or not you have YOUR marketing strategy.

WINNING STRATEGY: FOUR QUESTIONS

Where does your marketing strategy come from? Primarily, you need to find out the business strategy of your company.

How do we know what strategy our company needs? First of all, you have to ask yourself several questions. The first is: Did we win in a certain aspect? Or in what aspect can we win? Those of you in Shanghai might remember that when IKEA opened a new store after closing its previous one, they put out the slogan – “Big IKEA, Small Price.” What was it trying to say? It actually asked, “Did I win?” Why did IKEA employ this catchy phrase? What did you feel in visiting the old IKEA store? Cramped space and premium price. So the new catchword showed that IKEA had won by opening this new store which was an impressive improvement compared with the old one. When B&Q opened its first store in 1999, the advert conveyed the messages as follows: The first was air-conditioned shopping; Secondly, unconditional refund is available within 30 days after purchase. No less and no more at that time. Did we win by them? Yes, we made it.

The second question you need to answer for yourself is how much you won. If the reply is “Yes, but not much,” it means a genuine differentiation has not been produced. In the case of B&Q, air-conditioned shopping was something very rare in those days and we won a lot in this regard. What about 30-day unconditional refund? If there was ever a store offering the service of 28-day unconditional refund, do you think we would stick to the 30-day offer? We would not, for the winning would be minimal in that case.

Then ask yourself if the winning is sustainable. You might win by air-conditioning today, yet tomorrow all the newly-opened stores might have it. Then your winning situation cannot be maintained any longer. You’d better give it up right there.

The last and the most crucial question: Does your winning tools mean anything significant to the customers? For instance, was it important for them to enjoy air-conditioned shopping? Yes, indeed. Does 30-day unconditional refund count anything for

them? Surely. So, you must identify those comparative competences that are of great importance to the customers. What was the comparative advantage B&Q beheld in those early days? None other than air-conditioned shopping. At least during the summer of 1999 in Shanghai, there were no other building material stores where shoppers could enjoy the air-conditioned environment. Therefore, the winning lasted throughout the summer that year.

Finishing all the above questions means you have successfully produced the business strategy, or the product strategy, or the entailed marketing strategy for your company. Hence, the fundamental job you have to do is to formulate a strategy for the whole business, or for the products and services you offer. Don’t even think about promoting your products or services at this point. Without business competences clearly defined, how can you ever begin with marketing?

In the past 5 years, B&Q has successfully played several cards: The first is product quality and shopping environment; the second is price, i.e., B&Q offers reasonable price; now we play the card of soft decoration. Why is this sequence? For we want to meet the most important and fundamental needs of the customers – quality and environment. Then follows the painful price war. Why didn’t we bet on some other options? We could not find any other differentiation that was critical for the customers. But you still need to consider seriously your capability of engaging a price war: Is price differentiation important for the customers? Is your price much different from what others offer? How much can you win? If the difference is merely a few pennies, you’d better forget about it. Can you persist in playing this card? How long can you afford? Do you have any comparative advantages for it? Don’t rush into the price war if the answers to the above questions are mostly negative.

Quality, price, and service. These are some significant cards you have to include in your business strategy. You’ve got to have all of them before you start to play the game, that is, an appropriate marketing strategy to put them out.

THE EARS OF MARKETING: HOW DO YOU LISTEN?

What is marketing? First of all, it is communication with the customers. Communication does not mean end-

less talks. I mentioned earlier that in our Chinese business world, there are quite a few misleading perceptions. One of them is marketing operations without a marketing strategy, or even a marketing strategy not underpinned by a business strategy. Now, I am going to tell you the second erroneous view, which equals marketing with never-ending rambling to the customers. People who hold this view tend to forget that marketing serves as a company’s ears and mouth. But first of all, it should be ears, for you have to listen before talking.

Many marketing cards have been played by B&Q in China up till now. But essentially, how did we know for sure that they count for much to the customers? We “ask” our customers! Every card we played is what our customers told us to do! Take for example our “unconventional” way of setting up a decoration design centre in the store. In the UK, B&Q is an advocator of customer DIY, whereas in China instead of calling for DIY, we give a hand to our customers in designing and decorating, which is indeed “rebellious” to B&Q tradition. But why is it? Whether in the UK or in China, B&Q obeys the same God, i.e., the customers. Whatever they want is right. We listen to them and take it in. B&Q promotes “all-in-one” shopping, facilitating the customer to get all he wants in one store. But the decorating company he found failed to deliver the best result. The decorating company shuffled the burden to B&Q, while the latter found out the technology incapability of the former. Then the customer stepped out and said “why can’t B&Q help me to DO the decoration?” Once hearing this complaint, we took prompt actions by offering the service. Another example is our service of household appliances. A customer bought the cupboard from B&Q and took the measurements with him to Gome to get a fridge there. But eventually, he realised that the fridge could not be fit into the cupboard. So he asked why B&Q could not offer good quality white goods. Later, someone raised another point: “You’ve done the initial decoration, but I still have to sort out curtains, furniture and the like in IKEA. Why can’t you get for me the best matching colours and cohering designs?” We also accepted the proposal and offered the related service.

How do you listen to the customers? Some companies in China attach much importance to marketing research or client research. They appear hugely complicated, involving numerous methods, questionnaires running for pages and a large

sum of money paid to college students to do street surveys. What are all these up to? To listen to the customers. But is it as complex as it looks? I personally do not think so. The followings are some listening tools my colleagues and I draw from our experiences. Simple and short as they are, they might not be able to stand for all types of marketing research.

First, regarding the marketing questionnaire, I suggest we mostly use “Yes” or “No” format instead of quantitative one. The scoring method is very subjective. In learning about the customer’s view of B&Q, we only need to ask several “Yes” or “No” questions before grasping the problems of the company and perceiving the customers’ basic requirements:

“Have you ever heard about B&Q?” You have only two options: “Yes” or “No”. If a hundred customers all reply “No,” it is easy to conclude that the marketing efforts are far from enough to raise the brand awareness. An easy solution is to put out more adverts to boost it. The other possible answer is “Yes,” following which we may inquire about our products using the same format.

“Have you ever visited B&Q?” One of the two options is “Yes, I have heard about it but never been there.” The question arises here: why do you not visit it after hearing about it? Most of you might argue that the store is too far away from home. Thus, we decide to open more stores and find the best locations to get closer to the customers. All of you might remember that the advert slogan for the opening of our second store was “One More B&Q, One More Step Closer to You”. Apart from distance, other reasons might include high price, lack of characteristics and even your reluctance. The list goes on for further exploration.

“Have you ever bought anything from B&Q?” might be the third question, given that the customer heard about the store and paid it a visit. Again two choices: “No” or “Yes”. We may ask “Why” to the one who answered “No”. One probable reply is that “You don’t have what I want”, which shows the incomplete product range in our store. We are also likely to hear that the stuff is too expensive or the service is very poor. So we will be able to identify more problems. Marketing is not to blame if those who have heard about B&Q and paid it a visit end up with no purchase. Through marketing the customers turned up in the store, but they might

not buy anything due to problems in our procurement and operation.

Even if the customer did buy something, we have to follow up by asking “Did you get all you wanted? How much have you gotten?” Then comes the double choices to which one group might answer “Yes, I bought a lot, nearly everything I needed,” and the other group “Yes, but only a small part of what I wanted.” Again we might press further by asking “What did you fail to get in B&Q?” In this way, we can detect more problems: Do we lack anything our customers need? Are many products too expensive? Are the services good enough? Are non-delivery or non-installation policies having negative effects?

The next question is: “Will you come again after this purchase?” After getting “Yes” or “No”, we have to add one more question: “Will you recommend others to come?” Again, we will get a positive or negative reply. Who is your “diamond-level customer”? He who gives you positive replies to all the above questions is the very one: “I have heard about B&Q; I came to visit the store; I bought a pile of stuff; I will come next time; I will recommend my friends to come”. No company in the world has ever got “Yes” to all these questions from each individual customer. This remains the dream of every company that no matter what they provide, may it be products or services, every customer will give positive answers to all those questions.

Should you take prompt actions on hearing what the customers say? The fact that these voices reach you indicate their critical importance to the customers, therefore your corresponding actions will have great chance of creating added values. Will you take the risk of doing it? Do you have the comparative competences to do it? Four years ago, we already heard the complaints that air-conditioners were not available in our store, neither were fridges nor curtains. But we didn’t venture to do anything, for we were lacking the comparative advantages then. Without them, we would not succeed in any actions, or maintain our success for long. Hence, you need to pen down whatever you hear from the customers and only take actions when you are fully prepared.

THE MOUTH OF MARKETING: TO WHOM SHALL WE SPEAK?

How do you speak after listening? A key



point is the recipients of our speech. The customers are whom we talk to. But we tend to forget it while talking. Sometimes, you shout to your rivals to protest against their newly-created catchword. Sometimes, you intend to get the attention from your boss, the shareholders or the vendors. Even when you consciously speak to your customers, are you aware who they are? This is not as simple as you might assume. You may hope that everyone is your customer, including all 1.3 billion Chinese and 6 billion global citizens. But anyone who holds this ambition is bound to fail. You’ve got to have a target consumer group. For example, B&Q is positioned in the middle-class consumers, serving the blue and white-collars with medium or high income. Supposedly, Coca-Cola and Pepsi embrace the whole world by what they sell. But in fact, they focus on different segmentation markets: Pepsi’s consumer group is younger than that of Coca-cola’s. Whoever desires to win over the entire globe is destined for defeat. You can’t possibly have an illusion like this. Actually, you don’t have to: 100 million people from among Chinese population will surely make you rich if they all consume your products; Even 10 million consumers will be sufficient to boost your business.

Some of you mentioned REEB Beer, whose advert catchword says “REEB is Why I Fancy Shanghai.” Obviously, REEB has no ambition of invading the Beijing market. Rather, they choose to excel in Shanghai. With the population of 15-16 million, Shanghai’s market is al-

most as big as the whole Europe. REEB can be proud of its brilliant performance to secure the market in Shanghai, including the surrounding areas.

Another example is some CCTV adverts. They could serve as the best examples of how you offer yourself as a negative marketing case. How many adverts played there are proved correct? True indeed, not many adverts are currently suitable to be put on CCTV. P&G now champions in the CCTV advert bidding wars, which is a recent phenomenon. But during their earlier stage of entering China market, P&G focused on the white-collars in major and medium-sized cities. In those days, they reckoned that it was of little avail to reach the large population of farmers and peasants by playing adverts on CCTV. Instead, P&G did promotion in individual cities one after another before they launched adverts in CCTV to cover the whole country.

THE BRAIN OF MARKETING: WHAT DO YOU THINK ABOUT?

Customer identification is followed by the efforts of locating appropriate marketing channels. What should you take into consideration in this stage? Coverage is critical. When your distribution network is not covering the nation, there is no point doing nationwide advert campaign.

Speed is of great importance. Various media conveys message with different speed, may it be radio, TV, newspaper, magazine or advert signs. The speed is inversely proportional to the volume of conveyed message. In other words, the faster you communicate, the less you can pass onto the recipient. TV is quick in the job, yet how much could you make within 15 seconds? Magazine seems plodding along, but it could deliver much more. If you bundle your products into a book, the reaching process is even slower, with even more contents included.

What about the cost? You fancy TV adverts with its amazing speed and decide to do three-minute TV advert to convey more message. Well then, you are heading for bankruptcy. Not a single Chinese company would survive, should it insists on three-minute advert for each product. Talking about the cost here means to calculate how much you have to invest in reaching every potential customer.

Now comes the issue of matching. Do

the marketing media you employ match your product? You put on the lamp-post an advert of your high-end product? You are scratching its image. Never put it there. Put it in some glamorous magazine. The product of this kind is not born for street sales. The similar cases are all over the places in reality. Quite a few foreign banks launched personal financing services recently and their advert flags are overwhelming the streets. Is this the appropriate image of a premium service? Take for another example the insurance companies. The adverts for both high and low-end insurance products are all handed out along the sidewalks. Is it OK? Does it work? Nobody seems to give it a second thought.

The department of marketing is structured along the lines of “listening”, “speaking”, and one more function of “thinking” mind. “Listening” is the market research. Every marketing body must have a member in charge of “listening”, which should be placed on the top of the pyramid. The budget for this function has to be met as a priority, for “listening” is a must. Any speech without preceding listening is no better than a non-sense talk.

The marketing consulting companies over the world will not fall beyond two categories: one is to help you with “listening”, and the other is advising you to talk wisely. It is up to you what advice to take. Without good ears, you may turn to others for help; having no talent in talking, you may resort to others. A marketing consulting company is a qualified counsellor to help you listen and talk, but the only thing it cannot do is to think for you. Many consulting firms claim that they are able to offer the strategy-making package and think for you throughout. Impossible! Why? Nobody knows better than yourself about your business. Any company outsourcing “thinking” to the consulting firm is hopeless. Only when you thoroughly understand your business and go on to employ a consulting firm to facilitate your “listening” and “speaking”, will you find a way out by producing a right marketing strategy. Don’t worry if you have no good ears or a sharp tongue. I say that the fatal defect is a lousy mind.

Let’s talk about marketing budget. Sometimes, other departments begrudge the marketing team its astronomical budget. But at other times, the marketing budget is often the first to be cut when the company’s revenue is tightened. The budget for marketing appears incalcula-

ble and can only rely on your intuition: you may lift it or cut it as you like. In my view, the marketing budget may be divided into two parts. One of them is for branding and is not directly connected with the sales performance. Ideally, you may analyse your company’s balance sheet, for a better-known brand will produce better performance reflected in the balance sheet. But a boss might be most reluctant to set aside this part of the budget. Why is it? Because no direct outcome in sales can be detected. Yet, this part of investment can never be spared. Coca-cola has been persisting in this job and it proved fruitful. I asked you to mention some advert slogans you are most impressed with at the beginning of this forum. You came up with mostly branding adverts. Take for another example of KFC’s advert. During the current bird-flu epidemic, KFC kicked off a new advert, promoting its image as “the guard of the health”. It might be hard to measure how much sales the investment in this advert might produce, but one thing is sure: the brand is kept intact. Therefore, both branding and product adverts are necessary. In the case of product promoting adverts, you have to follow them up with metrics of sales performance. To evaluate these adverts, you need to know how much sales is directly produced by every penny cost. As to adverts of brand building, you may investigate the consumer awareness of the brand. If 151 people hear about your brand this year, compared with 150 last year, the advert is undoubtedly a failure. But remember to assign a third party to do the job, for only the outsider who helps you to listen can remain genuinely independent, which is good for you. Marketing budget has to earn profit margins in sales. Marketing is a science: any costs and investments are able to be measured statistically.

One of my favourite mottos is “No measuring, no managing”. True indeed. It is widely recognised that marketing is the most difficult to be measured. Still, you have to make strenuous efforts to measure it. If you fail to measure marketing budget or the input and output, you won’t be capable of managing the marketing department. I have to say this is a daunting task, but toughness is the real testing tool. **TheLINK**

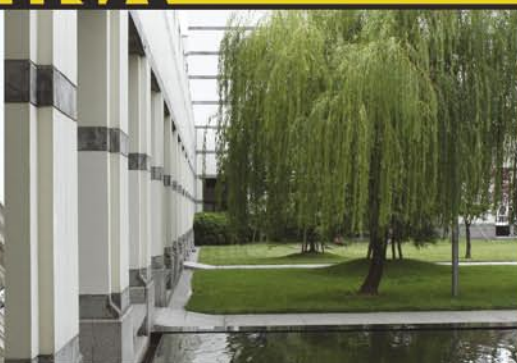
The author is CEO of B&Q (China). The article is a revised version, based on his speech entitled “The Science and Art of Marketing” at the CEIBS Executive Forum on March 16, 2006. It has been reviewed and approved by Mr. Wei Zhe.

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Better Hires, Less Waste —How HR Can Make a Million Dollar Difference?



By Scott Erker

Hiring and promoting great people is more challenging than ever. First, the mandate for organizational growth is causing a lot

of pressure on HR professionals, staffing managers, vice presidents of talent acquisition to bring in good people to carry out business strategy. But the pressure is also causing organizations to make mistakes in choosing the wrong people, which results in high turnover, and unachieved business goals. It's a big problem in HR.

Secondly, technology has finally been applied to selection and hiring. There is new job board that the candidates can go to

and the company can sign up to choose all these candidates. There are new applicants-tracking systems, candidate management systems, HR information system with the major focus on recruiting, all causing a lot of confusion about the best way to bring candidates from outside of the organization into the company and from lower level ranks to higher level positions.

Thirdly, there are many choices for types of contents to use to hire and

promote good people. Organizations are offered more options of tests, like new personality test, compatibility test, skill test and new types of interview questions. All of these are coming together to cause a lot of confusion in what to do. So it is important to clarify some key themes on the functions of hiring and selections.

To begin with, we have to understand that hiring is a system to support the business. Business has to become the focus. For too long, HR has been almost an irrelevant support function within companies. But now companies are asking for more: HR people are not just to push paper or fill out forms. That doesn't add to the business. HR people are required to think more strategically. If they can have the skill to step up and be strategic, then HR becomes more relevant to the business and CEO would need their advice instead of keep ignoring them. It is a great opportunity to actually be relevant.

Another theme is to improve hiring process. In the past, cost was the key metric for staffing. The companies wanted to know what they are investing in people, and what they get return on their money. But when this was the case, there was so much pressure on cost that HR organizations were laying off recruiters. There is a hope if the internet technology, data base management tools and data warehousing tool are more widely used, the cost of hiring and selection will be greatly reduced. However, quality is the name of the game today. With quality people, it doesn't matter if one has spent a little more to have extra test or interview, because good people pay back with their performance and they stay with the company for much longer. Organizations are lean these days, having not as many people as in the past; in some companies, there are no mid-level managers any more. Every person has to contribute at a high level. Therefore, quality is what makes a big difference.

So let me share a model with you first to ground us in the focus for selection. It's the way DDI trains its consultants.

THE ORGANIZATION DEVELOPMENT MODEL OF DDI

First and foremost, one has to understand the business, for instance, what the business need is and what the role of the peo-

ple would be in supporting that business. Then he can measure whether the "people strategy" has been successful or not. Good HR people understand the business. There are even cases where the operation person has been moved over into HR, because that person understands the business. But the problem with it is that unless they are very good at balancing people issues, operation people tend to make decisions on the side of the business and care less about people, values and so on. So in selection, one has to ground what he is doing in business.

A clear understanding of the business can well define what people need to do and say in order to be successful, which is called the success profile. In the past, the job description describes what is now in the success profile, including the activity people need to do, the education, the potential and the knowledge they need to have. Through the 80s and 90s, it is realized that competency was important. Now, it has boiled down to motivation and personal characteristics. One might be smartest guy and the best consultant in the world, but if he doesn't like to travel, to meet new people, to make presentations, or even to be able to get out of the bed the next morning, he will fail miserably. So it is the combination of ability, motivation and attitude that make people successful. And depending on the business needs, the success profile varies greatly.

If HR people understand the success profile, then they can choose tools to gather information about people. All that we are doing with hiring and promotion processes nowadays is gathering information to make good decisions. And the trick is that some tools are better than others and different tools gather different parts of the information that we need. The information has to be useful and understandable, for it will be used to make decisions about placement, promotion, development and on-boarding.

This is the process that companies go through when they think about improving selection performance. Whenever a process is broken, it is probably because something in this chain of events is not working. For example, sometimes something is not communicated right, since the hiring manager or operation manager skip the interview guide and ask their own questions instead. Therefore, to do a proper job in staffing, one has to grasp the key elements in the area.

THREE FOCUSES AND KEY STAKEHOLDERS IN STAFFING

Accuracy

One shall remember that quality is the name of the game. If the information about the person is not accurate, then it's useless.

Efficiency

One needs to get the information quickly, because if much time is wasted in making a decision to hire a person, the competitor will give him the job offer first and the rest will lose out. So the number of days to fill the job is one of the key metrics. This number has increased in the last 2 to 3 years, because people are using too many tests, too much technology and delaying the decision.

Sustainability

Changing the selection practices is very hard for the companies, for it is like the culture change. The company has to train people in something new, teach people to interpret data differently and so on. It is very wasteful to change selection every year. A better strategy is putting the programme on the ground and then measuring and making small changes over time.

Therefore, for director of staffing and vice president of talent acquisition, the above three elements should be the objectives of the performance management plan.

The key customers and their business needs

First is the senior manager. What he wants is "Return-on-the-Investment (ROI)", "Tell me the money I am spending is paying off. And if you promise me to come up with a shorter interviewing process, I want you to deliver on that. That's realization."

Second major stakeholder or major customer in staffing is the hiring manager. What does he want? Great candidates. He hates being given a whole batch of candidates and having to interview every one of them just to find them unfit for the job. The last thing he needs is waste of time. He longs for a process that allows him to not only gather information about the candidates, but also sell the job to them. So when the job is offered, good candidates will say yes. That's what the hiring managers want.

For the HR specialist, or the recruiter, they have all the pressure to fill the job quickly. Since they have to sort through so many candidates that really don't fit, what they desire is the tools that allow them automatically to go from many to few based on the requirements of the hiring managers. Also, they need efficiency in communicating with candidates and in data-processing to facilitate quick decisions.

The last stakeholder is the job candidate. First of all, he wants to feel valued and respected through the hiring process. Secondly, he expects to learn about the job along the way. Every single question he is asked during the process should telegraph to him what the job is going to be like. So they can decide accordingly whether this is the kind of job suitable for him. Try to keep the realistic job preview as accurate as possible. Thirdly, the job candidate anticipates the feedback. In fact, more and more candidates are demanding to learn about their actual performance in the process. Today, the job market is the seller's market where the candidate is in the driver's seat. When the company has few candidates that really fit, more have to be done to get the attention from the candidates. Especially in selecting executives, people that are going to make the biggest difference in the performance of the company, it is often difficult to get them to go through the assessment, for they don't want to spend their time on that. But giving people feedback is a way to keep them engaged, for if they don't get the job, they at least can learn something about themselves so as to improve in the future.

With all these key elements of the hiring process in mind, one will be able to identify the right kind of tool and process and even to create new methods. When staffing departments or HR recruiting departments are getting confused, they should try this framework in order to find where the biggest problem is, or in other word, what stakeholder is causing the problem. Then, the solution will be produced to fix that particular problem. Don't try to fix everything at once.

THE TOOLBOX TO IMPROVE SELECTION PROCESSES

The toolbox for HR professionals to improve selection processes may be boiled down to five things.

The first tool is the success profile it-

self. If we understand the business, then the success profile is the target that we try to hire towards. It has four main components of knowledge, experience, competency and personal characteristics. People fail in jobs most probably for one of these four reasons. Personal attribute is getting a lot of attention these days. As one moves into a more senior level, the personal characteristics become exposed more: they might get more arrogant, more reluctant to listen to other people, more volatile, and more likely to get mad too fast and shut everybody down unapproachable, because they don't have enough achievement motivation and enough drive at a senior level. So when developing people, the company needs a balanced approach. The worst thing is promoting the best technical person who actually doesn't have leadership skills. By doing this, the company will lose the technical contribution they made in their own job, and in the new job, they will destroy the team.

Second are the screening and testing tools. Screening is used for the administration of questions over the open web. Its business benefit is very clear: the screening system DDI installed in the GM saved 3 million dollars in the first year, because with this system DDI didn't need to fly everybody into Detroit for interviews; rather they could gather information over the open web. But there is security risk in the real identity of those who answer the questions. So, testing tools are reserved for checking on this. Procter & Gamble (P & G) invested heavily in screening and chose DDI to develop the world's best test engine. It ensures that no candidate gets the same test and that the target skill in the success profile gets measured much faster. Many of the things we are measuring with testing and screening are non-trainable. We are screening people out for those things that are very difficult to change. For example, we design the test tools to measure one's safety behaviour and integrity behaviour.

The third tool we have is interviewing. It is fairly well recognised that behaviour-based interviewing is the best way. In this kind of interview, the candidate is asked about what he did in the past, because past behaviour predicts future behaviour. DDI have designed behaviour-based interviews for ability, for motivation, and even for personality. One of the hot topics in hiring is engagement. The companies want to hire people that are engaged in

their work. So one may find out in the interview about the candidate's engagement readiness.

The fourth tool is the simulation. Simulation is the job try-outs by picking the most critical element of the job and simulating that in the role-play, or business case, or presentation. Take for example the project of finding country managers for the UN. It turns out that good country managers are very good at being interviewed by the media. So we developed a role play where the assessor played the role of a media reporter, asking different questions about how the environment was being polluted. The right response was to be authentic and open, yet to protect some of the things that would be very damaging. This is what differentiates good people from great people.

The last tool is on-boarding tool. Usually when the new candidate starts their job, we give everyone the same on-boarding and won't follow them up until three months or six months later. This is a "mis-opportunity". As a matter of fact, through the selection, we already know the candidates and understand their strength and gaps. So, we can feed it back to them and treat the first interaction with the candidate as the performance management discussion. What do we try to achieve? Retention and performance. With the better on-boarding, people's development can be accelerated. It means that they can make the full contribution faster. A recent study shows that if people get the early on-boarding, they will be more individually focused, stay with the company longer, learn their job faster and perform it better. Think how prepared one is to learn when he gets a new job and how excited one is when he gets promoted. A person in this situation has so much energy; he is ready to pay attention to all the things about this job; he is eager to get all the cues to know how to perform at a high level quickly. We can take advantage of this opportunity and not leave it till it is too late.

In a word, the primary message in the presentation today is this: you can get better performance out of people, even more than the training department can by hiring a better person in the first place. **TheLINK**

The author is the Senior Vice President of Selection Solutions, DDI. This article is adapted from the speech given by Dr. Scott Erker at the CEIBS Executive Forum on April 13, 2006, and has been reviewed and approved by the author.

The Dilemma of a Project Manager

When Mr. Zhang Yan was making a phone call, his secretary came in with a letter from Deloitte & Touche forwarded by the headquarters of the company. Zhang was a project manager of Yida Co. Ltd., and was responsible for the company's overseas project development. This letter was inquiring about a company project in Hong Kong, which Zhang had been working on in the last two years.

For Yida was a NASDAQ listed company, its financial reports were subject to strict audit by Deloitte & Touche. The way in which Yida calculated its income was based on the percentage of the project completed: as the project was proceeding, certain proportion of the contract money would be counted as the company's income accordingly. Until November 2004, the project in Hong Kong had lasted more than one year since September 2003, when the contract was signed. More than 80% of the contract money was counted as the company's income; however, the actual cash payment from the client was only about 30% of the contract money. Deloitte & Touche found the problem in December 2004 in its quarterly audit of Yida, and therefore sent this letter, requesting the company to give an explanation. The advice from the financial department of Yida was to let Deloitte & Touche send an arrear affirmation letter to the client company to prove that Yida did not falsify the income. But would the client company sign this affirmation letter? Zhang was not sure at all.

YIDA CO., LTD. AND AHZ SOFTWARE

Yida was established in 1992, and expanded quickly with the fast development of China's telecommunication and Internet business. AHZ was Yida's core product and was used by many large Internet serv-



ice providers (ISP) like China Telecom and China Mobile to calculate fees and manage accounts.

In 2003, Kaye Hong Kong approached Yida, and expressed great interest in AHZ software. The board of Yida regarded this possible cooperation as a great opportunity to enter the overseas market. Kaye was founded in 1994, and was among the first batch of ISP approved by Hong Kong gov-

ernment to provide Internet access service to the public. The main investment of Kaye came from Japan.

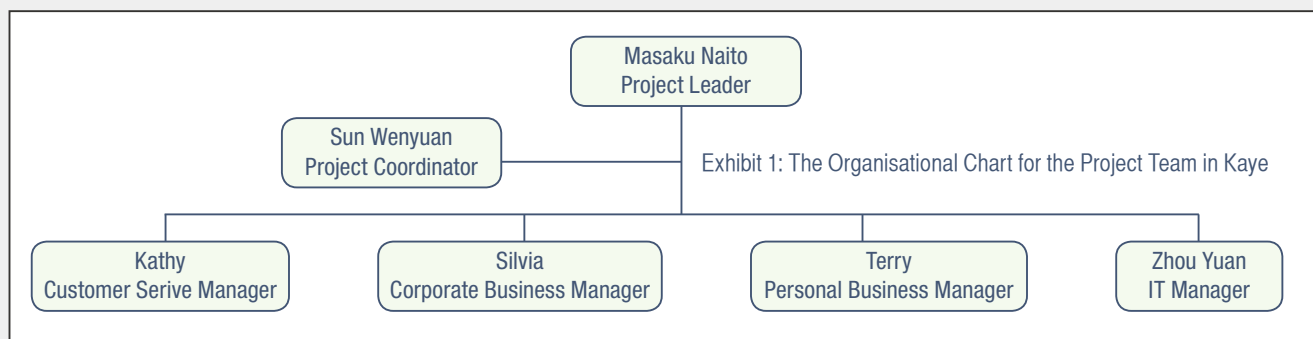
Yida and Kaye signed the contract in September 2003 to develop a fee-calculation and account-management software system. The contract money was 695,000 US dollars. In this project, Yida would customise a software system based on Kaye's business need, using AHZ as the platform. It would be the first overseas project for Yida, signifying its first step of internationalisation. The news also drove up its NASDAQ stock price. For Kaye, AHZ system would help them expand their business by realising those fee-calculation functions, which were not supported by the original system AS400 and had to be done manually.

THE ESTABLISHMENT OF THE PROJECT TEAMS

In order to facilitate the work, Kaye and Yida all designated relevant managerial and technical staff for this project. The team from Kaye included Mr. Masaku Naito appointed by the Japanese investor, the project coordinator Mr. Sun Wen Yuan, IT manager Mr. Zhou Yuan, and the managers of three business departments involved in this project. Yida also established a project team consisting of people from three departments: Mr. Yao Chen was the manager of Product Market Department; Mr. Lan Hui was the manager of the After-sales Service Department; Mr. Zhang Yan was appointed to be responsible for the entire project, and meanwhile he was directly in charge of the Product Development Department.

THE EMERGING DIVERGENCE

According to the working procedure in Yida, the Product Market Department should first accomplish investigation of user requirement and define the Scope of



Work (SOW). The work should then be transferred to the Product Development Department where the software would be developed. The project would end after the After-sales Service Department installed and tested the software for the client.

On October 8, 2003, Yao brought two senior software engineers to Hong Kong, and discussed the SOW with Kaye. The mission of this visit was to explain to Kaye about the existing functions of AHZ and determine what new functions should be added into AHZ by considering Kaye's business needs. Zhang had expected it to be an easy job for Yao. However, it turned out that he was too optimistic.

After coming back from Hong Kong, Yao reported to Zhang an unexpected problem. During the discussion of SOW with Kaye, Yao found that Kaye's expectation was far beyond the existing functions of AHZ system. AHZ was a software specially designed for ISP to manage fee-calculation: it mainly served to process and maintain company and individual account information, to calculate the fees for users, and to generate bills. However, Kaye required that AHZ should add functions of tracking the internal workflow, generating feedback, managing internal operations and providing support to relevant functional department such as marketing and financial departments. It meant that substantial changes would have to be made in AHZ instead of minor modifications as Zhang had anticipated. Yao also said, "If we do not agree to do what they demand, they will terminate the contract." This situation was indeed unexpected. What Kaye had asked for was actually an office management system rather than a fee-calculation system.

THE FIRST VICTORY

Zhang raised this issue in the project meeting presided by the R&D GM Mr. Qi Dong. He especially pointed out that there

was a huge gap between Kaye's expectation of the new system and the existing functions of AHZ. Considering the significance of the project from all perspectives, Qi decided that for the sake of keeping the contract implemented, Yida would develop the office management system for Kaye if that was what they needed.

Early in November 2003, with joint efforts by Yao and several other software engineers in the Product Market Department, a 174-page-long SOW was eventually completed and faxed to Kaye. It was the first time for Yida to produce such a detailed SOW. Yao reminded Zhang that several points in SOW were still not specifically defined. Yet, Zhang had a different view: the SOW was just a piece of paper work; as long as Kaye could accept the fundamental framework of the software developed by Yida, the details of the SOW might as well be left to further discussion during the process of the contract implementation. This was the way in which Yida had been doing with previous projects.

THE CHINESE SPEAKING THREE LANGUAGES

By March 2004, Yida had almost completed the development work. As requested by Kaye, Yida gave a remote demonstration of the software system before it was for-

mally installed for Kaye. The demonstration was conducted through remote computer sharing and video-conference. Yida gave a presentation about the functions of AHZ system while Kaye made comments and raised questions. This was also the first formal communication between the two sides regarding the actual performance of the software system.

However, the demonstration turned out to be surprisingly difficult and complex. The original plan was a 2-hour conference, but it ended up with nearly 6 hours. Yida believed that the system had basically possessed the functions required by Kaye, whereas Kaye constantly stressed that it was not what they wanted. What did Kaye want indeed? Nobody could offer a definite answer. The person responsible for IT support in Kaye, Mr. Zhou Yuan, did not attend this remote demonstration. What was even worse was that all members in Kaye's team could only speak English and Cantonese, except the project coordinator, Mr. Sun Wenyuan, who could speak Mandarin. However, the team members on Yida's side were not good at English; neither could they understand Cantonese. Both teams relied on Sun to interpret between Cantonese, English, and Mandarin during the entire session, and everybody got exhausted in the end. Eventually both sides agreed that Kaye's staff would log on the AHZ software, familiarise themselves



with the new system, and come back with some feedback a week later.

THE FADING SUCCESS

Yida kept receiving feedbacks from different business departments of Kaye after the video-conference. However, all these opinions and comments were written in English. Faced by these vague questions, even the software engineers in Yida did not understand where the problems were and how to revise the system. But Zhang was sure of one thing: a large part of the questions raised by Kaye were due to their lack of deep understanding of AHZ system.

Zhang sent a few emails to Zhou, expecting him to encourage other Kaye people to spend more time exploring the system, but did not receive any replies. Zhang made the phone call to Zhou, but only received illusive response over the phone. Zhang started to realise that Zhou was not enthusiastic towards the new system at all. Zhang decided to go to Hong Kong with Yao and give an on-the-spot demonstration to Kaye, helping them to better understand AHZ system.

NEW FINDINGS

Zhang had planned to spend two weeks making the demonstration to Kaye. However, the work had only lasted for two days before he found out that it was impossible to proceed. Initially, Zhang intended to direct the client's attention to the way in which AHZ was operating. He attempted to tell Kaye that AHZ system could 'indirectly' realise their business functions. However, the more he communicated with them, the more he found that essentially, the divergence was not about whether a specific function could be realised or not, but rather it was all about whether or not the way to realise the functions could follow Kaye's business operation habit. Kaye demanded that their workflow should be accomplished in a single interface; however, in AHZ system, the user would be required to switch between several interfaces and modules, which was not the way Kaye was comfortable with.

In addition, the two sides also differed in their opinions about the core functions of AHZ system. For AHZ was initially developed as a fee-calculation system, Zhang insisted that its core capacity was the accuracy and flexibility in calculating fees. The function to coordinate different business departments and manage their

workflow should not be the key role of AHZ system. However, Sun regarded this function as highly essential and relevant, and insisted on the revision of the system according to Kaye's workflow.

Zhang and his companions gave up the demonstration work in the remaining time, and began to listen carefully to Kaye to learn about their workflow. This time, Zhang had collected a lot of information which was not specified in SOW. It was also the first time that Yida seriously tried to understand Kaye's business model and workflow. Zhang kept thinking of Yao's advice when the latter was transferring the SOW to him in the last November. "If we had defined the SOW more specifically, we would not have had so much argument now." Zhang was now convinced that "We should have come here earlier to listen to Kaye and learn about their business."

To Zhang's curiosity, Zhou did not show up in those two weeks. After all, he was the person responsible for the IT support in Kaye! Zhang asked Sun for the whereabouts of Zhou and was told that he was on the vacation. "What a man he is! What on earth does he want?" Zhang said to himself frustratedly.

THE SECOND ATTEMPT

Zhang left Hong Kong and returned to Beijing. He made a 2-month plan to revise AHZ system according to the new findings, hoping that the work could be done by the end of May and that AHZ could go online in Kaye at the end of June. In this stage, the software engineers would completely change the way in realising Kaye's main business functions so as to follow their operation habit and workflow.

Zhang received several emails from Masaku and began to understand why Zhou was not cooperative in AHZ project: Zhou knew it well that the day when AHZ system went online was also the day he would have to leave Kaye. Even though Zhou was quite passive in the project, there was nothing Masaku could do. Masaku dared not to offend Zhou, because if AHZ system did not work for Kaye, the company would still have to use the existing AS400 system and rely on Zhou to manage the system.

The second attempt to revise AHZ system was accomplished on time. Every project member in Yida was confident about the updated AHZ system. The team

had obtained a good understanding of Kaye's business model and workflow after the two-week investigation in March. After intensive development work for two months, Zhang believed that the new AHZ system would be able to meet Kaye's demand comprehensively.

In June 2004, all project members including the software engineers for each module came to Hong Kong and would give the second on-the-spot demonstration to Kaye. If any problems were found out, the team would solve it immediately. Zhang hoped the project could be finished this time. In fact, Yida could not afford to delay the project any longer. According to the contract, AHZ system was supposed to be installed by the end of June 2004; otherwise Yida would be subject to the fine for breaching the agreement.

ENDLESS REVISION

Once again, Zhang was proved to be too optimistic. Yida's project team stayed in Hong Kong for more than a month, and the timetable of AHZ system going online was revised time and time again. What annoyed Zhang most was the passive attitude of Kaye's people. All kinds of problems kept emerging. Last time it was about the usage habit and workflow, and this time it was about business interface between different departments. "Why didn't they raise the point earlier?" Zhang became very angry.

It was not all Yida's fault. This was largely because of Kaye's internal conflicts between different departments regarding the business interface definition and responsibility division. There had not been clear rules in Kaye before to define the specific responsibility of each department. The installation of AHZ system demanded that the responsibility of each department should be well defined. This provided an opportunity for each department to claim rights and expand territories. Zhang had reported this situation to Masaku before, but he never came up with an effective solution. Zhang realised that Masaku was a powerless leader incapable of organising and controlling his people. Even his authority was constantly challenged by his subordinates and his leadership was not duly respected by department managers in Kaye. The project team in Kaye had shown passive attitude towards AHZ system from the very beginning, largely because Masaku had not put the pressure

No Giving Up, No Gain

By Wang Quangeng

This is a typical case of IT project management. What the IT company and its client encountered in the case is quite common in the real world. Both sides are responsible for the failure, and the reasons for the failure could be easily identified in the case. Therefore, the discussion of the case will generate practical as well as theoretical value.

THE ROOT CAUSE: UNREASONABLE AMBITION

The desire of grabbing everything lays the potential danger for the project.

Nowadays the software market is full of ups and downs, mergers and splits. Everyone in software companies, from the management to the sales people, is preoccupied by things such as how to

meet the sales target, how to increase the market share and how to quickly enhance P/E ratio, which are all No. 1 priorities in the task list. For a company with such a mindset, any clients, any orders, and any customer requirements will be accepted. Of course there are also companies that only sell products while ignoring all customer requirements. In this case, Yida already had a mature product – AHZ fee-calculation software, but in order to tap into the overseas market, to gain a higher international reputation and to promote

and responsibility on the managers and staff in relevant departments.

Zhang made a report to the company headquarters in Beijing about the new situation. Qi instructed him to bring back the team and give another round of revision to the system, since Kaye was not willing to compromise.



A DEADLY BLOW

Two weeks later, Zhang came to Hong Kong to give the third on-the-spot demonstration to Kaye. It was relatively more successful than the last time at the beginning; at least some of the questions raised by Kaye about the system were solved. However, Kaye soon developed some new requests about the details of the system. For example, they asked AHZ system to provide more powerful supportive function to the marketing department.

Zhou, who missed the first two demonstrations, turned up this time. He pointed out to Zhang that there was a critical flaw in AHZ system. Yida had to take main responsibility for it. However, this crucial problem could have been identified much earlier if Zhou had been more cooperative. All of sudden, Zhang felt himself stuck deeper.

THE ULTIMATUM

In October 2004, Yida received an urgent fax from the CEO of Kaye, Mr. Chen

Weixian. Chen expressed his disappointment about the project and put forward three questions: First, “the contract fails to be fulfilled even till today; in what way could Kaye’s loss due to the delay be compensated?” Second, “who should be responsible for the project expenditure incurred in the future?” Last, what would be the timetable if the contract were to continue? Chen suggested that Yida should give up the project if they could not come up with a definite timetable. If terminating the project now, Yida would be only subject to a small penalty; otherwise Kaye would urge Yida to comply strictly with the compensation clause specified in the contract. The project termination proposal was hardly acceptable to Zhang, but it did remind him of the reality. Whether to proceed with or withdraw from the project was an urgent problem that had to be addressed by Yida.

Yida had spent 85% of the contract money in this project. Even if the project was completed successfully, it would not generate any profit for the company. Yida had received many new projects recently, but could not assign adequate resources to them because of the burden of this project. More importantly, no one was able to predict when this project could end. Some software engineers were losing confidence on this project. Even Qi regarded the project as a mire and expected to get out of it.

However, if Yida terminated the project right now, all the resources invested in the project would become the sunk cost. It was a large sum of money. The revised AHZ system was customised for Kaye and would be of no value for other companies. In addition, Yida would have to compensate Kaye’s loss.

It was a raining day. Standing on the 22nd floor and looking outside of the window, Zhang was overwhelmed by cold. **TheLINK**

This case was prepared by Dr. Junsong Chen at CEIBS. The case was prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Certain names and other identifying information may have been disguised to protect confidentiality.

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the share price in NASDAQ, it decided to take the order from Kaye without sufficient knowledge of the overseas market or necessary preparation of technologies and skills. The core function of Yida's product is account-management and fee-calculation, yet fearing that it might lose the deal, Yida eventually agreed to produce an OA system. And in the final stage, what Kaye required of Yida was almost an ERP system.

The client Kaye was no better. Hence, some companies take the initiative of installing or updating their IT system to expand the company scale rapidly, reorganise the company's business, and solve the problems from the past. However, there are others who do it merely for the sake of "keeping up with the Jones". "Look at them! They have got ERP. Do something, or we are bound to lag behind." As a result, a company may ask all its departments to install a new software system at the same time, expecting to settle the issue once for all. In the case of Kaye, it began with the need of a fee-calculation software and later required more functions such as tracking the internal workflow, generating feedback, managing internal operations and providing support to relevant functional departments. What Kaye wanted was in fact an OA system. When all these functions were realised, Kaye further demanded that the workflow should be accomplished in a single interface to follow its employees' previous operation habit. After these problems were solved, the issue about the business interface between different departments was raised. Even when main questions raised by Kaye were successfully addressed, it still went on to make more requirements in more specific aspects. For example, Kaye wanted the new system to be able to provide more powerful supportive function to the marketing department. What they asked for in this stage was functions of ERP software.

It was because both Yida and Kaye desired to grab everything that the new system was stuck in the endless construction, modification and reconstruction. Thus this new system lost the chance of being applied to real operations. The project was thus trapped in a never-ending circle of revision.

THE FATAL MISTAKE: INADEQUATE PREPARATION

The initial preparation determines the fate

of a project by 80%.

During the initial preparation, and even before signing the contract, one has to make sure that the work is done properly in the following aspects.

Communication

The two sides need to have effective communication. The software company should listen carefully to the customer and learn about its overall and specific needs. And at the same time, it has to help the customer fully understand the functions and the supportive capacities of the product. Through sufficient communication, both sides could then reach initial consensus on the project implementation strategy. And then based on the communication with the client and its own rich practical experiences, the software company will be able to customise an implementation strategy with detailed procedures for its client. Nevertheless, Yida failed to do all these. It didn't have a genuine understanding of what Kaye really wanted until the later stage of the project. And in the same way, Kaye had no idea whatsoever of the specific functions of AHZ software; not until after the project was launched, did it realise that AHZ could not meet its needs.

Clear positioning and good planning

Both sides need them. The IT company must ask itself the following questions: Who are my targeted customers? Who are my competitors? What are the comparative advantages of my product? What kind of customer needs could my product satisfy? The client company should make a business plan with a well-defined corporate strategy, a smooth internal workflow and a clear perception of the way in which its IT strategy supports its business strategy. Yida's positioning was obviously very ambiguous, given the fact that it originally focused on fee-calculation system, but then switched to OA system, and even tried ERP. Similarly, Kaye had little idea of what it really needed; its internal workflow was chaotic; and it had no defined rules to clarify the responsibility division among different departments. No wonder Kaye changed the requirements of the IT functions again and again, and had no well-articulated IT strategy at all. This situation determined that the project would have a small chance of surviving.

Good preparations

Are both sides ready to launch the project? Has the IT company made proper preparation in personnel, technologies and skills,

capital, and project management when they decide to expand business scale, explore new business, or start a new project? Has the client company clearly understood its business needs before a new project is launched? Has the top management reached an agreement on the project? Are there strong leadership and dedicated team members? Are there any opponents? These questions all need to be answered beforehand. Yida went to the global market without sufficient knowledge of overseas market rules or personnel with qualified skills for overseas business, for example, the language ability to communicate in English. How could it possibly make progress in the project? Kaye's situation was not promising either: it did not understand its own business needs; there was not enough support from the top management; the project leader Masaku was a powerless leader incapable of organising and controlling his people; Zhou Yuan was not cooperative at all; the whole project team of Kaye was not committed from the very beginning; different departments quarreled about the business interface definition and responsibility division. With such a project team and business operation, the project is doomed for failure!

Risk management

What risks might emerge in the project? How could these risks be effectively controlled? Every project involves risks, though the scales might vary. Before launching the project, the IT company should foresee the risks and set up a risk alert system offering timely solutions to different degrees of risks. The client company also needs to predict the risks of a new project, for example, if the old system has been deserted whereas the new system fails to be set up, all previous efforts are made in vain. Installing a new IT system is like carrying out a radical reform. Hence, a comprehensive analysis has to be made beforehand on all the stakeholders, and an overall risk management strategy has to be produced. Both Yida and Kaye were over-optimistic before the project started. Neither of them took troubles to analyse and predict possible risks. For Yida, its project development process hid potential risks, for instance, some points in the SOW were not specifically defined. The way of calculating the income based on the percentage of the project completed was another potential trap. For Kaye, both Zhou Yuan and Masaku were risk factors, and so were the ambiguous business needs and poorly-defined department responsibility.

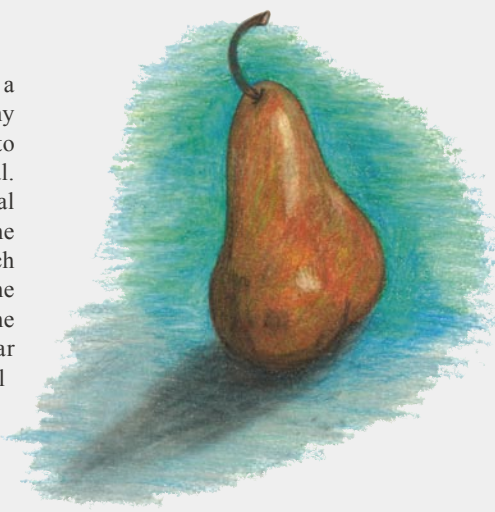
GIVING UP: MORE GAINS

The difficulty in making a strategy is

Yida's Difficulty: Problems Beyond Project Management

By Hans Lou

Here is a story: A fruit vendor accepted a big order from the neighbouring company for 500 Kilograms of fruit as the gift to employees for the Mid-Autumn Festival. The vendor was excited about the deal and advised the company to buy the seasonal fruit of fragrant pear, to which the company agreed. However, when the ordered pear arrived at the company, the employees grumbled about it. The pear didn't look as appealing as traditional Chinese pear, for it was much smaller. Some of the pears were green and some yellow. People were even wondering if the pears were ripe or not. "Distributing pear" in Chinese pronunciation sounded like "separating", which was not a good sign for the company. Eventually, the company had to ask the vendor to replace the pear with apple. The unlucky vendor, instead of earning much as originally expected, finally suffered huge loss.



The vendor in this story was in a similar situation as Yida. They both failed to fully understand the customers' needs, and had to constantly change the content of the delivery. As a result, they paid high price to no avail. So what shall we pay heed to in the case of Yida?

WHO IS THE CLIENT?

The question seems very simple: Kaye was the client. But pushing the question further, we have to ask: Which department owned the project? Which departments only partook in the project? Who could help Yida get a better knowledge of Kaye's internal business needs? In order to effectively manage the internal operation, many companies usually separate the signatory from the end user. Apart from trying to get the deal done, the supplier should make more efforts to clearly understand what the end user requires of the target object in the contract. Otherwise, though the contract stated "the fruit", what the client really needed was "the vegetables" instead. In the case of Yida, it ignored this issue and got stuck as the project progressed.

If the project was as simple as buying the fruit, it would be much easier for the supplier to identify the end user. But the target object in the case of Yida was to develop a software, whose functions, stability, exten-

not deciding on what to gain, but rather on what to give up. One needs to know what to do and what not to do, because the resources are limited. That's where the strategy comes in. Only when one learns to give up, could he eventually gain what he wants.

An IT company should not do everything. Rather, it should choose carefully what to do. Firstly, the company needs to segment the market to identify the target customers. Even with these target customers, instead of serving all of them, it has to choose some and give up the rest. When the company singles out the right customers, it is halfway to success. Secondly, with the products, the company has to find a focus, have a clear positioning, develop its comparative advantages against its competitors and work intensively on its core products rather than try extensively. Lastly, when exploring the new market and products, the company should adopt an approach of gradual progress, starting with easy jobs and steadily developing the

capacity to deal with more tough tasks. It is not advisable to over-stretch the front-line. Kaye was in fact a potential client of OA system, so Yida should give it up and go on to look for more suitable customers so as to promote the mature product of AHZ more quickly. Even if Yida desired to enter a new market, it still needed to produce a business strategy to decide what to focus on and what to give up.

As for the client company, its IT construction should be undertaken in the same manner. First and foremost, it needs to make an overall corporate business plan; then it could identify some key areas to make breakthrough. Take Kaye for example, it could formulate an initial plan to restructure diverse business functions and then according to the current business priorities, it might choose the one that mostly needed a new IT system. For instance, AHZ could be installed to first realise fee-calculation functions, which were not supported by the original system AS400 and had to be done manually. When the new

system was proved effective in this function, then other modules could be adopted. Secondly, there should be a long-term plan for the company's business development. Then the company may follow it up with specific objectives for different stages and make efforts to meet each target. For Kaye, a better approach was to produce an anticipative plan for the business growth of the following three years, then to set specific goals for different phases and eventually to accomplish all of them step by step. Finally, the application of IT system has to be done gradually and steadily so that the real value of the system could be fulfilled. Kaye could begin with simpler module and take further steps after the previous one was settled. It was unwise to come up with new requirements constantly and always change the existing system. A key to successful application of an IT system is to use it in the real operations. Otherwise its value could never be achieved. [TheLINK](#)

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sibility or interface-friendliness could not be specifically described in simple terms. In a software development project where the end user is separated from the signatory and from IT department, the supplier is confronted with the initial challenge of “who the client is”. If the supplier assumes that the procurement department of the buyer is the client, the project is bound to fail. Also, if one takes it for granted that diverse departments of the buyer have parallel functions, the project will inevitably go astray. Generally speaking, when the business terms are initially settled in the contract, the sales department of the supplier should bring in its designing, engineering and services functions and get them in contact with the end user and technological support functions of the buyer. Thus, the requirements, scope, progress and real focus of the contract can be defined as early as possible. In this way, the supplier will invest much less than the potential cost incurred by the misunderstanding of the client identity.

Besides, a better knowledge of the client will help to remove the barriers on the way to project success. Communication makes the client feel respected and so facilitates the smooth progress of the project. On the contrary, lack of communication hinders it. For example, because Yida neglected Kaye’s IT department, the latter then became a big hurdle for the project.

WHAT DOES THE CLIENT REALLY NEED?

Yida was a fast-growing software company which gained great profits in the Mainland China. The management of Yida had strong desire of tapping into new markets, probably because they were very confident in their products as well as their R&D capacity, or because they expected to avoid domestic price wars. What Kaye needed happened to offer the opportunity Yida wanted. It was indeed an attractive deal in which almost 6 million RMB could be earned. And the confidence might be further boosted by positive responses from the stock market.

Yida was perhaps blinded by this great prospect of the project and became reluctant at the very beginning to spend efforts identifying end users or understanding real customer needs. Even when problems emerged later, the project management team still failed to do what they should have done: the customer needs analysis. In every project, the first step should be the customer needs analysis; secondly the customer’s current business situation should be investigated; thirdly, the gap between the customer’s

needs and business situation, and that between the supplier’s R&D capacity and the client’s requirement should be reviewed; the last step is to make decision on whether to do the project and how to do it. In the views of many companies, all these analyses, investigations and reviews are not profitable and therefore are regarded as a waste of time. However, only on the basis of proper analyses, could the company accomplish the project progress arrangement, the resource allocation plan, and the cost and benefit estimation. All problems plaguing Yida were rooted in the lack of analysis in the initial stage of the project.

On the other hand, the customer requirements should be replied in a reasonable way: not all their needs are to be satisfied; instead, reasonable suggestions should be offered. Take for example the fruit vendor mentioned previously, if his client asked for vegetables instead of fruits, he might be able to come up with a solution; but if the client ended up requesting an orchard, he might as well refer them to some other vendors. In reality, it is indeed difficult to bring the project to a halt. So the project manager needs to be more skilful in dealing with the customer requirements: he should insist on the bottom line of the customer requirement according to the contract, based on the proper analysis of their real needs.

Additionally, the project manager has to make sound judgment as to how the changes of the customer needs may be fulfilled and whether or not it can be controlled within the expected costs or how much has to be further added into the original costs. If putting extra cost falls beyond his limit of authority, he will have to report it to his supervisor. A company that effectively manages the project usually adopts all kinds of tools. For instance, different colours are used to signify if the project security, cost and progress are within the controllable scope, and different levels of management personnel will be designated to make corresponding decisions.

HOW SHALL WE COMMUNICATE WITH THE CLIENT?

Communication is a business catchword nowadays. But communication is also where people easily make mistakes. The means, the object and the content of the communication have to be constantly reviewed and adjusted. In the case of Yida, not many efforts were made in communication and as a result, expensive costs were constantly incurred. One example is that Yida was not equipping its team with personnel of

suitable language capability for this cross-language and cross-cultural project. The problem might appear trivial, yet eventually it caused unnecessary loss. While lack of communication deprives the opportunity of the clients to clearly state their needs, excessive communication may put them off and show the lack of confidence and capacity in the project development. Proper communication should be a flexible process of adjustment based on well-defined plans. This poses a challenge to the whole project team, for the communication is not a job for an individual such as the project manager, but rather a task for the group as a whole. It is not realistic to expect every one to be able to communicate with others smoothly. Nonetheless, the project manager should be capable of facilitating effective communication among all team members.

Currently in a common model of business operation, the sales team is separated from the after-sales team, with the former concentrating on the customers and the latter focusing on the products. However, in a big project where diverse customer needs have to be met, this model will cause the project to get stuck due to the lack of understanding of the customer needs. A good project management starts from a full understanding of the customer needs at the very beginning of the project, instead of rushing into the project and struggling with it during the process.

There are two solutions to Yida’s problem. The first is to involve the after-sales team in the initial stage. Before signing the contract, Yida could bring in the after-sales team to conduct an evaluation on the technological terms in the contract, and even to directly communicate with the technology team of the client. In this way, Yida would be able to learn about the gap between the product and the customer needs and accordingly define the plan of the project management afterwards. Another method is to hold the sales team accountable for the project delivery so that the sales team would not make blind promises simply to boost the sales volume and that the cost of trans-department communication and potential information loss could be avoided.

To summarise, what determines the fate of a project is the efforts invested before it is officially launched. So the following advertising slogan could serve as a motto: “Never lose the race at the starting line.” **TheLINK**

The author is CEIBS MBA04 Participant, now working as Advanced Consultant, IBM Global Business Service (China).

Before Going Global

By Henry Cui

Today, more and more Chinese companies are going global. Is it really the best strategy? If yes, how? This is what people may learn from the Yida case study, on the top of some technical issues it exposes.

Yida was found in a difficult situation after significant investment in the Kaye project, which was regarded as great opportunity helping them explore overseas market. Three areas can be identified where Yida could do differently, including:

- Professional working process
- Positioning: providing a product or services
- Globalization strategy and its readiness

PROFESSIONAL WORKING PROCESS, INCLUDING:

Contract Review Process

A Scope of Work (SOW) was not prepared when Yida signed the contract with Kaye in the first place. This is not acceptable to a professional company, particularly Yida, which is listed on NASDAQ.

Without a well-defined SOW, how could Yida ensure the feasibility of this project? How could they prepare the project plan in terms of timeline, resources and budget? With neither a feasibility assessment nor a project plan, how could Yida's top management sign off such an important contract? Yida may have to ex-

amine if a sophisticated contract review process is in place to help them not to be engaged to a bad deal.

Decision Making Process

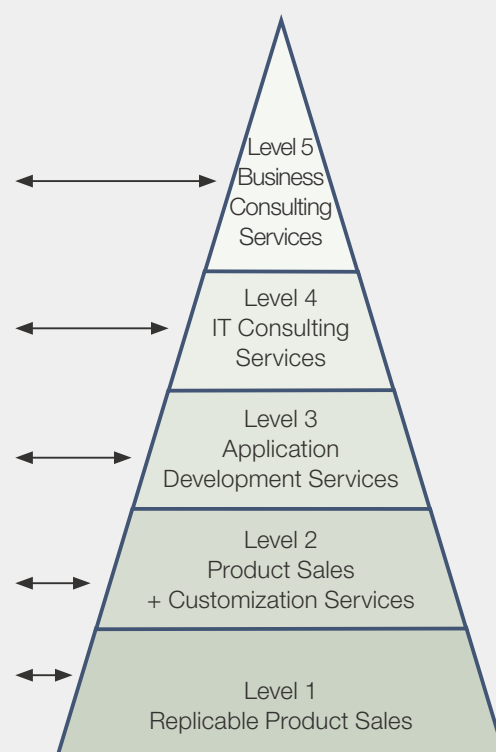
In October, 2003, Yida started to realize the huge expectation gap between both parties. This should have been of a great opportunity Yida can revisit the project and make possible corrections. However, Mr. Qi Dong, Yida's R&D GM, decided that as long as the contract could survive, Yida would be willing to develop entirely new Office Automation software pertaining to what Kaye was looking for.

As a senior executive of Yida, did Qi Dong make this decision based on any solid data proof? Or, is there a process he can follow to screen potential problems? Rather, Yida may need to redefine their

Figure 1: Product and Service Category in Today's IT Industry

Product/Service	Examples *
Providing business consulting services to help the customer build business model and its supporting IT structure/process to deal with new/changing business environment. Such projects are rarely replicable.	Accenture helps a financial institution build a state-of-the-art credit card decision making system supported by the data-mining technology.
Providing IT consulting services to help the customer design and develop IT system/process based on well-defined business needs. Such projects are rarely replicable.	IBM Professional Services help a retailer design and build an e-business platform to sell groceries on line, based on their clearly-defined business model/process.
Providing staff and tools to help customer develop an IT system according to its detailed and well-defined SOW. Such products may not be easily replicated and sold in volume.	A local System Integrator (SI) develops a tailor-made application for a customer according to the SOW.
Providing a modularized product with some customization services. Such product + service bundle project can be replicated to meet some common market needs.	Oracle provides a customer an ERP system that can be customized to meet its unique business needs
Providing mature/ standard products, which can be easily replicated and sold in large volume	Microsoft sells a Windows operation system or Word software to a client; Dell sells a PC to a customer.

* Note: Examples here listed are not real cases, for study illustration purpose only. Brand names, trade marks and/or intelligent properties are owned by respective original manufacturers.



Decision Making Process to eliminate avoidable mistakes.

Product Development Process

From October to November of 2003, when Yida got a chance to redefine the SOW, it did not capture this opportunity to revise this project. Yao Chen and Yida's Product Market Department did not take this opportunity to re-assess the project overall from a strategic level. Rather, they came up hastily with a 174-page SOW, with neither a thorough internal discussion nor an effective communication with the client. Actually, it is just this hard-worked but pre-mature document puts Yida on a perilous track.

If a polished product development process was in place, Yida might end up with a very different story.

Project Management

Typically, during the implementation of a project, each time when the client asks for changing the agreed scope of work, it must come with a formal change request in written form. The vendor will then make an analysis and provide a formal reply indicating potential impact to the cost, resource as well as the lead time. Once the client approves and signs off this revised project plan, the vendor will start to make changes. In such events, the potential increase of the costs and project delay will be under the control and consensus of both sides.

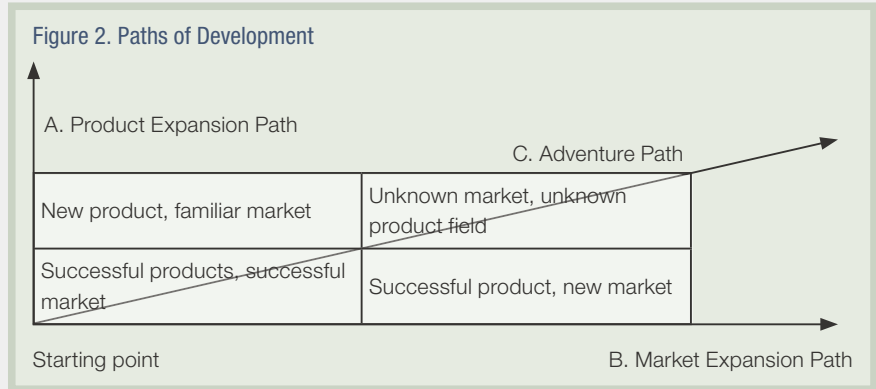
Should such a project management process be in place, Yida would be more likely to avoid the difficult situation later.

Account Management

A polished account management may involve customer contacts from various aspects. For instance, regular communication between Yida and Kaye such as weekly or monthly meetings should be installed, where any problems coming up could be identified, documented, and/or solved in the first place.

The CEO or the responsible top executive of Kaye should be involved into project update on a regular basis. This will help Yida leverage their power to move the project forward in case of any severe setbacks occurred.

Also, Yida should have some senior sales and/or project managers working onsite Kaye. Not only they can enhance the communication and work efficiency, but also they could gather insightful in-



formation of Kaye's and influence the key stakeholders via informal channel. Such a practice often works effectively.

Instead of making such arrangements, Yida even did not employ someone in the project team who can speak fluent English or Cantonese – the client's languages. This has made the client communication totally broken.

Financial Reporting

Yida may need to review its financial reporting practice, such as revenue recognition, to ensure it complies with the international standards.

In addition to the areas identified above, Yida may also want to revisit its product positioning strategy.

PRODUCT VS. SERVICES

In today's IT industry, products and services may be categorized into five (5) levels as illustrated in Figure 1.

As illustrated in figure 1, from level 1 to level 5, the costs of a project may increase significantly when the complexity, risk and professional degree of the project elevate geometrically.

In this case study, Yida was intended to conduct a level two project. That is, providing their AHZ product with some customization services. But eventually, Yida was gradually swamped to the third, fourth, and even fifth level. It is not exciting to do a higher-level job with a lower-level compensation. Even worse, Yida might not be capable of conducting such a level five job. They did not realize it until too late.

THE STRATEGY AND PREPARATION FOR "GOING GLOBAL"

In Figure 2, when an enterprise begins to

consider the next step growth after some success in a certain market with a certain product, it usually has three optional paths:

A: Product Expansion Path - to introduce some new or associated products in the existing market, in another word, Up Sell or Cross Sell.

B: Market Expansion Path – using the successful product to explore a new market place.

C: Adventure Path - to approach a new market with a new product.

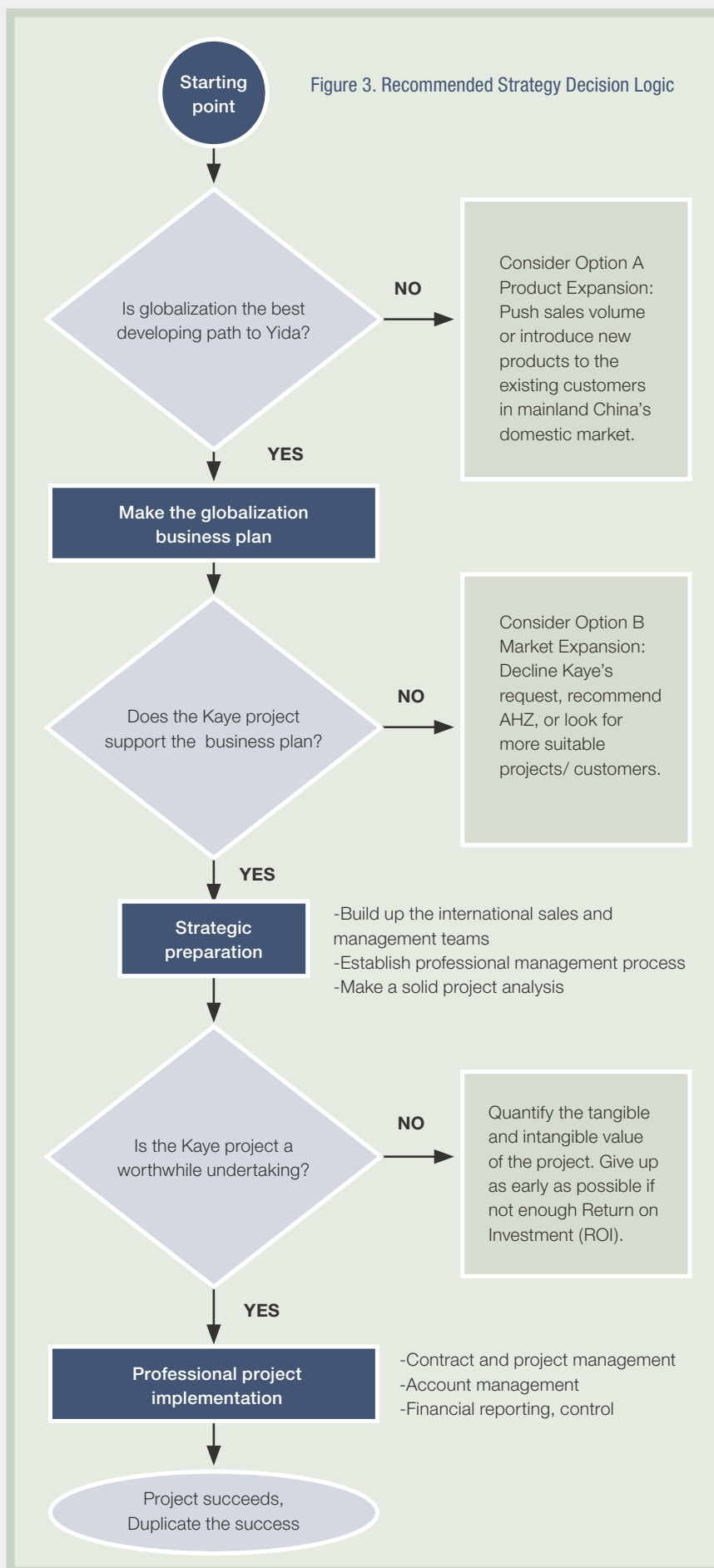
Obviously, options A and B are preferred options with less risk to grow, whereas C may be the last choice which associates with much uncertainty.

In this case study, what Yida went was unfortunately just the Path C: approaching a new market (overseas market – Hong Kong) with a new product (tailored Kaye's office automation software instead of Yida's existing AHZ system). This growth strategy might not be the best choice to Yida.

Today, when China is more and more merged with the globalized world economy, many Chinese companies are considering "going global". This case study may provide them a quick checklist of their "going global" strategy:

- Is "going global" the best option for your current business?
- If yes, do you have a sophisticated business plan?
- If yes again, have you invested in the readiness of it?

This may be a more interesting topic to discuss in the Yida's case.



Taking Yida for example, figure 3 illustrates a recommended strategy decision logic.

However, Yida left readers an impression that their strategy decision logic is as following:

1. Aspiring to “go global” and expand in the overseas market (but lacking a scientific analysis and plan).
2. Taking an opportunity in a rush which it comes up (but lacking evaluating whether it was a suitable opportunity).
3. Encountering difficulty, focusing on short-term reaction (but lacking “out-of-box” thinking, or not re-assessing the project at a strategic level).
4. Facing the failure, going to withdraw (but not revisiting the strategy or fully benefiting from the learning).

In today’s real world, Yida’s case may not be the only one.

As a matter of fact, many successful Chinese enterprises are going global. However, some of them seem to be stepping on the same path as Yida did. This case study may remind these Chinese globalization forerunners to revisit their strategy, business plan and readiness, before going global, in a rush. **TheLINK**

The author is Channel Marketing Manager of Mobile Products, Intel Asia-Pacific.

Do you have any comments? You are more than welcomed to share your views on the case. Please send an e-mail to: alumnimagazine@ceibs.edu. Your comments will be added to “CEIBS Knowledge-Case Study” on the official web of CEIBS.



Effective Performance Management

Though its principle appears very simple, the implementation process of performance management is quite complicated, for it not only involves forms and formulas, but also depends on the quality of all management personnel.

By Wu Bin

Performance management is a hot issue as well as a topic of lasting interest. Most companies care about it, yet few of them can claim confidently to have genuinely effective performance management. Many employers complain about the huge gap between the performance of their employees and the expectations of the company. They tend to attribute the gap to the lack of an effective performance management system. The idea itself is correct, but the interpretation of a “good” performance management system might be incorrect. It is the misunderstandings that lead to an increase, instead of a decrease, of the employers’ grumbling.

SOME MISCONCEPTIONS OF PERFORMANCE MANAGEMENT:

First let us have a look at what we get wrong:

Misconception 1

Performance management equals performance appraisal. This can be counted as the gravest misunderstanding about performance management. They are very different definitions in that performance management means to control, check and feed back the process of performance realisation – it is an ongoing process. Performance evaluation, however, is an

assessment of the performance outcome – it is done at a specific point of the time. Therefore, if the management believes that the measurement criteria can automatically put pressure on the employees to bring out the best performance, the real performance is very likely to be less satisfying than expected. There are two main reasons: First, it is far from enough for the employees to be in fear of the appraisal; they also need guidance and help in the working process to achieve the best performance. Second, the evaluation is done after the performance is realised and it is too late to transform the outcome. Hence, effective performance management must focus on the overall process of realising the best performance instead of mere

evaluations.

Misconception 2

Performance management is the job of the HR department. This is a somewhat intriguing phenomenon. The management of many companies tends to assume that the HR department should take full responsibility for performance management. The HR department seems always busy with issuing all kinds of forms, making measurement criteria, calculating the rating scores and pushing progress, whereas other departments are content with doing jobs as required by HR department. Who in the last analysis should be responsible for performance management? The answer is that it is the



most significant part of the daily job for every staff member of the management team. It is simply because their job is to produce the best performance. The outcome of any performance reflects the professional capability of the management, and the role of the HR department is more on the side of consulting: they provide a methodology for performance management, coordinate and organise the process of performance management within the organisation. They are not expected to be held accountable for the performance outcome, neither are they able to do it.

Misconception 3

Comprehensive and complicated measurement criteria ensure an effective evaluation. The design of measurement criteria is the starting point of performance management, and also a potential trap. Generally speaking, there are a few typical mistakes likely to result in unsuccessful performance management: 1) There are too many measurement criteria. Some organisations set many evaluation indicators for every position, in the hope of getting a comprehensive view as much as possible. Though aiming at something positive, the approach is problematic in that the real focus will be easily lost in the overwhelming criteria. When the employees cannot concentrate on the most important aspects of the organisation, the actual performance will fail to be maximised. 2) The criteria are over-complicated. Some organisations design complex calculation formulas to ensure equality in evaluations, but end up spending a great deal of effort on collecting data and calculating ratings. Gradually, both the employees and the management lose enthusiasm and treat it merely as a ritual. Thus the previous efforts all become “sunk cost”. As a matter of fact, one hundred percent equality does not exist. If simpler and more focused criteria can be found, the employees will be more ready to accept them and consequently the management will have an easier job. 3) Business performance is given too much attention while organisational skills too little. Although the former is indeed essential in performance management, the latter should be regarded as the same fundamental. Performance will not be improved if the employees’ organisational skills remain the same despite the increase of their business abilities. Therefore, in designing reasonable measurement criteria, capacity building (including both personal and organisational skills) must be given the same emphasis as business performance. Only by

this means, can a breakthrough be made in long-term performance.

ADVICE ON CARRYING OUT EFFECTIVE PERFORMANCE MANAGEMENT:

We previously discussed what should be avoided in performance management. But to realise effective performance management, the management should pay attention to the following four aspects.

First of all, the performance indicators and targets must be in line with the corporate strategy and goal. This overall strategy and goal should be implemented by each department, who needs to set the performance objectives of each position in accordance with that of the whole department. Only in this way, will each and every individual’s performance outcome be aligned with, and contribute to, the realisation of organisational performance goals. Also, this approach addresses the aforesaid problem of excessive indicators. Real performance criteria should be distinct and succinct, defined by the overall strategy of the organisation. For example, if a company sets the strategy in one year as opening up more retail channels, then the number of newly developed retail networks would have to be a key area of the performance management for the sales department. The following year, when the previous work basically meets the target and the management of retailers becomes the priority, the sales department may adjust the evaluation criteria by deleting the number of newly opened channels while adding in the quantity and quality of retailers. All other departments may work out their own goals in the same way.

Second, the work process of employees has to be duly controlled. It means the management must frequently follow up and give guidance instead of setting objectives in the beginning of the year and leaving the rest to the employees. Performance guidance and feedback could be done in two ways. One is called constant guidance in the form of informal one-to-one job reviews between the manager and his subordinates where suggestions and encouragements are regularly given on the latter’s performance. This enables the manager to check the work progress of his subordinates at any time, to learn more accurately about the problems in the process of realising performance and to offer timely help. The other approach is to hold formal performance

meetings periodically, for instance, quarterly. On this occasion, the manager and his team members have a formal review according to each objective of the annual performance plan, then ratings can be done and advice given. The HR department could offer suggestions on this and accordingly develop a system within the organisation for the management personnel to implement in each department.

Third, steps must be taken to insure all management personnel understand that performance management is an essential part of their jobs – not extra workload. The success key of performance management is the awareness of management team: Only if it is perceived as an indispensable part of their work, as well as an effective management tool in daily operations, will the value of performance management be realised. To achieve this, general manager and key managers of every department must set role models. They should create an environment to encourage the development of this awareness. They must persistently conduct performance feedback and guidance with their subordinates so as to forge a real mind-set in the organisation.

Fourth, there must be balanced performance management. Recently, the method of the balanced scorecard has become widely applied in practice, on which no more discussion will need to be given here. In simple words, balanced performance management means an integration of short-term objectives with long-term goals. In practice, it requires that performance evaluation criteria include not only job-related indicators but also indicators regarding the improvement of organisational skills. The latter is the foundation of an organisation’s sustainable development. The company that makes organisational skills a key area of performance management will keep growing.

Though its principle appears very simple, the implementation process of performance management is quite complicated, for it not only involves forms and formulas, but also depends on the quality of all management personnel. There is no perfect performance management system for any general manager. What counts the most is “taking action right now”, starting from the simple approach with simple evaluation indicators and learning to improve – it will prove profitable in the end. **TheLINK**

The author is CEIBS EMBA06 Participant and now is Partner of HBC Consulting.

Dr. Zhu Xiaoming Appointed CEIBS' New President



CEIBS MANAGEMENT COMMITTEE

Professor Pedro Nueno, Executive President (L2), Professor Zhu Xiaoming, President (R2),
Professor Rolf D. Cremer, Dean and Vice President (L1), Professor Zhang Weijiong, Vice President and Co-Dean (R1)

On June 5, 2006, Prof. Xie Shengwu, President of Shanghai Jiao Tong University and CEIBS' Chairman of the Board of Directors, announced on behalf of the Board of Directors that Dr. Zhu Xiaoming had been appointed President of the China Europe International Business School (CEIBS).

Over three hundred students, staff, and faculty, gathered in the auditorium for the welcoming ceremony of Dr. Zhu. At the ceremony, Prof. Xie Shengwu expressed

his pleasure at the achievements by the school during the past eleven years as a special zone of Chinese management education. Having overcome many obstacles to become one of the leading business schools in the world, CEIBS is now facing more challenges posed by the fast-paced growth of many other business schools throughout the globe.

Dr. Zhu, also a member of the Board of Directors of CEIBS, has shown his early support and consistent commitment to CEIBS since the

school's establishment in 1994. Prof. Xie deeply believed that under Dr. Zhu's leadership, CEIBS would continue to make efforts to achieve even higher goals and objectives. Dr. Zhu made a concise speech after being introduced to the audience. He remarked that he felt much honoured to undertake the new job in education and promised that he would work together with all the faculty and staff members as well as students to take CEIBS to a new height.

SHORT BIO

Dr. Zhu Xiaoming is Deputy Director of the Standing Committee of the Shanghai Municipal People's Congress. On June 5, 2006, Dr. Zhu started to serve as President and Professor of Management at CEIBS. He has been a member of CEIBS' Board of Directors since 2000. As an expert enjoying the State Council's special subsidy, he was offered the position of Honorary Dean of Antai College of Economics and Management in Shanghai Jiao Tong University in 2003, where he had served as PhD. Advisor since 2002. Dr. Zhu received PhD. in Management Engineering from Shanghai Jiao Tong University, his Msc. in Industrial Management and Bsc. in Electrical Automation from China Textile University (now renamed Donghua University).

Zhu Xiaoming served as Vice-Chairman of Shanghai Students Federation from 1979 to 1983 (the 9th session), Deputy Director of Shanghai Bureau of Textile Industry, General Manager and Party Secretary of Shanghai Jinqiao Export Processing Zone Development Co., Ltd. and Deputy Director of the Administrative Committee of Shanghai Pudong New Area. From 1995 to 2003, he served as Deputy Secretary-General of Shanghai Municipal People's Government and Chairman of both Shanghai Foreign Economic Relation and Trade Commission and Shanghai Foreign Investment Commission.

The major honors awarded to Dr. Zhu include "Most Outstanding Chinese Entrepreneur" in 1994 by *Asiaweek*, the 3rd Prize for "Science and Technology Advancement in Shanghai" in 1985, the 2nd Prize for "Science and Technology Advancement in Shanghai" in 1995, the 2nd Prize for "Shanghai Policy-making Consultation Achievement" in 1998 and the 1st Prize for "Shanghai Policy-making Consultation Achievement" in 2004.

Dr. Zhu assumed the positions of Vice Chairman of China Society of Industrial and Applied Mathematics, Vice Chairman of Shanghai Society of Industrial and Applied Mathematics, Director of Pudong New Area Evaluation Committee of Senior Job Title, and Director of Shanghai Evaluation Committee of International Business Engineer. Dr. Zhu Xiaoming has published many research works on economics and technology, among which the *Shanghai Foreign Economic Relation and Trade* series (5 volumes) are on the list of reference readings for MBA and EMBA classes in College of Management, Fudan University. His major publications include: *Research on Planning of Development Zones*; *Grand Customs Clearance: Enhancing Customs Clearance Efficiency in Shanghai*, etc.

Spring 2006 CEO Forum – Rein vigorating Talent Management In China

On April 21, 2006, the CEO Learning Consortium, a jointly sponsored programme by both CEIBS and Ross School of Business at the University of Michigan, hosted the 2006 Spring CEO Forum at the Portman Ritz-Carlton in Shanghai.

At the CEO Forum, Professor Arthur Yeung, a leading strategic human resources guru and advisor to many key corporations in China, presented his latest research findings on the topic of Differentiated Talent Management Strategies: How Best Employers Attract, Retain and Engage Talent Through Unique Value Propositions.

This research project, sponsored by the CEO Learning Consortium, involves an in-depth review of how seven of the best employers in China, including Alibaba, Boshi Fund Management, Li-Ning Company, Mary Kay Cosmetic Company, The Portman Ritz-Carlton, Shell, and Vanke, manage to succeed in China's fierce war for talent while others have struggled.

While the seven com-



panies are from different industries and have very different talent requirements, they all deeply share similar talent management philosophy of mutual investment, i.e., companies invest heavily into their employees through training, salary, employment security while at the same time also expects their employees to contribute significantly to their business success. Their investment in their employees has not only produced a strong level of employee engagement in their company, but also strong financial results for their shareholders.

Throughout the day, three of the best employers shared their stories with the Forum attendees. Li-Ning Company's Zhang Zhiyong, their young and energetic CEO shared the story of his company's remarkable journey to become the top Chinese Sporting Goods Company. The unique background of the founder and Olympic Gold medalist Mr. Li Ning, has helped to create a unique sportsmanship culture that is ever pervasive in the organization and is the foundation of its management philosophy—"Winning Globally Based On Sportsmanship."

Mr. Paul Mak, President of Mary Kay Cosmetic Company (Greater China Region), presented Mary Kay China's unique value proposition of "Enriching Women's Lives." In his presentation entitled "Signing A Long-Term Agreement

with Your Talent By Heart", Mr. Mak shared how during times of adversity, the company's strong belief in its employees was clearly evident, and as they rode through the storm together, the culture was further strengthened and solidified. Not only has Mary Kay China been elected as one of the best employers in China it is also one of the most profitable chemical companies in China.

The last presenter of the day was Mr. Ralph Grippo, Vice President and Area Manager for the Portman Ritz-Carlton which was elected the best employer in Asia for 3 consecutive times by Hewitt and Associates. The fervent investment by the Portman Ritz-Carlton in its staff from the selection process through to training and empowerment combined with its utter dedication to communication has helped to create a strong bond between the company and its employees and be true to their unique value proposition of "Setting Up Our Ladies and Gentlemen for Success." After the presentation the attendees were given a guided tour of the staff area to get a first hand understanding of some of the Portman Ritz-Carlton's talent management practices.

Attendees of the event include the CEO of DSM China, GroupM, Johnson and Johnson, Li-Ning Company, Mary Kay China, Philips, the Portman Ritz-Carlton and SinoPacific Heavy Industries.



NEWS BRIEFING

FACULTY

Prof. Wu Jinglian Awarded Honorary Doctoral Degree from University of Hong Kong



On March 15, 2006, Prof. Wu Jinglian, CEIBS Baosteel Chair Professor of Economics, received an honorary doctoral degree from the University of Hong Kong. This honorary degree was given to Prof. Wu in recognition of his

achievements and contribution to the field of economics. Persons awarded this recognition must demonstrate outstanding contribution to the university, society, and the academic field. The award ceremony was presided over by the Hong Kong Chief Executive, Mr. Donald Tsang.

In the ceremony, Prof. Wu delivered a speech titled "Innovative Nation and Corporate Social Responsibility" at the ICBC Tower in Hong Kong. This event was attended by over 100 CEIBS Hong Kong and Macau alumni, as well as Hong Kong business executives.

(Visits)

VISITS

The European People's Party and the European Democrats Delegation visits CEIBS



On May 25, 2006, the Group of the European People's Party and European Democrats (EPP-ED Group), the largest Group in European Parliament, visited CEIBS main campus in Shanghai.

The 12-person delegation was led by Mr. Othmar Karas, Vice-Chairman of the EPP-ED Group. The delegation was given a tour of CEIBS' Shanghai campus by Professor Rolf D. Cremer, Dean and Vice President. During their meeting, Mr. Karas, spoke highly of CEIBS' great achievements and expressed their continuous support to CEIBS.

Visit of EU Commissioner for Internal Markets and Services Directorate General (GL), Mr. Charlie McCreevy



Internal Markets and Services Directorate General (GL), Mr. Charlie McCreevy, visited CEIBS. The Commissioner was accompanied by H.E. Serge Abou, Ambassador for the European Commission to China and Mr. Alexander Schaub, Director General at the European Commission for Internal Markets and Services Directorate General, Mr. Nicholas O' Brian, Irish Consul General

to China, and other high-ranking members of the Delegation of the European Commission to China.

Mr. McCreevy started his address to the audience expressing his delight that CEIBS, created by the Chinese government and the European Union, has become a symbol of a deep cooperation between China and Europe, and just over the last ten years of establishment, CEIBS is now recognised as a world-wide leading business school with high quality faculty and students.

After his speech, the commissioner took time to answer questions raised by the audience in great detail.

Vice President of the Government and Minister of Economy and Finance of Spain visits CEIBS



Solbes, vice President of the Government and Minister of Economy and Finance of Spain, visited CEIBS. Prof. Pedro Nuño, Executive President of CEIBS and other members of the school's management committee had a talk with Mr. Solbes after showing him around the campus. During the meeting, Mr. Solbes congratulated on the school's achievements, and then he took time to take pictures with some of the school's Spanish MBA students.

(Forums)

FORUMS

Pierre Lehmann speaks on the Rise of China and the Decline of Multilateral Trade Order

On May 25, 2006, Jean-Pierre Lehmann, professor of International political economy at IMD, and founding director of the Evian Group, delivered a speech at CEIBS main campus in Shanghai on "The Rise of China and the Decline of the Multilateral Trade Order."

Prof. Lehmann went through the origins of the multilateral trading system starting with the age of discovery and the rise of mercantilism to the World War II resulting in the establishment of the rules-based multilateral trading system based on the core principle of non-discrimination. He later went on to further discuss China's

>> Spring 2006 CEO Forum

Other invited guests include senior executives from ABB, Sony, Vanke and the Chairman and founder of Li-Ning Company, Mr. Li Ning.

The CEO Learning Consortium is a unique learning platform specifically designed to meet the learning needs of CEOs in China through research-based knowledge and best practice sharing on critical business issues in China. The Consortium currently has fifteen member companies including ABB, Astrazeneca, Bayer, Coca-Cola, DSM, GroupM, Johnson and Johnson, Kodak, Philips, Shell, SinoPacific Heavy Industries, Sony, TNT, Trend Micro and Unilever. Its innovative research based format has enabled the member CEOs to access top gurus and the latest research in the China context and experience sharing among member companies. Professor Arthur Yeung is the founding director of this consortium.

dramatic increase in trade since 1994, its manufacturing exports, as well as China's accession into the WTO, and the profound transformation in the global trade "paradigm" along with the exponential developments in market and technologies.

Prof. Lehmann is an expert in multiple fields, including the socio-economic and business dynamics of East Asia, the impact of globalisation on developing countries and the government-business interface, especially in respect to the global trade and investment policy process. He launched the Evian Group in 1994, which consists of high ranking officials, business executives, independent experts and opinion leaders from Europe, Asia, and Americas and focuses on the international economic order in the global era, specifically the reciprocal impact and influence of international business and the WTO agenda.

In November of this year, the Evian Group will hold a meeting in Shanghai in collaboration with CEIBS. The first Evian Group Meeting in Beijing was held last year in June also in collaboration with CEIBS.

Excellent Service: The Future Competitiveness of Healthcare Industry

On the afternoon of April 6, CEIBS held a forum entitled "Excellent Service: The Future Competitiveness of the Healthcare Industry" in Shenzhen, which was attended by over a hundred hospital executives from Shenzhen and some other parts of the country.

Dr. Jaume Ribera, Professor of Production and Operations Management, and Port of Barcelona Chair Professor of Logistics at CEIBS delivered a keynote speech on "a model of service quality difference". Through this model, Prof. Ribera examined customer service systems of the health industry from the perspective of the customer, analysed healthcare institutions' service procedures, and proposed practical approaches to improve customer service quality.

The Chinese healthcare market is undergoing some significant changes, among which the most important is the change of patients, who are now possessing more medical knowledge, demanding more services, and requiring better quality than ever before. In the meantime, with the furthering of China's healthcare reform, hospitals are also facing great challenges in areas such as funding, and responsibilities for both patients and staff, which have increased the complexity of hospital management. Prof. Ribera's keynote speech provided the audience with new ideas and approaches to successfully meet the challenges they are facing.

The keynote speaker Dr. Ribera is a Founding Member and Member of the Board of the European Operations Management Association. His work concentrates on the design and improvement of operations systems in manufacturing and service operations, with special emphasis on healthcare systems.

Professor Dorfman Presented Cultural Influences on Leadership Styles at CEIBS Forum

On April 6, 2006, Dr. Peter W. Dorfman, Professor of Management at New Mexico State University delivered a speech titled "Universal and Culturally Contingent Leadership Styles: Leading Locally and Globally" at the CEIBS Executive Forum.

Professor Dorfman got his Masters and Ph.D. degrees from the University of Maryland and his current research involves investigating the impact of cultural influences on managerial behavior and leadership styles. He has been a co-principal investigator of the decade-long Global Leadership and Organisational Behavioural Effectiveness (GLOBE) Research Project.

In this presentation, Professor Dorfman used "the 21 primary leadership dimensions" found previously in the GLOBE leadership project to discuss how one might go about leading globally and locally. Professor Dorfman and his colleagues tested hypotheses regarding which primary leadership dimensions were rated as universally positive across cultures, which were universally negative, and which were culturally contingent. For the culturally contingent leadership dimensions, they determined which aspects of national culture accounted for the desirability or undesirability of each leadership dimension. A conceptual model is proposed to help understand the cultural and psychological processes that most likely explain the adoption of universally positive, universally negative, and culturally contingent leadership.

Programme

Emerson's Global CEO Attends Emerson-CEIBS Diploma in Management Programme Graduation

PROGRAMMES

a group of distinguished guests from Emerson Electric Co., United States Headquarters. Attending Emerson-CEIBS Diploma in Management Programme's graduation were Emerson's global CEO, David Farr, and COO, Ed Monser.

Early in 2002, Emerson Asia-Pacific Headquarters started to co-operate with CEIBS' Executive Education Programme, jointly developing the Emerson-CEIBS Diploma in Management Programme, which was designed primarily for mid- and senior-level Chinese managers at



Emerson Asia-Pacific. Each session of the programme lasts 18 months and the total number of graduates is now 90. The 4th cohort of participants started their first module in April this year.

At the graduation ceremony, Mr. Farr spoke highly of CEIBS and thanked the school for developing high-potential management talents for Emerson in China and also in the whole Asia-Pacific region. Professor Zhang Weijiong, Vice President and Dean of CEIBS, exchanged commemorative gifts with Mr. Farr on behalf of the school.

Prince Felipe of Spain Met with Global CEO Programme Participants from China

On April 19, 2006, Madrid-Spain's Crown Prince Felipe de Borbon met with the participants of CEIBS-HBS-IESE Joint Global CEO Programme for China and the CEIBS administrators at the Zarzuela Palace today. During the meeting, Prof. Pedro Nueno, CEIBS Executive President and Prof. Zhang Weijiong, CEIBS Vice President and Co-Dean briefed the successful operation of the third module of the school's Global CEO Programme for China being held at IESE, which was appreciated by Prince Felipe for the school's efforts in developing Chinese business leaders with innovative internationally collaborative executive education programmes.

Three of the world's major business schools—China Europe International Business School (CEIBS) in Shanghai, Harvard Business School (HBS) in Boston, and IESE Business School in Barcelona—have worked together to develop a special executive education initiative called the Global CEO Programme for China to help Chinese chief executives better understand the global economy and how they can operate more effectively outside the region.



“An MBA is an extra weapon. You need to make sure your basic artillery is there.”

Interview with Mr. Frank Christiaens, MD, Barco China

In 2002, you took charge of Barco's China operations and faced a small loss making sales operation-what was your key strategy to turn Barco China around and triple profits over the last 3 years?

In 2002 Barco had been losing money in China for nearly 8 years. The operation was small with low productivity and

mainly HK-based management. By 2005, revenue had increased fourfold and profitability was restored. Key strategies were:

- To measure and benchmark performance and attitude. 25% of the staff were moved, removed or replaced.
- To benchmark and adjust employee compensation and benefits.
- To assemble a powerful management team with predominantly mainland managers.

• To move from “no” marketing to aggressive positive marketing and rebuild our brand.

• To move away from “trying to compete” (on price) to a higher end quality positioning.

• To design extensive personal development plans for all key staff.

At the same time you moved Barco's Greater China headquarters from Hong Kong to Shanghai. What were your expectations then and have these been fulfilled?

By 2002, the majority of Barco's revenue had started to come from mainland China. The European management was still however, relying on a management team based mainly in HK.

The HK management team I inherited knew surprisingly little about China. We started to add more and more Chinese mainland managers to the management team so it was a natural consequence to also move the headquarters to a mainland China location. Shanghai was chosen because of a number of reasons which may be very specific to Barco:

- Improve sales and order performance in the Shanghai region.
- Strengthen and support the Shanghai management team.
- Shanghai was the geographic center of the Barco operations in Greater China (10 offices).

Barco is a world leading provider of display and visualisation solutions for medical imaging, avionics, media, entertainment, security and defense, broadcasting etc. What is your key market

NAME Mr. Frank Christiaens
NATIONALITY Belgian
EDUCATION
• Civil, Electro-Mechanical, Electronics Engineering, University of Leuven, Belgium & Imperial College, London, UK
• MBA in International Management, University of Leuven, Belgium

CURRENT POSITIONS
• Managing Director, Barco China (www.barco.com.cn)
• Board of Directors, Barco Leyard joint venture
• Board of Directors, Benelux Chamber of Commerce China (www.bbchina.org)

PREVIOUS POSITIONS
• VP Asia-Pacific Internet Division, Alcatel (www.alcatel.com)
• COO and Founder of QALA, a telecommunications service provider in Singapore, Australia, and Hong Kong (www.qalacom.com)
• Founder, PHOBOS advertising, Belgium (www.phobos.be)



segment in China and what is the forecasted growth area?

We don't have a single key market segment in China. All our divisions seem to be performing better every year. Barco's products are needed when countries build infrastructure. Everyone here knows the rapid pace of China's infrastructure development and Barco is riding that wave to greater sales every year.

Our biggest divisions are control rooms, LED and projectors. Control rooms are large display systems with professional resolution and reliability which are used to manage and monitor power utilities and distribution, telecom and banking networks. Good examples here are Shanghai Electrical Power Corporation and Construction Bank. Our LED walls grace the Formula 1 circuit and the Qizhong Tennis Center. Our projectors are used in meeting room applications from the Great Hall of the People to the major CEIBS auditoria.

In the next few years we expect major growth to come from the medical, simulation, and cinema markets. Medical especially holds a big promise as China will want to upgrade its over 10,000 hospitals to provide state-of-the-art healthcare. Barco is the industry standard for medical displays and supplies its medical products already to all major medical players such as GE, Philips, Agfa and Siemens and is therefore confident to find a place in almost any hospital in China.

Are you worried about local firms stealing your ideas and technology?

The biggest competitor of our biggest division is a local company that used to be our dealer and has copied our technology. Everyone in our industry knows this. They provide lower quality equipment at half our price. The copying happened at a time when there was little or no IPR protection. This company is now considered to have developed its "own" local technology and there is very little we can still do about this. Going forward, we will be more selective about who we work with and we will protect our IPR. It is however not entirely possible to avoid this type of copy competition.

We spend 10-12% of our annual revenues on research and development. Our lower priced local competitors who try to copy us do not invest in research and development. In the long run we believe

that our ability to innovate is our strongest defense as IPR protection and awareness increase.

How is Barco positioned to cope with lower cost Chinese and Asian products in your market?

We do not compromise on quality, durability, reliability, and price. We continue to reduce costs without sacrificing quality and durability.

I think it is important that you choose your market positioning before you enter the Chinese market. We are a niche player focusing on a high-end market niche supplying professional products for professional people. Professional users look at the ROI of a product and the life-long cost rather than the initial purchase price.

5 years ago our sales people were desperately trying to compete with the lower priced competitors of this world. We now refer price sensitive clients to these suppliers and focus on the higher-end business.

Some competitors are a problem because they copy our concepts and then manufacture products that look similar but take dangerous shortcuts. We have done due diligence on some of these companies as part of our ongoing M&A effort and we were shocked to find that their costs were sometimes higher than ours, their profitability often negative, and that quality was almost invariably poor. In the long term these companies are not stable. Luckily for us, many Chinese customers are coming around to realise that quality and supplier stability are vital for professional businesses. This explains partially our increasing success in the Chinese market.

Barco China has grown from 50 to 300 professionals – what is your greatest human resources challenge operating here?

The biggest challenge is no doubt finding more quality people. I know that many MNCs report retention as a key challenge in China but we do not experience that to be our main issue. I believe that when you have retention problems you may need to look at management styles, compensation structure, and/or corporate culture. We continuously examine this at Barco to avoid retention issues. Our focus now is to hire more people who value quality in every facet of life and work, which fits the Barco culture.

You currently have a number of open positions at Barco China – why should somebody consider Barco as a potential employer?

Barco is a technology leader with a unique culture. You only need to consider Barco if you like our culture which is aggressive but values employee benefits and recognitions at the same time, e.g. competitive compensation, progressive employee welfare policies and a positive work environment.

But we are also aggressive. We need entrepreneurial managers that make their numbers. We manage by numbers and coaching and we don't hold hands. Every month our company's income statements are divided into different divisional income statements, each manager gets his/her income statement, and takes responsibility for his/her numbers.

You hold an MBA from the University of Leuven – what has been the greatest value of this in your career to date?

I graduated in 1992 from the University of Leuven (now Vlerick School of Management).

My ambition was to have an international management career and that's what my MBA has given me. I've worked in South America, South East Asia, India, Australia and China.

What is the best advice you would give to a MBA Student today?

First focus on finding an employer with values that you share and identify with. Focus on the long-term and not the short-term. So don't jump companies for a 10 to 20 percent increase in salary. Think long-term, be career-minded – allow your boss to see you develop. Build on your core experience; when you have established yourself as someone that is dependable and reliable, that management can trust, this will be recognised.

Secondly, international perspective remains important. Try to work at least a few years in a foreign country.

Thirdly, you need a core specialty. An MBA is not a core specialty. You need to be a specialist in for example technology, engineering, law, HR, finance, and then enhance that with an MBA. An MBA is an extra weapon. You need to make sure your basic artillery is there. **TheLINK**

Atlas Copco (China) Investment Co., Ltd. joins CEIBS Corporate Sponsor Network

CEIBS is very pleased to announce that Atlas Copco (China) Investment Co., Ltd. has signed a three year sponsor partnership agreement to support the school's Development Fund.



Atlas Copco is a world leading provider of industrial productivity solutions. The products and services range from compressed air and gas equipment, generators, construction and mining equipment, industrial tools and assembly systems, to related aftermarket and rental. In close cooperation with customers and business partners, and with more than 130 years of experience, Atlas Copco innovates for superior productivity. Headquartered in Stockholm, Sweden, the Group's global reach spans more than 150 markets. In 2005, Atlas Copco had 27,000 employees and revenues of BSEK 53 (MEUR 5,600). Learn more at www.atlascopco.com.

Atlas Copco has operated in China since the 1920's. It operated rep offices in Beijing Shanghai and Guangzhou since the early 1980s; de-

veloped Joint Venture partnerships from 1993-1998 and now has 10 companies (8 of which are 100% wholly owned), over 100 field offices and 1,800 employees in mainland China. Atlas Copco is growing rapidly in China where its sales to manufacturing industry represent over 50% of the company's sales in China.

Under the new partnership with CEIBS, Atlas Copco will work closely with the school on the recruitment of MBA graduates; on Group Consulting Projects; in the design and delivery of management development programmes as well as participation in CEIBS industry and executive

forums. Mr. Magnus Gyllo, Vice President of Atlas Copco Investment (China) Co., Ltd. will also join the CEIBS Corporate Advisory Board which is a platform for influencing and advising on the strategy and activities of the school.

Commenting on the new partnership, Mr. Gyllo said, *"For a number of years now, Atlas Copco in China has had many of its high potential young Managers graduating from the Diploma in Management Program at CEIBS. Benefits from this training have turned out so well in our company that we decided to take 'one more step' through the formation of an even stronger liaison in the form of this new partnership with CEIBS. Our company believes that one of the reasons for our success in China is linked to how well our Chinese Managers are trained and motivated over the years; CEIBS will now form part of this endeavour."*

LVMH ASIA SCHOLARSHIP LAUREATES ANNOUNCED

On March 30, 2006, the first LVMH Asia Scholarship Laureates in China were announced at a lively awards ceremony at CEIBS.

There was a tremendous response and competition amongst 75 CEIBS MBA students who had applied for one of three prestigious scholarships for an internship period at an LVMH House in Paris from June – August this year.

Professor Rolf D. Cremer, Dean and Vice President of CEIBS warmly welcomed LVMH and thanked them for their generous support and long-standing endorsement of the school. Mr. Andrew Wu,





Carrefour China partners with CEIBS for the Development of Future Talent

On May 15, 2006, Carrefour China signed an agreement with CEIBS to support the school's Development Fund through a donation of Euro 100,000 over a 3-year period.

Through the new partnership Carrefour will become a member of the CEIBS Corporate Advisory Board to assist in guiding the development and strategy of the school. CEIBS will also facilitate Carrefour's priority access to the CEIBS MBA students for projects and internships as well as priority access to the school's MBA graduates for recruitment. CEIBS will also offer Carrefour the opportunity to have Executive Forums on campus, to participate in research projects, industry forums as well as to enjoy privileged access to the CEIBS research centres.

"Carrefour's successful experience in

China is a result of our efforts to combine the advanced global management knowledge with the local market situation," said Mr. Jean Luc Chereau, President of Carrefour China, *"Today, with the partnership with China's best management school, we build another bridge linking the world's advanced management knowledge and our business practice in China. This will pave the way for our faster development in the Chinese market in the coming years."*

"As I believe, the partnership with CEIBS will not only help the development of the school, but will also result in great benefit to the improvement of our management and the cultivation of senior managers."

According to Mr. Chereau, as one of the most successful foreign companies in China, Carrefour paid great attention to the people

growth at management level, especially the cultivation of local talents.

"From now on, Carrefour will develop in China at an accelerated speed, which creates an urgent demand for high quality managers as we need to deal with the fast developing market and the fierce competition."

"I want to see more people well-educated in management join our management team, and also hope more managers who grew up in our business practice can get access to the most advanced management theories. This makes our partnership with CEIBS more significant."

Professor Rolf D. Cremer, Dean and Vice President of CEIBS welcomed the new partnership. *"It is an honour for CEIBS that Carrefour, a highly reputable company and strong global brand, joins the CEIBS Corporate Sponsor Partner network. This partnership comes after many years of cooperation; the recruitment of CEIBS MBA graduates; the hosting of CEIBS MBA internships as well as participation on CEIBS executive education management programmes. Some of Carrefour's most senior executives have also attended the CEIBS EMBA programme. Through their sponsorship of the CEIBS Development Fund, Carrefour demonstrates a long term commitment to the further development of not only their own 32,000 employees in China, but also to the field of management education in this country. We thank Carrefour for this significant contribution."*

As the biggest European retailer, Carrefour is the first to introduce Hypermarket - a key concept of modern retailing industry - into China, bringing the experience of One-stop Shopping and Happy Shopping to Chinese customers. Over the past 10 years, through continuous innovation and management improvement, Carrefour maintains its leading role among foreign invested retailing companies in China. Its management concept and the experience had a far-reaching impact to the modern retailing industry of China.

LVMH China Group Representative praised the efforts of the students who each wrote an essay on; **"Luxury goods and the Internet: Is it possible in China, to sell luxury goods on the Internet? Why?"** and outlined the criteria of the judging panel, four of whom were based in China and another four based in France.

The winners were announced via video link by Professor Henri-Claude de Bettignies, Distinguished Professor of Global Responsible Leadership at CEIBS, Aviva Chair Professor of Leadership and Responsibility at INSEAD, who together with LVMH established the new LVMH Asia Scholarship programme *for the first time in China and exclusively at CEIBS* this year. Both Professor de Bettignies and Professor Cremer praised the quality and efforts of the students' essays and congratulated the 3 laureates amidst a generous response from the audience:

- Ms. Meg Hu, Louis Vuitton Scholar
- Mr. Simon Sha, LVMH W&S Scholar
- Mr. Siddhartha Sarkar, Parfums Christian Dior Scholar

The event was graciously attended by Senior Executives from the LVMH China Group including: Mr. Christopher ZANARDI-LANDI, Louis Vuitton China CEO and Florent GREGOIRE, Louis Vuitton China HR Manager, Ms. Anita YANG, Guerlain China Brand General Manager and Ms. Maggie MA, LVMH P&C China Senior HR Manager, Mr. Daniel CHANG, Moet Hennessy Diageo China Managing Director, Ms. Vivian SUN, Moet Hennessy Diageo China HR Director and Ms. Vanessa RIBES, LVMH Asia Pacific HR Development Manager.

CEIBS EMBA Welcomes New Classes of Shanghai and Shenzhen



On March 18, 2006, with world rankings of being the 13th best EMBA programme, CEIBS welcomed another new EMBA class, marking the start of a two year EMBA adventure for 443 elite business executives from China and overseas.

The ceremony was hosted by the school's dean and vice president, Prof. Rolf D. Cremer. After the welcome speeches by the executive president, Prof. Pedro Nuño, and faculty representative, Prof. Lydia Price, the vice president and co-dean, Prof. Zhang Weijiong, introduced academic requirements for EMBA study. The EMBA director, Prof. Liang Neng, also attended the ceremony.

Then Prof. Jiang Ping, a visiting professor at CEIBS, delivered a keynote speech titled "Entrepreneurs and Their Social Responsibilities". Prof. Jiang is a famous law scholar and former President of China University of Political Science and Law. In his speech he described the entrepreneurs' social responsibilities as "four Don'ts": Don't harm the society, don't harm the consumer, don't forget disadvantaged groups, and don't reverse the reform.

The audience all applauded his views.

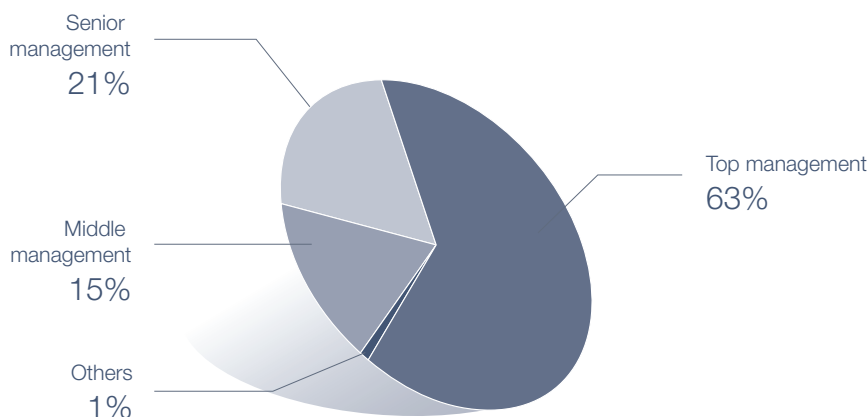
MOST SIZABLE INTAKE IN THE HISTORY

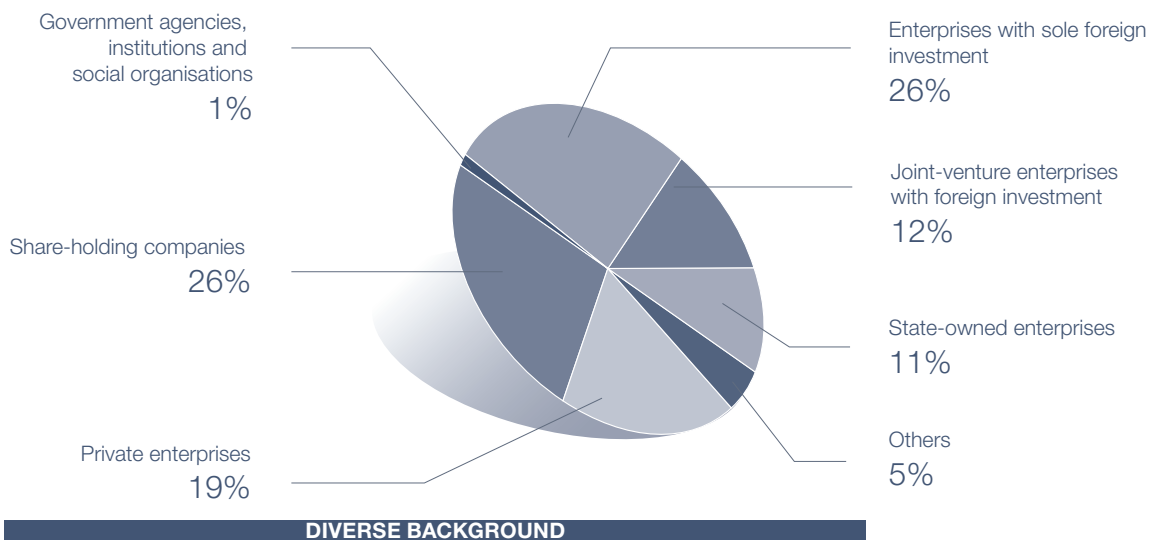
As the largest EMBA programme in the world, CEIBS EMBA programme expanded its enrolment again this year by 60 to a total of 630, of whom the classes of Shanghai and Shenzhen opened today, and the Beijing class will be opening in August.

International participants take up over one third of the Shanghai English class, which is a historically high ratio. Their distant trips between CEIBS and their home location outside China for four days of every month demonstrate how the EMBA programme has become established with overseas elite businessmen. Forty-eight percent of domestic participants come from places outside Shanghai, including Hong Kong, Macau, and Taiwan.

Approximately 45% of participants come from listed and private companies, 36% from FIEs, and 12% from state-owned enterprise and government organisations. The participants cover a wide array of industries including finance and investment, IT, energy, healthcare, real estate and construction, manufacturing, media and ad-

HIGH PROFILE





vertising, logistics, commerce and trade, science, education and culture, sports, as well as public utility. On average, the participants are 37 years of age with 14 years of work experience. More than 27% of them hold a master's degree or above, and 84% hold senior to top management positions in their organisations.

WONDERFUL ENTRY RESIDENCY MODULE

A four day Entry Residency module is offered to newly enrolled participants for more communication among peers and quicker incorporation into the school family. The following are some highlights of this module.

Highlight one: Leadership Development

A new project of Leadership Development delivered by Prof. William H. Mobley is introduced into the Entry Residency. The first question Prof. Mobley asked in his first session is "What is leadership?" Then he briefed each participant with the "360 degree leadership evaluation", which will be conducted in the first few months of the EMBA programme. Results from this evaluation will be analysed to formulate a leadership development plan for each participant. From this year on, the school will begin every Entry Residency with this evaluation. The same evaluation will be made in the Exit Residency before graduation. The comparison of the second results with the first ones will be used to help participants identify the gains and the gaps of the two years' study. Then a long-term leadership development plan will be worked out to improve participants' leadership for realising growth through effective reform in their organisations.

The "360 degree leadership evaluation" tool, developed by Prof. Mobley, is able to improve the participants' leadership by offering a systematic counseling based on the evaluation of their actual performance. This is the first time that a business school in China introduced such a practice.

Highlight two: Buddy Programme

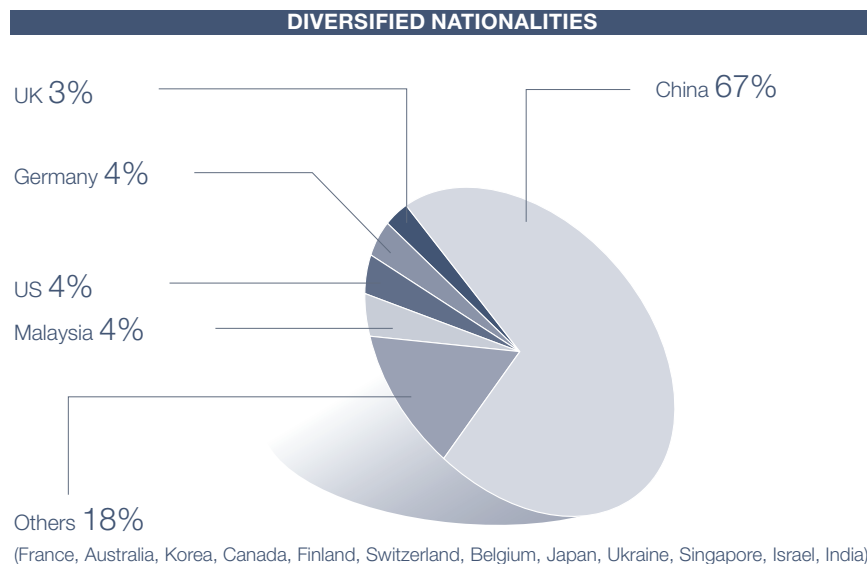
The annual intake of 630 participants means the largest EMBA alumni network in China. For 11 years, the school has enrolled and graduated over 3,800 EMBA participants, among whom one can find China's industry leaders, senior executives of multinationals' Chinese operations, as well as senior managers of foreign enterprises.

During this year's Entry Residency, the school launched an activity called

"Buddy Programme". The participants were divided into the following groups according to the regions of their work location: South China, Hong Kong - Taiwan, Jiangsu - Anhui, Zhejiang - Jiangxi, Greater Northern China, South West China, Middle China, Shanghai & Overseas. This aims to establish the network within the groups so that they may support one another in the future business development. Another activity is Teambuilding Programme, which enhanced teamwork spirit and friendship among participants by various indoor and outdoor games.

Highlight three: Executive Forums on Culture and Art

Following the noted writer Yu Qiuyu and the celebrated artists Shang Changrong, Xu Zhong, Xin Lili and Chen Changfen, the famous musician, Prof. Zhou Haihong



and the famous photographer Dr. Wang Xiaohui were invited to CEIBS EMBA Executive Forums on Culture and Art to build a bridge for the participants to enter the world of art and develop their aesthetic literacy.

Highlight four: Techmark

The two-and-half-day Techmark is a warm-up course for the EMBA programme. During the course, participants were divided into different groups and asked to conduct R&D, marketing, manufacturing and financial operations in a simulative business environment to achieve pre-set financial targets. During this simulation, the professor elaborated on key management concepts to assist the participants in thinking comprehensively and strategically, and therefore achieving their targeted shareholder value.

Background Information: Three “Mosts” of CEIBS EMBA Programme

CEIBS EMBA programme is the earliest, largest and best of its kind in mainland China. Since 2001, CEIBS EMBA programme has been ranked among the world's top 50 EMBA programmes for 5 consecutive years by the *Financial Times*. In the latest release of the worldwide EMBA programme ranking (October 2005), the *Financial Times* ranked CEIBS EMBA programme as 13th in the globe and 1st in Asia.. Therefore, it is confident to be second to none in the world.

CEIBS is a gym for business elite to exercise their mind. Though China's entrepreneurs and managers growing during transitional period have made tremendous contributions to the development of China's economy, there is still plenty of room for improvement. The mission of CEIBS EMBA programme is to facilitate their transformation into world-class executives. CEIBS EMBA graduates should excel not only in real business and management, but also in professionalism, thinking, personality, management and international practice. Their aspiration should be higher than mere business success. This two-year EMBA programme is designed for participants seeking to improve ability to analyse and solve real business problems, and to gain insights into the transitional Chinese economy and the global business environment. The programme will benefit participants with a spirit of teamwork, capability in organisational design, as well as the art of leadership. **TheLINK**

An Ever-lasting Memory

—The Journal on CEIBS EMBA's Entry Residency Module



By Huang Jianwei

DAY 1: Registration

I am expecting much from China Europe International Business School (CEIBS). It might be attributed to the sense of guilt deposited in my younger age: Four years of college life did educate me, but not in the way of academic achievement. Additionally, before signing up for CEIBS EMBA programme, I spent quite a lot of time and efforts investigating on the school – the result, I have to say, is very satisfying. Before today, CEIBS was what I heard about. Now, being in it, I realised what I heard about it before is indeed true. Everything is perfect in my observation: From registration to issuing of hand-outs, from the opening ceremony to the classes, the whole process is well-organised, with every detail considered and every step clearly-defined. Though with over 400 newly-arrived participants, there is no confusion or endless waiting as I had expected. The day's programme flew smoothly with amazing efficiency and exact timing. I almost came to think to myself that we were somewhere else other than China.

The Opening Ceremony

The followings are what impressed me the

most during the opening ceremony:

English: The executive president and faculty representative are expatriates and therefore spoke to us in English. The simultaneous interpreter did a wonderful job – a real gospel to someone with mediocre English like me.

Study: The first class seems to kick off right at the ceremony itself. The speech by the president lasted for merely 10 minutes whereas Professor Jiang Ping spent 110 minutes talking about “Entrepreneurs and Their Social Responsibilities”. The latter took up 61.11% of the ceremony.

Goal: It is now well-defined. I now understand that CEIBS is a gym to sharpen our mind.

Arrangement: Looking back, I come to see the clever timing in the schedule. The speech by the representative of EMBA05 students was inserted between 14:30 and 14:35, coinciding with the class break of 05 classes. Hence, Mr. Tang Ruifu, the speaker rushed in and out, delivering an engaging speech, proved by at least 4 or 5 bursts of laughter during the talk and the intense applause accompanied.

The First Class

The Executive Forum on Culture and Art: “No Need to ‘Understand’ Music!—On Music Appreciation”. I was astonished

by being offered such a starter. “Am I still in a business school?” But even more amazed did I become after the class! It turned out to be a lecture given by Mr. Zhou Haihong, Vice President of Central Conservatory of Music. By expounding on how to appreciate classical music, Professor Zhou built for us a bridge to the world of art and nurtured our aesthetic literacy. I have to admit that I have already embarked on this bridge thanks to his lecture. But more than that, I discovered deeply-buried elements underlying some major problems not only in my personal life but also in China’s society as such.

This class also gave me some foretastes of what CEIBS will offer: “Unlike some other business schools that only pay attention to business teaching, CEIBS aims to produce cultivated and charismatic leaders, who are more than successful business executives.” I would like to summarise the class by the words of Professor Liang Neng, Director of CEIBS EMBA programme: “They aspire something much greater than business success. They can read financial statements, as well as classic literature; they are skillful at business management and adept at art appreciation. The other reason why the top artists are invited to speak to our participants is that the formers, whose career pursuit echoes the school’s motto (Conscientiousness, Innovation and Excellence), set excellent models for the latter.”

DAY 2

Day 2 found us back to the business track from the world of culture and art. The day’s session began from “leadership”, followed by “teambuilding”, and ended by the “Orientation for New Students”.

Leadership Development: Starting from this year, CEIBS EMBA Programme introduced an overall training project of

leadership development. During the entry residency module, we all had a “360-degree leadership evaluation”. After the result came out, the professor of organisational behaviour helped us to analyse it and to make a corresponding plan of leadership development. Before we graduate, there will be a second evaluation so that the gaps and gains could be identified and we could have a better idea of what we have and have not. Based on it, the professor will then help us to formulate a long-term post-graduation strategy of leadership development. In other words, even after leaving the school, we will continue to be benefited by it, i.e., for life time.

Not surprisingly, teambuilding is one of the most favourite activities for a strong advocate of “teamwork” like me. Throughout 7 hours of the programme, I enjoyed the team spirit, the excitement and the freedom of “after-class” moving-around, and the pleasure in making new friends...

But the “pleasure” was put to a halt at 19:00 and was replaced with “serious” detailed guidelines for new participants. Yet it proved rewarding for me to be updated with all aspects of the whole programme: the scoring system, the format and requirements of assignment, the strict student administration and the rigorous “academic honour code”... What counts the most is to let me know how I can possibly graduate in the end.

During the same session, we were given a 719-page pre-course reading material including reference books for marketing course and required to complete some homework – which brought about a more accurate and less romantic picture of CEIBS’ teaching style and academic requirements. Fortunately, two pieces of good news were also released in this detailed and serious orientation: The assignment for marketing course will be no longer than 1200 words; and I got to know my classmates, for the first time, for the preceding activities were arranged deliberately across the classes to break the regional or class boundaries.

The World of TechMark III

It is Professor Robert Eng who guided us into “the world of TechMark III”. But it is up to us to find the way out there.



This “World of TechMark III” is in fact a simulated business management practice in a highly-simulated environment. The welcoming speech of “the World of TechMark III” is as follows:

“Congratulations! Welcome to the World of TechMark! This is the world of a product by the name of Rehmertz, which will be designed, manufactured or sold in three well-known countries of Euphoria, Nihono and Ledakka. Here you will be learning how to manage your business in a dynamic and fast-paced global business environment; you have to rise to the ever-changing customer requirements at all times; you need to produce your strategy quicker than your competitors and re-orient your business in time. You will be leaving the world of TechMark with the insights and experiences acquired here to create more values for your company.”

8:20 am of the third day of the week saw me into the world of TechMark and 12:45 am of the fifth day found me out of it. Though only two and a half days passed according to the earth’s calendar, we already went through 6 financial quarters in the world of TechMark. Another 8 guys plus I were operating our team of Mercury II. I still need more time to reflect on the whole thing in more details, but the course itself already benefited me in many ways: We of nine team members were living as if we were in a lonely planet for two and half days, during which the sense of close co-operation was even more genuine than that of real situation. Also, the course developed in me a more holistic sense of the overall operation of the company. Last but not least, I grasped a more thorough understanding of how financial target might influence the company, especially concerning EVA (Economic Value Added).

The result is invariably of great significance. Our team won the championship as the only firm in Mercury that



Ms. Wang Xiaohui, famous photographer

has achieved all criteria of performance evaluation.

Postscript: Pros and Cons

Pros: The procedure and schedule delivered could be ranked five-star, with high quality and efficiency, demonstrating a detail-minded and caring style. It provided us with wonderful environment and logistics support. The school itself has a high-level management.

Pros: Hardware is as good as expected: The campus is designed by Pei Cobb Freed and Partners. Perfectly designed, perfectly built. The logistics is smoothly run. All other facilities matched well this great campus.

Pros: The official language on campus includes Chinese and English. The internationals can be found everywhere on campus (though I have no idea whether they are faculty or students). The EMBA06 class has over 50 international participants, coming from diverse continents except Africa and Latin America. This secures for us a genuine “global perspective”.

Pros: It dawned on me that CEIBS has a rigorous academic honour code. I am likely to learn more than previously anticipated, but unfortunately the downside is –graduation will be tougher than expected as well.

Pros: Faculty and staff are all easy-going, lovely people, especially our class coordinators.

Cons: All fellow students are so friendly that the whole box of name cards I prepared were used up and I have to keep promising, “I will remember to give you one next time.”

Cons: My timetable in the future should be rescheduled.

A shame: we have a rather low proportion of female fellow students.

No idea if it is something positive or negative: my expectation of studying at CEIBS, after about four-day entry residency module, is soaring even higher. I start to hope that it will be pushed even further in the following years of the programme – to become “an ever-lasting memory”. **TheLINK**

The author is CEIBS EMBA06 Participant and Director of Zhongshan Vantage Gas Appliance Stock Co., Ltd.

MBA ACTIVITIES



CEIBS MBA STUDENTS SHOWED EXCELLENT ORGANIZING CAPABILITY IN BGRC

“Being Globally Responsible Conference” (BGRC) took place at CEIBS’ main campus from June 9th to 11th. This first student-led conference on corporate social responsibility was organized and initiated by CEIBS students to share with other fellow MBA colleagues from other institutions the importance and meaning of being responsible leaders in their future careers, while still being able to generate healthy profits. One of the highlights of this conference was the signing of the 2006 Shanghai Consensus, a declaration of their commitment to abide by ethical standards both socially and environmentally.

The conference was entirely initiated and organized by a dedicated team of CEIBS students, led by Sam Lee from South Korea. Approximately 150 students from leading business schools across Asia and Europe including AIM, HKUST, Nottingham, IESE, NTU, SJTU, Waseda and Melbourne attended this three-day event. To facilitate the communication of different views and practices of “Corporate Social Responsibility” (CSR) in different countries, the BGRC organizing committee put a “buddy system” in place, meaning that each visiting student from outside had been paired with a CEIBS student which allowed for a great atmosphere of knowledge sharing, fun and celebration throughout the conference.

On the third day, non-CEIBS participants with their newly made CEIBS buddies went on two exciting field trips. One group of students went to Ma Lu town, a nearby community that produces high quality grapes. This community incorporated fair trade and environmentally friendly practices, making it quite unique in China. The second trip went to Degussa sites to see first hand the BGRC sponsors’ positive, efficient and effective environmental and social policies in practice. The students agreed that Degussa’s

operation is a case in point for a corporation being globally responsible. A student said after the visiting, “CSR is real and attainable, but not a fallacy.”

This conference was seen by all as a massive success. It gave the students abundant food for thought and inspired many of them. To reward the excellent organizing of this conference, the members of the BGRC organizing committee were awarded with certificates for all their hard efforts in planning and organizing this event.

Both the EU ambassador and Chairman & CEO of Degussa (China) (BGRC corporate sponsor), praised organizing of the conference as well as the MBA students of CEIBS during the opening ceremony. Mr. Serge Abou, the EU ambassador commented that “CEIBS is one of the projections of pride, one of the real flags of success”, while Mr. Eric Baden, Chairman & CEO of Degussa (China) noted that “CEIBS has sustained quality of students. We have students from CEIBS and we find that their thoughts go beyond that of just an MBA. Our employees at Degussa ask us support them going to CEIBS; they don’t ask to go to any other school. CEIBS is a good, sound business education institute—it’s exciting.”

CEIBS MBA STUDENTS WON AWARDS IN SERIES OF INTERNATIONAL COMPETITIONS

Global business school competitions are an important part of MBA education. The CEIBS MBA 2005 students had a highly successful run at the global competitions. They participated in more than 10 competitions in the last 8 months and came out top in most of them. Their outstanding performance is a strong proof that China can also produce internationally competitive MBA students. It also manifests that CEIBS has become a world-class business school.

November 24-27, 2005. Five CEIBS

MBA students formed a team called "the Dragons" to participate in "Confluence 2005 IIM" at Ahmedabad, India. "The Dragons" won the championship after beating all other participating teams.

January 14, 2006. The first prize went to CEIBS again at the award ceremony of "Knowledge@Wharton Essay Contest". Up to 1000 MBA students and business undergraduates worldwide participated in the contest by submitting essays on the topic "What can China and India Learn from One Another?" Aaron Gong, CEIBS MBA 2005 student, won the first prize.

April 12, 2006. Good news came from Operations Simulation Competition organised by The MIT Sloan Operations Management Club. The CEIBS teams came out as 2nd, 8th, and 10th place respectively.

The excellent performance by CEIBS MBA students in a series of international competitions have enhanced the school's brand name and won respect for it from among its likes around the world. Moreover, our MBA students themselves have also benefited from the events. Siddhartha Sarka, an MBA05 student, said that by participating in these competitions they could put into practice what they have learned in the class, and learn how to accomplish teamwork under new circumstances and to approach and negotiate with venture capital firms.

Currently, CEIBS MBA students are also taking part in the competition for "the St. Gallen Wings of Excellence Award". Three CEIBS students, David Du, Jenny Jing and Siddhartha Sarkar participated in the symposium held during May 15-22 at St. Gallen, exchanging ideas with 600 business leaders, entrepreneurs, statesmen, and scientists from 60 countries or regions all over the world.

"Start-Up @ Singapore" is a Singapore business plan competition jointly organised by the National University of Singapore (NUS) Entrepreneurship Centre (NEC), NUS Business School Alumni Association (NUSBSA) and NUS Entrepreneurship Society (NES).

MCKINSEY & ACCENTURE PRESIDENTS' LECTURES AT CEIBS

With the invitation from Professor Wil-

liam Reinfeld, Mr. Andrew Grant, the managing director of McKinsey Greater China and Mr. Li Gong, the Chairman of Accenture Greater China came to CEIBS Shanghai campus on 17th and 18th of May respectively to give MBA students a speech titled "Managing consulting in China: opportunity and challenge".

Now more and more Chinese companies come to recognise the value of management consulting and look for consulting firms to help them handle the challenges posed by the fast growing economy. Mr. Andrew Grant reviewed the major trends in the history of management consulting industry. Then he summarised 5 top opportunities and challenges and discussed each of them with students.

Mr. Li Gong used visual cards to talk about the consulting industry in China and its growth trend. Then he made an introduction about the business of Accenture China. At the same time, he presented the career development path for a consultant and the way to balance the life and work.

One is the most respectable consulting firm. The other is the biggest consulting firm in the world. Excellent speeches by the top management from two different types of consulting companies impressed MBA students deeply and gave them a better understanding of the management consulting industry in China. (By Mark Wang, MBA05 Students)

CEIBS MBA RANKED NO.1 OF "THE MOST VALUABLE BUSINESS SCHOOLS IN CHINA" IN FORBES

On April 4, the *Forbes* Chinese edition launched the research report of "the most valuable business schools in China". CEIBS is ranked No. 1 in the most valuable full-time MBA programmes in China.

This time, the *Forbes* investigated 50 business schools which have graduates in 2002 all over China. The top ten business schools are: CEIBS, BiMba, Lingnan(University) College Sun Yat-sen University, School of Economics

and Management of Tsinghua University, Guanghua School of Management of Peking University, Management School of Fudan University, International Business School of Nankai University, Management School of Xiamen University, School of Business of Renmin University of China and Antai College of Economics and Management of Shanghai Jiao Tong University,

CEIBS also is ranked No. 1 in "the fastest salary increase of the graduates". In the ranking for "the salary increase rate before and after MBA study", CEIBS graduates are ranked No. 1 with a rate of 106%.

MBA STUDENT DONATIONS TO TWO CHARITY ORGANISATIONS

Organised by the MBA Social Venture Club (SVC) and supported by various other students' clubs, 2006 CEIBS Charity Bazaar was held on campus on April 2. This is the second time that CEIBS MBA students organised similar activities to sponsor charity causes. The school administration, MBA Office, faculty, students were actively involved in this activity by donating more than 300 items for sale and around 100 people attended the bazaar on Sunday. Besides charity bazaar, the MBA's Dancing Club, Golf Club, Swimming Club, Consulting Club, Fitness Club, Movie Club and etc. also designed their own games to generate revenue.

Special acknowledgement goes to Professor Rolf D. Cremer, Dean and Vice President of CEIBS, and his family, who donated RMB2,000 to this event. The CEIBS team to Bangkok Business Competition also donated their prize of RMB 2,000 to charity cause.

Total revenue generated from this event is more than RMB 20,000 and all proceeds will go to two Shanghai-based charity organisations - the Roots and Shoots Organisation and Second Chance Animal Aid (SCAA).



A Pool of Elite with a View Beyond



CEIBS plays a leading role in China's MBA education. High profile MBA students are of fundamental significance to the very success of CEIBS MBA programme, therefore attracting and securing highly qualified programme participants are regarded as one of the most important tasks of the school. Since the establishment of the MBA programme, CEIBS has been following the common admission practices of world-class business schools. Since last October, CEIBS has completed the first 2 rounds of the 2006 MBA class intake. Since quite a number of people who have been recruited by, or who are considering to study at, CEIBS are interested in CEIBS MBA admission progress, we are happy to offer a summary of first 2 rounds of admission to help you have a better knowledge of CEIBS MBA Programme.

What are the profiles of the first 2 rounds of CEIBS MBA 2006 intake?

The overall profiles of MBA students have become more competitive. The profiles of applicants are the following: GMAT scores from 600 to 760; average work experience: 5.5 years; average age: 29.3 years; international students: 33%; females: 32%; and 33% possessing dual bachelors or master degrees. Their academic background includes, 48 % of students coming from science and engineering field, 35% in commerce and management, 11% in humanities and arts, with the remaining 6% in other areas. They have work experiences in such industries as financial service, IT, consulting, production and manufacturing, consumer products, energy, wholesale and retail,

logistics, bio-tech and pharmaceuticals, estate and property, audio-visual entertainment, and public service.

What trends or features are identifiable in CEIBS 2006 admission?

Diversification of students' sources and enhanced internationalisation are the most evident features of 2006 intakes (the first 2 rounds), which has helped strengthen CEIBS' status as a world-class business school. We are happy to see that CEIBS is on a par with global top business schools with regard to general quality of MBA students.

Applicants accepted in the first 2 rounds of admission are from such countries as USA, Germany, Italy, Spain, Holland, South Africa, Australia, Japan, Singapore, Malaysia, Korea, Mexico, the Philippines, etc. Internationally accredited, CEIBS' MBA programme has maintained its place in the *'Financial Times'* ranking list of world's top 100 MBA programme for 5 consecutive years (ranked No. 1 in Asia for 3 consecutive years). This is the best rankings that an Asian business schools have ever achieved. Moreover, thanks to the booming Chinese economy CEIBS has drawn wide attention from overseas business people and managers and it is becoming a top choice for those people who wish to study business courses in China.

International students at CEIBS have first-class professional and academic backgrounds. They have employment experiences in world class organisations like McKinsey(Germany), IBM (US, Japan),

Morgan Stanley (US), JP Morgan (South Africa), A. T. Kearney (Italy), Deutsche Bank (Germany), Nortel Networks (Spain), Hyundai (Korea), NBC (US), Accenture (Singapore), Bain & Company (Germany), etc. As to academic backgrounds, our international students graduated from Yale University, University of Chicago, University of Columbia, London School of Economics and Political Science (LSE), Nanyang Technological University in Singapore, Seoul National University in Korea, Bocconi University in Italy, and New South-Wales University in Australia. Undoubtedly, international students with such high profiles are rarely found in other business schools in Asia. Joined by overseas students, CEIBS is upgrading the degree of diversification and internationalisation and local students would benefit from international exposure and cultivate a global vision and mindset in this multi-cultural context.

On the other hand, CEIBS outperforms other business schools in the country in attracting domestic MBA applicants. Students in the first 2 rounds of admission possess solid professional experience and outstanding academic backgrounds. They are from Microsoft, Oracle, CitiBank, HSBC, Motorola, Phillips, Intel, Unilever, China Merchant Bank, KPMG, PWC, Huawei, ZTE, Shanghai Automobile, etc. And they graduated from reputed universities such as Peking University, Tsinghua University, Fudan University, Zhejiang University, China University of Technology, Shanghai Jiao Tong University, Nankai University, Xi'an Jiaotong University. Others who did not study at these universities are also accepted due to their strong career development potentials, excellent communication competence, or other "bright points". And the local elite students, having grown up during China's reform and opening-up, would provide international students unique opportunities to learn more about Chinese economy and culture. It is believed that at such an international platform as CEIBS the cultures and commercial thinking of the East and the West would first collide and then converge with each other. **TheLINK**

The 3rd round of admission to CEIBS 2006 MBA has begun. For more information or help, please contact CEIBS MBA Admissions Office (Tel: +86-21-28905555, Email: admissions@ceibs.edu).



No Need to “Understand” Music – On Music Appreciation

By Zhou Haihong

In ancient China, there was a talented musician called Yu Boya. One day when Boya was playing the lute, a woodsman named Zhong Ziqi listened attentively and said that the music was “as mighty as mountains”. Boya was amazed, as that was exactly what he had in mind during the performance. He then presented another piece imitating water and was again surprised by Ziqi who thought the music “was flowing like rivers”. No matter what Boya wanted to communicate, Ziqi was able to understand. The two became best friends. Soon afterwards, Ziqi died. Boya was struck by sadness and broke the lute into pieces – “Since no one else can understand my music, why shall I keep playing?” Thus the legend was passed from generation to generation and “mighty mountains and flowing waters” became a symbol of friendship.

This story happened about two thousand years ago, yet something about it remains relevant in present times, in spite of grand transformation taking place over the past centuries. That is, music seems as incomprehensible today as yesterday. Why is this?

DO WE NEED TO UNDERSTAND MUSIC?

We have conducted an investigation among six key institutions of higher education located in Beijing plus our China Conservatory of Music. One item in the questionnaire is “if you dislike classical music, what are the reasons?” The majority of answers we got were that “I cannot understand it” or “I have no idea what that kind of music conveys”.

I have been wondering for many years why, over two thousand years ago, Boya could not find anyone to understand his music except Ziqi, and why, over two thousand years later, most people still find it difficult to comprehend music. Especially during the first two years of my study at China Conservatory of Music, I almost felt depressed by this question. It was not until I took the course of Music Aesthetics, that I was enlightened by some simple truths expounded to us by our teacher.

Music Aesthetics tells us that the music sound effect, the basic material of music, possesses two fundamental qualities. First, it has no spatial forms, i.e. music cannot directly communicate visual images. Second, it

has no phonetic symbols like language; hence music cannot convey specific conceptual or logical objects. These qualities of music determine that the majority of people cannot understand music or recognise what it wants to say. The music aesthetical model demonstrated in the story of “mighty mountains and flowing rivers” puts great pressures on each of us, for in this model people are required to “understand” music. However, the audience is not to be blamed for failing to comprehend music; they should not be accused of having bad taste, nor musical genes, or little appreciation capacity. Rather, it is because music itself is not capable of directly conveying visual or semantic contents.

One does not necessarily figure out some defined concepts or visual images when appreciating the music. Neither does he need to interpret the music by means of literature or arts. This idea might be quite new to many people. It suggests that to identify a distinct conceptual or visual object with the approach of literature and arts is misleading in music appreciation. People are prevented from fully enjoying music by this misconception.

Take Mozart’s piano concerto for example. When being told that it is classical music,

one makes an effort to understand what it expresses, only to find it totally incomprehensible and inapproachable. So he gives it up. But when the same piece is put in an album of light music, one finds it pleasant, comfortable and enjoyable. So he goes on to listen attentively. What makes this huge difference between the two cases?

Apart from the impact of the ancient story of “mighty mountains and flowing rivers”, there is another more direct reason for the common idea that classical music is hard to understand. In the past decades, music education has been centred on music interpretation, which instills into the popular mind such an idea: classical music is fundamentally different from popular music. This has a profound connotation and so requires the audience to know about the historical context, the composer and the producing background of a specific piece of work before understanding its meaning. Music professionals also made great efforts to “educate” people in this area but with little effect. Classical music is losing more audience than ever. It has something to do with this misleading concept of music appreciation. I, myself, have previously given lectures on music interpretation. But today, I decide to undo it by raising this point: “We don’t need to UNDERSTAND music!” Simply close your eyes and open your ears, strive to enjoy music and forget about the issue of understanding it.

Some people might ask why music professionals are blind to such a simple fact. But it is not as simple as it seems to be. From the perspective of a music professional, questions are raised as to whether or not music can express visual images in some certain ways.

There are four scenic pictures: rocky hills, limpid streams, beautiful pastures and turbulent seas. Here is a piece of music. Most audiences associate with the last picture of seas, no matter whether they are college students or primary school pupils. As for the second piece, the majority of people think it stands for streams. Why is it that different people reach the common understanding in these two cases? Doesn’t it show that music is indeed comprehensible?

In fact, the debate has been going on for over a thousand years as to whether or not music is comprehensible. Why does music, something purely made of sounds, arouse a variety of feelings and sensations?

HOW CAN WE UNDERSTAND MUSIC?

To begin with, there is a mechanism of musical expression. A key word is “synaesthesia”. For

example, we all know what it is like to chew a chocolate and a mint. They taste very different. Now there are two sound effects of mid-low and high keys. Are you able to tell which key sounds more like chocolate and which more like mint? This is the phenomenon that we call “synaesthesia”, referring in this case to the correspondence between listening and tasting. Another example is a ripe banana and a green apple. Which tastes more like a high key? Most probably, the green apple. What about stuffiness and coolness, bright colours and dark colours, wool and silk? These senses of taste, touch, and sight are all related to the pitch, loudness and other aspects of the sound effect. This is “synaesthesia”.

According to music psychology, synaesthesia is one part of a human being’s mental activities. All the above instances demonstrate that synaesthesia is an instinct, an innate capacity of human beings. The stimulation to one sensory organ will arouse the reaction of some other sensory parts. For instance, a high key might be related to bright colours, excited feelings, and light and small objects; a low key is very likely to correspond to dark colours, suppressed feelings, and heavy and big objects. Also the loudness of a sound effect is relative to the size of object and the strength of psychological impact.

It is because of the existence of this correspondence principle of synaesthesia in human’s mental activities that music, although purely made of sounds, is able to express philosophic bent, emotional experience, and conceptual ideas, etc. A composer, by the working of synaesthesia, chooses the sounds he needs and organises them to create what he desires to express. While an audience, by the same mental mechanism, experiences what is intended to be felt.

Now let’s see if all of you have the musical genes to create a dirge. Will you choose high keys or low keys? Low keys. Fast tempo or slow tempo? Slow tempo. Ascending tune or descending tune? Descending tune. Your musical genes prove to be exactly the same as Chopin’s, one of the greatest composers! It is the same approach both Western music and Chinese music employs to make people feel sad. One of my friends told me that he sang the folksong, “Little Cabbage”, to his eight-month-old baby girl as a lullaby. The baby girl cried to the song – she also understood the music! (TheLINK editor: “Little Cabbage” is a Chinese folksong about a little girl mourning for her dead mother and her own fate.)

If you are asked to create yet another piece of music to describe the dawn, you might be more confident about your music talent. First what would you use to show the darkness

before the dawn? High key or low key? Low key. Long or short key? Long key. It is getting brighter and brighter now – the key will become higher and shorter. You share the same idea with another great composer, Mussorgsky!

Until now, we have criticised two opposing views. We don’t need to understand music; in other words, it is not necessary to interpret music with the approach of literature and art. But at the same time, it is wrong to assume that music is unable to express anything specific and that music appreciation is no more than a purely auditory experience. We find that, with the working of synaesthesia, music is capable of describing many things. To make it simple, music can be understood.

Whether or not a piece of musical work can be understood clearly depends on whether or not it maintains an on-going and stable corresponding relationship with the object of its expression. If the composer selects and organises the sound effects in a way to keep this relationship throughout the work, it will be much easier for common understanding. If he fails to do so, the audience will naturally find his music inapproachable. Here is an example where all of you can catch the sadness by its slow rhythm, low key and descending tune. It is Bach’s “St. John Passion”. An opposite instance is like the following one which mixes different rhythms, keys and tunes and makes it extremely difficult to make any sense of the expression. In this case, the audience is deprived of a coherent content of imagination, for the sound is ever changing. You reached common understanding on most music I previously played to you, because I intentionally chose those that do the best in expressing what they want to express.

The audience is partly responsible for not being able to comprehend music, since a precondition of music appreciation is a prompt synaesthetic reaction and vigorous imagination. But it is not necessary to worry about our synaesthetic capacity, because we are born with it; especially little children who have an even greater capacity in this mental activity. The key is to develop a habit to experience and practice this mental power, which we tend to miss in our daily life.

To summarise, you can understand music as long as you have synaesthetic capacity. Everyone has it, but not everyone nurtures it. Each person has musical talent and is responsive to music, for synaesthesia is a human instinct.

With this basic principle in mind, we now listen to a complete piece of work, the symphony “Finlandia” by the Finnish composer, Sibelius during tsarist reign. It was performed for one month before being banned. The cultur-

al watchdog of the tsarist regime scented the rebellious spirit in the work. The “Finlandia” is a purely instrumental work without lyrics. How could some distinct political agenda be read into it? Now everyone of us may take the role of a tsarist inspector to check out if the following themes can be identified from the music: oppression/the reign of the darkness, sufferings/yokes/suppressions, resistance/waking-up, struggling/fight/revolt, suppression vs. revolt, battle/advance, counterrevolutionary/more fights, the praise of Finland, further struggles/victorious advance, glorious victory... It seems to me that you are more professional than tsarist cultural inspectors. You can relate all the above themes to your emotional responses, which demonstrates that your corresponding capacity of synaesthesia is powerful. So, for us, all these themes are linked together to form a logical, coherent and comprehensive artistic expression.

However, I might disappoint many of you by telling you that all these themes are nothing but my interpretations. Sibelius himself never designated any specific meanings to any part of this work. I interpret it according to what I feel. Questions are raised: Are these interpretations correct? Are they what the composer wanted to express? It brings us to the third topic: are we necessarily pursuing a “correct” understanding?

DO WE NEED TO UNDERSTAND MUSIC CORRECTLY?

Quite often we doubt if what we got out of the music is a correct understanding. In many cases, it took me quite a while to grasp some meaning from one piece of work, only to find it totally irrelevant with its official interpretation. Why is this? The research tells us that the capacity of music expression is limited: it can only express the objects that correspond synaesthetically to different aspects of sound effect, including the pitch, the loudness, the tension, rhythm and tempo, and the releasing speed. Many objects cannot be described by music, for they possess no features on the above aspects. Many subtitles and content interpretations violate this confined nature of music. For example, music is not able to express explicitly some specific visual objects like furniture, fruits or physical appearance; neither can music describe some certain abstract concepts such as fraternity, equality, economics and laws, etc.

Here is a piece of work titled “A Girl with Blonde Hair”. Who can tell the hair colour from the music? There is no clue at all. Another example is the following work, “An American in Paris” by American composer Gershwin. He asked his best friend to produce an “official” interpretation: “On a sunny morning, an American

strolled to the Elysees Plaza. Having passed an open café, he crossed the river to sit down on a chair by the Rive Gauche.” Who could tell from the music that it is about a café on the Elysees Plaza at Paris? No one could. Hence, the audience is not to be blamed for wrong interpretations. Rather, it is the music that fails to define it. I have to say that in most musical works, the composers have not told us what they intend to express. Beethoven has Symphony No.5, which people dubbed “Fate”, Symphony No.2, with a popular title of “Hero”, and Symphonies No. 1, No. 4, No. 7, No. 8, all having no subtitles. Mozart and Haydn are both prolific composers, producing loads of wonderful music; yet they never specified the target objects of their music. Sometimes, the composer might give a subtitle, but most of the time, they give no explanations. Most music explanations contain the subjective imagination of the person who tries to explain the music. Hence, most of them are misleading, for they list many things that music is not capable of expressing. As a result, those who cannot figure out the “correct” content will be disheartened.

Based on the principle of synaesthetic correspondence, there is bound to be multiple interpretations of the same musical work. Therefore, it is absolutely acceptable for one to understand the musical work in his way, for there are no “standard” interpretations. Both music professionals and music fans don’t care whether or not their experiences are in line with the original intentions of the composer. Even with the same music, different audiences and circumstances will produce different experiences, which is quite common. In the same way, music performers offer diverse interpretations for the same piece of work.

The idea of “incomprehensible music” keeps at arm’s length a group of potential audiences; the judgment of “wrong interpretation of the music” pushes them yet further from the art of music. We stress that there is no need to understand music or understand it correctly, because these requirements heavily burden the audience and restrict their aesthetic imagination. In our view, what counts the most in music appreciation is experiencing more than understanding; a right feel is better than a so-called “correct” understanding.

HOW SHALL WE APPRECIATE MUSIC?

There are many ways in which we can appreciate music. Two of them are basic approaches. First of all, music is an auditory art. Man has various sensory organs designed for enjoying

the pleasures of different senses. Music is like a feast for ears. As people seldom care about the visual image of the wine and are simply satisfied with its good taste, so we basically enjoy music by experiencing the gratification of auditory senses. Therefore, pure auditory satisfaction is the most basic form of music appreciation, not a “vulgar” form as some people wrongly put it.

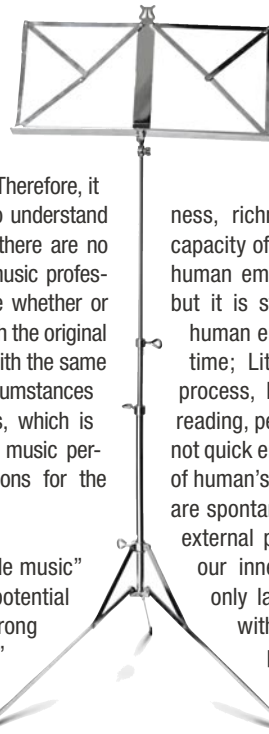
But music is more than auditory satisfaction. A human being’s sensory system not only includes the external activities such as looking, listening, tasting, smelling and touching, but also involves a fundamental dimension of internal functions, which are emotions and feelings. These senses of the inner world are so exquisite, rich and intricate that most of the time we cannot put them into concrete words. This is where music comes in. Music is the best gift to human beings for expressing these inner emotions and feelings. That is why music is dubbed “the art of emotions and feelings”. A key mental activity

in music appreciation is to experience those indescribable senses.

Therefore, there is no other form of art that could match music in its delicateness, richness, subtlety, dynamism, and capacity of tracing the minutest changes in human emotions and feeling. Art is great, but it is static without process, whereas human emotions and feelings unfold over time; Literature is also great and has process, but it has to be taken through reading, perceiving and imagining, which is not quick enough to catch the fluid activities of human’s inner world. Movies and dramas are spontaneous, but because they require external performance, they cannot reach our inner world directly. Music is the only language directly communicating with our heart by expressing inexpressible objects. Music begins where language ends. Music speaks for our emotions and feelings.

I hope that all the above four topics can help you to remove the conceptual barrier of the assumption that “music is incomprehensible”. We will continue to explore the reason why highbrow music finds few audiences, or in other words, why classic music is less appreciated by common people. **TheLINK**

The author is professor at China Conservatory of Music. The article is based on his speech at the Executive Forum of CEIBS on March 17. It has been reviewed and approved by the author. The latter part of the article will be published on the next issue of *the Link*.





The Campus Life of Some Entrepreneurs

By Huang Nubo

CEIBS held an admission session in Beijing in 1996, when its main campus was still within Jiao Tong University in Minhang, Shanghai.

As I remember, it was the first time for CEIBS to enroll EMBA students in Beijing. This included rigorous application procedures and exams. I can't imagine how I passed the exam and got admitted. During those two years of the programme, we met once a month to attend an intensive course of four-day class-

es either in Beijing or Shanghai.

I often boast of two things in my life: I did my first degree in Chinese Language and Literature Department at Peking University and graduated from EMBA programme at China Europe International Business School (CEIBS). As a young fan of literature, studying Chinese literature was fulfilling for me – I was in heaven. CEIBS' EMBA programme opened another window to the wider world; here I was strictly trained to develop a mind-set of business management. Some friends can't understand how I can write poems and run a business simultaneously. It seems to them that the mentalities required by these two activities are totally alien to each other. I have to admit that

my dream of becoming a poet might well have come true even without the days in Peking University. But without the experience at CEIBS, I would never have become a businessman and, of course, there would never be a company called Zhongkun Group.

Over fifty classmates were gathered by chance. At that time we were all top executives from myriad organisations. It was funny that like a group of veterans, rough and wild through battles, we suddenly became tamed in the classroom. Though the group comprised diverse personalities and agendas, we got along very well and some stay in my memory forever.

The present chairman of Sinochem International Corporation, Liu Deshu was our class monitor. Sinochem is now among the top 500 companies in the world. Zhang was steady and sincere, but also enthusiastic. We all liked him. He was a good leader..

Xu Heyi is now the man behind Beijing Hyundai Motor Co., Ltd. Frankly, I feel proud of him. Not many people know that he was deputy director general of the Beijing Planning Commission in those days. But I was optimistic of his great prospect in the government. I believed that sooner or later he would be appointed to some more significant roles such as vice mayor of Beijing, or something even grander. Yet to my surprise, after graduation from CEIBS, his accomplishments took an unexpected turn. Within just a few years, the automobile industry in Beijing experienced a great leap under his leadership, which was truly admirable. My belief was that just like me, the EMBA experience transformed him and put him on a totally different track. I met him twice after graduation. One occasion was the fortieth anniversary celebration of the establishment of the Tibet Autonomous Region, where he was a member of the Beijing municipal delegation and I represented the China Association of Mayors. We stayed in Lassa for two days. The second time when we met in Inner Mongolia, he was already the leader of Beijing Hyundai Motor Company Ltd.

Another classmate of mine was Li Ming, who is now quite well-known in the Beijing real-estate industry. He is very intelligent. And although still a young man, he is already a top executive in COSCO. When we met in the EMBA class he had just been transferred from the position of general manager of the Industrial Company

to a position in Sino-Ocean Real Estate. As far as I can remember, the first key project he did in his new position was a joint effort with me. At that time, I was operating my first significant real estate project. In the classroom, I usually laid in front of me my project paper. With one ear listening to the lecturer and the other ear paying attention to questions raised by my classmates, my eyes tried to catch every word in the project paper. It took me quite a lot of time and effort to develop the project, but a large part of it was “borrowed” by Li Ming who happened to sit beside me and found it very handy to read my paper. Believe it or not, during the mid-day break after the class, he talked for an entire hour trying to persuade me to collaborate with him – but offering no drink or food during his everlasting speech! I was not keen on cooperation, but found it so hard to say “No”. Finally, “Yes” slipped from my lips. No one could ever equal Li’s high intelligence. Within one year, he turned the project into a phenomenon in Beijing. While I was in charge of pulling down the old buildings, he was responsible for construction as well as capital investment. Being classmates and close friends, we respected each other and he was willing to give me better shares in many cases.

Consequently, the project achieved a real success, with pleasant collaboration between us, not to mention what we both earned from it. Li Ming, from then on, lined up new projects; while I acquired the money needed for the next project. Many of our classmates had to start from scratch in their new careers upon graduation. But we two had not missed any classes or any opportunities to make fortunes. Now looking back, I am still grateful to him and commit to devoting more paragraphs on him. Though we most often meet during public events or occasions, we remain close friends. Whenever I need help, he never hesitates to offer a hand. He is a generous man indeed. Surely, some day he will make even greater accomplishments.

One more key figure that has to be mentioned is Fan Fuchen, currently working as Vice Chairman of the China Securities Regulatory Commission. Fan was very cautious in what he spoke in the class, for he was the director general of the listing department of the commission – with such power at hand, he had to be careful. He loved chatting with us, but once we touched on the topic of “listing”, he started blinking cautiously. Gradually, we did not dare to even say the word in front of him,

in case he misunderstood our motives. We have not maintained a personal relationship since graduation but quite often I read his speeches in newspapers.

There are also sad stories. It is said that God hates talented people, which is possibly true. Xu Yajiang was another outstanding member of my class. He was originally among the top management of CVIC, dealing with venture investment and financial management, both of which are high-brow stuff. He was from a family of PhDs, his wife, sister and brother all having doctoral degrees. In our class, he was commonly recognised as the most intelligent. Once he started debating with the foreign professor. We all remained seated, attentively watching them argue. All of sudden, he got so passionately engaged that he rose from the seat to directly confront the professor and get the poor guy to accept his views. We couldn’t help laughing in our heart and kept talking about it afterwards. We were told later that after graduation he went on to work on a doctoral degree of economics at the Chinese Academy of Social Sciences. I was so glad about the news. However, three years ago, shocking news came: Xu had died of lung cancer. Most classmates attended his funeral, where I couldn’t stop weeping. At that moment, the sense of meaninglessness was ever so strong: a life being fully occupied was suddenly gone – it was so easy to pass away! Xu’s death had a deep impact on me. I often think of him, wishing him happiness in heaven, happily debating with God.

My classmates of CEIBS’ EMBA 96 Class are now all over the world. I genuinely wish them well. I would like to thank CEIBS for the great contribution it has made to China’s economic development.

What we should read we have read. Those more profound works of management had better be left to academia and researchers. As for us, we came from the dust and now it is time to go back to the ground and do the management on Chinese soil.

I hope this brief reflection may serve as a kind of memoir of our campus life.

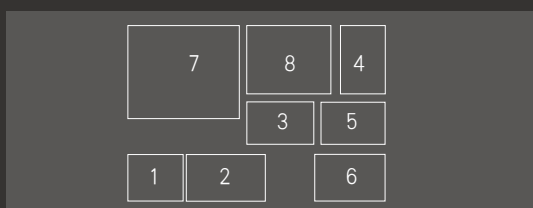
Long live EMBA! **TheLINK**

The author is CEIBS EMBA96 Participant, now serving as Chairman of Board in Zhongkun Group. The article is adapted from the original version entitled “My EMBA Classmates” published in *China Entrepreneur*, Issue 5, 2006.



The Alumni Photo Album





1. Egypt (February 2005, by Chen Yanbing)
2. Jin Xi of Jiangsu Province (February 2006, by Qian Hui)
3. Ejina of Inner Mongolia (October 2005, by Deng Hui)
4. Ejina of Inner Mongolia (October 2005, by Xu Jinquan)
5. Cha Shu Power Plant of China Resources Power Holdings Co., Ltd. (August 2005, by Deng Hui)
6. Cambodia (February 2005 by Xu Hongbo)
7. Cambodia (February 2005 by Xu Hongbo)
8. Xi Tang of Zhejiang Province (January 2005, Deng Hui)



A New World with Chinese Characteristics

By David Gosset

Not one single day goes by without news, debates and comments on China: business deals, trade negotiations, diplomatic summits, political events, state visits, financial ups and downs, societal trends ... the list goes on. Conferences, forums, seminars, provocative articles, new papers and the latest books keep China-watchers very busy; but confronting such a profusion, one risks taking short-term variations or insignificant fluctuations for long-term tendencies and losing any sense of pattern.

One question might help us to focus on what really matters: Are Westerners ready to adjust to the Chinese civilization's re-emergence as one of the main sources of global order? In other words, is the West prepared for a world with Chinese characteristics?

This question reflects on qualitative dimensions (values and identity) more than on quantitative parameters. If, in the 21st-century global village, Sinicization does not mechanically mean de-Westernization - because of their purely quantitative territorial element, various national liberations did engender decolonization - it certainly means that the world society will have Western and Chinese characteristics. Complex and mainly invisible, these dynamics provide a stimulating framework to make sense of China's opening-up and globalization.

NO "CHINA FEVER", NO "CHINA THREAT" BUT A "CHINA FACTOR"

Fourteen years after the collapse of the Qing Dynasty (1644-1911), the writer Lu Xun was asking: "When are we going to stop bringing new bricks to the Great Wall?" (May 11, 1925, *Essays*). A defensive construction built and consolidated through the centuries to protect the empire from the invasions of the nomads, the Great Wall could also be seen as the symbol of an immured Chinese mind.

Prague's genius Franz Kafka, who did not know much about China but experienced the depth of humans' labyrinthic soul, captured this aspect in his *The Great Wall of China*. In 1949, China recovered its sovereignty; in 1978, Beijing adopted the opening-up policy - today, the Great Wall is a tourist attraction.

In a process of unprecedented magnitude, one-fifth of mankind, different from the mainstream (the West), is entering the world stage. Czarist Russia's emergence in the 18th-century European system and the respective rises of Germany and Japan at the end of the 19th century were comparatively of far less magnitude. While Western scientific and economic modernity will continue to have influence on China - Beijing's overall strategic goal is modernization - the Chinese world will have considerable quantitative and qualitative impact on the global village - in its civilizational expression carried by the Chinese people, China cannot be diluted in the globalization process.

Americanization was a distinctive feature of the 20th century; the 21st-century global citizen's identity will have Chinese characteristics. The West, on the rise since the 15th century and which, through its American version, still dominates world affairs, will have difficulty conceiving and accepting that it will not anymore unilaterally dictate the global agenda; that it will have to adjust.

Can we non-Chinese look at China without passion? The Marco Polo syndrome - "one feels like in paradise in Quinsai" (today's Hangzhou in the province of Zhejiang) as reported by the citizen of Venice in his *Description of the World* - an ancestor of the "China fever", or the "yellow peril" announcing current hysteria around the "China threat" theme, do not facilitate our relation with the Chinese world.

In "Does China matter?" Gerald Segal asserted that "at best, China is a second-rank middle power that has mastered the art of diplomatic theater" (*Foreign Affairs*, September-October 1999). At the Carnegie Endowment for International Peace in Washington, DC, Pei Minxin saw China as being on a "Long March to nowhere", stagnating in a "trapped transition" (*Financial Times*, February 24). In Chinese universities or think-tanks, it is not rare to meet Chinese scholars who deride the "China fever" of some Western - business, diplomatic but also academic - circles.

True, the People's Republic of China is a developing country that is, as such, facing considerable challenges. China's

population - more than 1.3 billion - is approximately the population of the European Union plus the entire African continent, or more than four times the US population. If one focuses exclusively on what has yet to be done to catch up with the developed world or on the various visible signs of Westernization within China, the idea of serious Chinese influence on the global village can appear illusory.

However, if one considers the scope of post-imperial China's metamorphosis (the collapse of the Roman Empire in the 5th century was followed by at least 300 years of disorder in Western Europe) and the speed of its transformation since 1978 - per capita income increased 10 times and foreign trade has boomed from US\$20 billion to the current \$1 trillion - while keeping in mind the Chinese empire's past cultural, economic and political centrality in Asia, the question of the Sinicization of the world makes sense. It is not feverish speculation or another version of 18th-century European "chinoiserie" - reconstruction of China disconnected from reality - but a phenomenon already at work in the global community.

The presupposition of the "China threat" leitmotif is precisely China's capacity to influence on a massive scale of our world system, but it is also assuming that this impact will be negative. Between two extremes, "China fever" or "China threat", the analyst should stay rationally within the limits of what can be called the "China factor": China's opening-up means, to a certain extent, Sinicization of the world, a process that has to be integrated and explained and not adored or condemned a priori.

In any case, let us not take short-term variations (positive or negative) for long-term tendencies. China's foreseeable future will be made of successes, failures and crises, but the play's plots will take place on a stage whose backdrop is Chinese civilization's re-emergence.

WHEN MODERNIZATION DOES NOT MEAN CULTURAL ALIENATION

How could the global citizen be in any way Sinicized if tomorrow's China is radically Westernized?

Looking at the young people in Dalian, Beijing, Shanghai, Shenzhen or Chongqing, it seems that Westernization is China's future. It gives Chinese stu-

dents "face" to speak some English - more "face" if it is American English. On campus they practice sports popular in the West, and after graduation they would opt preferably for a career in a joint venture where the corporate culture is supposed to be Western - and the pay higher.

But it is necessary to put these trends into historical perspective. In China, where the present is to a certain extent history, snapshots can be misleading; discourses should integrate different "clocks" and be attentive, behind shorter developments or even ephemeral fashions, to very slow movements, what Fernand Braudel (1902-85) called the *longue duree*.

Past interactions between China and what was foreign to it show the unique resilience of Chinese civilization: it has the ability to change without losing itself; it could even be defined by this singular capacity of renewal. It is why China's unequalled civilizational duration stands as a challenge to Paul Valéry's comment inspired by the European tragedy of World War I: "We civilizations now know that we are mortal."

The Yuan Dynasty (1277-1367) and the Qing Dynasty (1644-1911) were established respectively by Mongols and Manchus (about 2 million Manchus took power over 120 million Han Chinese in the first half of the 17th century). However, the only way for the "barbarians" - non-Han - to rule the empire was to adopt largely elements of the Chinese tradition. Immutable China is a myth - the long history of China is a succession of clearly distinct periods - but absolute discontinuity from one time to another is also a narrative. Revolutionary discourse on a new regime for a new China was the most abstract intellectual construction; in fact, China's history is a continuity of relative discontinuities - it combines permanent (Chinese characters for example) and changing features.

Buddhism and Christianity have also been testing Chinese civilization's capacity to absorb exogenous elements. Entering under the Han Dynasty (Eastern Han, AD 25-220), Buddhism penetrated deeply into the Chinese world under the Tang Dynasty (618-907); but this penetration has seen the transformation of original Buddhism to fit Chinese philosophical and linguistic context.

Moreover, Song Dynasty neo-Confucianism represented by Zhu Xi

(1130-1200) was a magisterial reinterpretation of the Chinese classics in reaction against a Buddhist vision of the world. Zhu Xi's scholasticism has been the core of imperial state orthodoxy until the end of the examination system in 1905.

In the age of European expansion, Christian missionaries spared no effort to convert Chinese people. The Jesuits' approach initiated by Matteo Ricci (1552-1610) was to engage as much as possible with China's elites; no one has ever understood the Chinese world better than the sinologists of the Company of Jesus, but genuine European intellectual excellence failed to change radically the Chinese mind. How can one seriously believe that current superficial material Westernization in China - related with food or clothes, the introduction of managerial skills, the instrumental use of English, etc - is going to affect essentially Chinese culture?

China's technical and economic modernization does not mean cultural alienation. China is once again translating into its own context foreign practices and theories. Democratization might be unavoidable for the Chinese world - in fact, the process has already begun - but it will be a democratization with high Chinese characteristics.

Some external forms of the translation process can be a surprising accumulation of heterogeneous pieces. Look at a Sichuan-cuisine restaurant with Rococo furniture or at a Shanghai middle-class home where reproductions of European impressionists co-exist on the same wall with Chinese calligraphy. The sociologist observing China's megasociety can interpret these unusual combinations as parts of a gigantic assimilation. One can also enjoy completed translations where the "original" fits perfectly in the evolving Chinese context; it is often the case in architecture, in urbanism or in design.

The resilience of Chinese culture cannot be separated from China's demographic vitality; they reinforce each other in what constitutes a virtuous circle. The very fact that China is the most populous country in the world is highly significant. China's population has always represented a quarter to a fifth of the global population.

This constant feature of the Chinese world is linked with invisible and almost immemorial principles. The great and unorthodox Dutch sinologist Robert H.

van Gulik (1910-67) concluded his work *Sexual Life in Ancient China* (1961) by remarks on Chinese vitality: "It was primarily the careful balancing of the male and female elements that caused the permanence of Chinese race and culture. It was this balance that engendered the intense vital power that from remote antiquity to the very present has ever sustained and renewed the Chinese race."

In the global community, fundamentally optimistic and life-oriented China will interact with various Western forms of nihilism; life will quietly prevail.

CHINA AND GLOBALIZATION

China absorbs, translates and regenerates itself vigorously. Last year, from Beijing to Singapore, Chinese people celebrated the 600th anniversary of the navigator Zheng He's (1371-1433) first travel. These celebrations of the Ming Dynasty explorer, Asia's Christopher Columbus, were also indicative of China's current mindset: Chinese people can also be extrovert and do not intend to witness passively, beyond the Great Wall, the reconfiguration of the world.

Forty years after the beginning of the Cultural Revolution nightmare, 28 years after Deng Xiaoping's decision to reform and to open the People's Republic of China (gaige kaifang), Chinese people are embarking on their "Age of Discovery" - which might well announce, as it did for 14th-century Europe, a time of Renaissance.

In January 2004, Parisians looked at a red Eiffel Tower in honor of Chinese President Hu Jintao's visit, which coincided with the "Year of China in France". The event "China in London 2006" is the largest celebration of Chinese culture ever seen in the British capital. In 2007, Russia will hold its "Year of China". It seems that the world is preparing for a Chinese century. French journalist Erik Izraelewicz can write a book titled *When China Changes the World* (*Quand la Chine change le monde*, 2005). China is succeeding in having non-Chinese framing the debate in a way that is advantageous to it.

Already 30 million non-Chinese are learning Mandarin. Beijing has opened Confucius Institutes (following the example of the Alliance Francaise, Goethe Institutes or British Councils) both to teach Chinese and to explain Chinese culture



throughout the world. Chinese is already the second language on the Internet, with more than 100 million Chinese netizens.

A global audience greets Chinese artists. Movie director Zhang Yimou, composer Tan Dun and cellist Ma Yoyo (born in Paris and educated in the US) are internationally acclaimed for their talent and creativity. Gong Li, Zhang Ziyi and Maggie Cheung have penetrated European or American imagination. Chinese design is enriching fashion. The idea behind Shanghai Tang founded by Hong Kong businessman David Tang Wing-Cheung is to "create the first global Chinese lifestyle brand by revitalizing Chinese designs".

Chinese brands such as Lenovo, Haier and Huawei are largely recognized worldwide. In the 2004-05 academic year, China sent more than 115,000 students abroad (62,000 in the United States). The World Tourism Organization predicts that by 2020, 100 million Chinese tourists will travel the world: the global tourism industry will have to adapt to Chinese characteristics.

China's direct investment overseas is rising rapidly. Up to the end of 2004, China made \$45 billion direct investment in more than 160 countries; in 2004 alone, China's direct investment overseas reached \$5.5 billion, surging 93% over 2003. The 2008 Beijing Summer Olympics and the 2010 Shanghai World Expo will reinforce this momentum. Almost exactly 100 years after the end of the Qing Dynasty (1911), China will be once again at the center of Asia, and in a position to challenge US unilateral domination over a world system in search of equilibrium.

The Chinese world is not only made of the 22 provinces - nine of them more populous than France, with obviously many

subcultures - five autonomous regions, four municipalities, two special administrative regions (Hong Kong and Macau) of the People's Republic of China, Taiwan and the highly Sinicized Singapore - the city-state can certainly be considered a part of Greater China - but it also includes in its largest extension a Chinese diaspora active worldwide.

The "Sons of the Yellow Emperor" - in reference to Lynn Pan's *History of the Chinese Diaspora* (1990) - estimated at 40 million people, are not just about Chinese restaurants (although food and cooking are key elements of culture) or Chinatowns (perfect examples of Chinese culture resilience far away from the Yellow River or the Yangzi); the notion of Chinese diaspora indicates that China is not only a political entity related to a territory but, above all, a cultural expression already having global reach.

CO-ARCHITECT OF THE 21ST-CENTURY NEW WORLD ORDER?

For the West, necessary adjustment to the re-emergence of the Chinese civilization requires modesty and intellectual curiosity. Are we Westerners ready to learn from Chinese civilization as Chinese people are ready to learn from the West? This is the precondition of a genuinely cooperative relationship.

Seriously engaging China is to accept the very possibility of Sinicization. The West, in a position of scientific and economic superiority since the Industrial Revolution, is used to treating China as a product of orientalism. For the majority of Westerners, China is either a museum - hence the surprise of many foreigners in China: "I was expecting something else!" - or a classroom: one has to lecture Chinese people on more advanced standards. The West has to reflect on these prejudices and to look at China as a living matrix of a civilization that is already shaping our time.

If China proves to be an integrator factor in a world plagued by morally unacceptable exclusive globalization, if China proves to be a laboratory where cultures can cross-fertilize in a world threatened by hatred between civilizations, one should rejoice to find a co-architect of the 21st-century new world order. **TheLINK**

The author is Director of the Academia Sinica Europaea at CEIBS.

A Glimpse at EFMD



EFMD (the European Foundation for Management Development) is the executive partner of CEIBS. As the largest international network in the field of management development, it covers over 600 institutional members and reaches over 15,000 management development profession-

als from academia, business, public service and consultancy in 65 countries world-wide. Its members include, from academia, John Hopkins University, the Kellogg School of Management, Columbia Business School, Tanaka Business School, Cranfield School of Management, the London Business School, and INSEAD, and from the corporate world, such blue-chip companies as BT Group plc (UK), Deutsche Bank, L'Oréal, and Renault.

In the interview, Eric Cornuel, EFMD's Director General, talked about EFMD's work in networking and in providing accreditation for a range of players in business education, and about his vision of a cluster system of properly funded business schools and of management based on values of corporate social responsibility and on forgiveness.

BACKGROUND

Q: How would you describe EFMD's mission?

A: There are three different elements to our mission. The first is to be a net-working organisation, providing events and opportunities for people involved in management to interact with one another on different themes, and also to enable bridge-building between business schools and corporations.

The second is to be concerned with quality – we try to help our members improve what they are doing. To do this, we've established EQUIS, which we'll come back to, our certification of e-learning CEL, CLIP (Corporate Learning Improvement Process), as an accreditation service to help corporate universities and more recently EPAS which is a new accreditation scheme for degree programmes.

The third is to be an ambassador for the European tradition of management. In Europe, we see management as being about people and having an essentially social element. We do this by being involved with various projects. Here are some examples: we have a 50% stake in CEIBS (China Europe International Business School); we work closely in Central Asia with CAMAN (Central Asian Foundation for Management Development); and finally we have helped management schools on the Indian subcontinent set up their own accreditation system, through the Asia Link, a programme of the European Commission, which tries to contribute to quality and excellence in management education in the region.

Q: What are the main benefits of membership, firstly to academics and secondly to corporates?

A: For academics, EFMD is a must. It is a forum where people can meet, and where different organisations reflect on future trends. We present a range of activities that are at the heart of their concerns.

For corporates, we used to have conferences, but in practice such is the pressure on corporate life that it's difficult for them to be together in one place for 2-3 days. So what we do is to try to focus on working groups with experts on issues such as succession planning, talent man-

agement and quality issues etc. There is also CLIP – which is based on EQUIS [The European Quality Improvement System] and which provides companies the opportunity through their corporate universities and training facilities to reflect on and see improvements in their management development and training.

Q: Your organisation has a number of networking opportunities – learning sessions, conferences, publications and journals – are any of these particularly successful and why?

A: The largest event we run is the Annual Conference which provides an opportunity for schools and corporations to interact with one another, and the Annual Meeting for Deans & Directors is now firmly established as the leading meeting of its kind in the world. The 2006 event took place in January at the Rotterdam School of Management and attracted over 220 Deans from the business schools across the globe. Both are dependent on the input of the participants, and people really do contribute a lot.

MANAGEMENT EDUCATION AND RESEARCH

Q: A recent survey (The Leadership Challenge by OPP Limited, a business psychology consultancy) showed that many large companies are doing their own management training rather than sending people off to do MBAs, while another survey (Nunzio Quacquarelli, of QS Research) indicated that MBA salaries had risen by 9% to \$82,000; there is also a commonly held belief in management circles that the MBA has become devalued as more and more schools offer it, and MBA applications are falling. What are the key trends that you perceive in the popularity or otherwise of the MBA degree with students and employers?

A: There are many 'fly by night' institutions who are offering MBAs, yet on the whole it remains an excellent qualification. A full-time MBA taken as a general (business) diploma after an average of five years of professional

work is bound to bring value. The main problem of the full-time MBA is its duration – two years is too long given the current pace of life. It's difficult now for people to take two years out. So I think that we'll see the reduction in duration of the full-time MBA and the growth in distance and executive MBAs. [The latter] are much more adapted to current trends and some of the most successful MBA programs are executive MBAs.

ACCREDITATION

Q: You put a lot of weight on accreditation – of university education, of corporate universities, of e-learning – how much weight does EFMD accreditation have?

A: The EFMD accreditation process is very lengthy, rigorous, and well organised. It looks at all dimensions of an institution, not only at all programmes from first degree to PhD, but also at all the institution's activities including research, e-learning, executive education, community outreach, international focus, development of entrepreneurial and leadership skills, and innovation in all aspects including learning design and pedagogy. It initially involves a self assessment report, followed by peer review from a team that may comprise Deans and representatives of the corporate sector. Assessment is carried out by peer reviewers comprising Deans of reputable academic institutions, HR and Managing Directors of major corporations, heads of national professional associations, consultants and assessment experts.

EQUIS is also dynamic – we refine it year on year as we are in a constantly changing environment. The think-tank behind EQUIS is EQUAL, an international association of quality assessment and accreditation agencies, as well as other relevant organisations, in the field of European management development. EQUAL also has an international board on which sit representatives of AACSB, Canadian Federation of Business School Deans (CFBSD) and Asian deans, and produce documents such as for example guidelines on offshore programmes and on distance education.

Q: Your CEL (Certification of E-learning) was started in response to concerns about the quality of e-learning products and services. What were these concerns and what

will be your criteria for accreditation?

A: E-learning at the moment is a jungle: you can invest a lot of money and get little in return. We are proposing to manage that by creating an instrument for certification (CEL). This will look particularly at institutional provision of e-learning and provide awards for the best, who will then become benchmarks.

Q: You have set up CLIP (Corporate Learning Improvement Process), as an accreditation service to help corporate universities. How will this process work?

A: CLIP takes EQUIS as a basis for its quality assessment methodology, and is an accreditation tool for corporate universities. It involves guided self assessment against a set of rigorous criteria, followed by peer

review from Chief Learning Officers and other members of the corporate university community. It follows the EQUIS model of looking at the whole institution (recognising also that corporate universities are not the core business of corporations and the guided self assessment process should involve not just the person in charge of the corporate university but all those concerned with the company's executive learning provision, in particular concerned how training interacts with strategy.


One major trend is the links being forged between these corporate universities and business schools, and that's going to be happening a lot in the future.

Q: Many companies are focusing their executive development activities on leadership development. Would you say that this was a

general trend?

A: The reason why there is a need to focus on leadership is because too often we see a type of management style which is unforgiving, fighting people rather than supporting them, punishing them for making mistakes, and focusing only on shareholder value. At a result, people are stressed and ill at ease. So, when you hear about leadership training it's really about a style of management which has different values, which is concerned about health at work and forgiveness. These values are really important if you want to retain people.



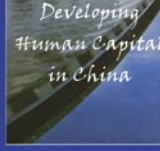
Fundamentally I believe that we must encourage more human values in management: especially forgiveness. If you don't forgive people for making mistakes, their confidence can easily be destroyed. If you forgive them, you give them a chance to learn, and you earn legitimacy. **TheLINK**








EFMD Conference
in partnership with
China Europe International Business School (CEIBS)
26-28 November 2006 Shanghai, China

*«Leading China's Future:
Future Chinese Leaders»*

中国上海
零六金秋

With the support of

For additional information, please contact
Mrs. Shanshan Ge, shanshan.ge@efmd.org

Simultaneous translation into English and Mandarin
will be provided for all sessions

In the past 25 years, China has made great strides in its economic development and transition to a market economy. It has emerged as one of the major powers in the international arena, and the pace of economic reforms is accelerating with the implementation of the nation's commitments to the World Trade Organization.

Although China is armed with capital and ambitious strategies, leadership talent is and will remain a challenge for a long time to come. Globalization, increasingly demanding market pressure, the success scenario and sustainable development in the long run will only materialise if the Chinese companies effectively clear major obstacles, among these, the talent gap.

The EFMD Conference "Leading China's Future, Future Chinese Leaders" hosted by CEIBS (China Europe International Business School) will look at this key issue from three different angles:

- Developing Globally Responsible Leaders in China, based on the experience of EFMD/UN Global Compact Initiative and the EABIS - European Academy of Business in Society achievements
- Shaping the future of the Business Education in China, focused on the current situation on business education in China and its future challenges
- Developing Human Capital in China, focused on Management Development and Organisational Development challenges when Chinese companies go global, including managing diversity and cross-cultural management, specific issues of the Chinese market such as "Chinese Returnees from abroad"; other topics such as corporate universities will also be discussed.

EFMD and CEIBS will jointly invite representatives from their networks which include Chief Learning Officers, HR Directors, corporate university heads, business school heads, deans and executive education directors from China and the rest of the world.

Confirmed Speakers:

- Elena Bonfiglioli, Director of Corporate Citizenship, Europe Middle East and Africa, Microsoft
- Nandani Lynton, Vice President, Thunderbird Asia
- Sung Joo Park, AAPBS-Association of Asia-Pacific Business Schools and Dean, KAIST-Korean Advanced Institute of Science and Technology
- Stephan Rothlin, Vice-Director and Secretary General CIBE-Center for International Business Ethics at UIBE-University of International Business and Economics, Beijing
- David Wilson CEO, GMAC-Graduate Management Admission Council

Book Review

Intellige ut credas

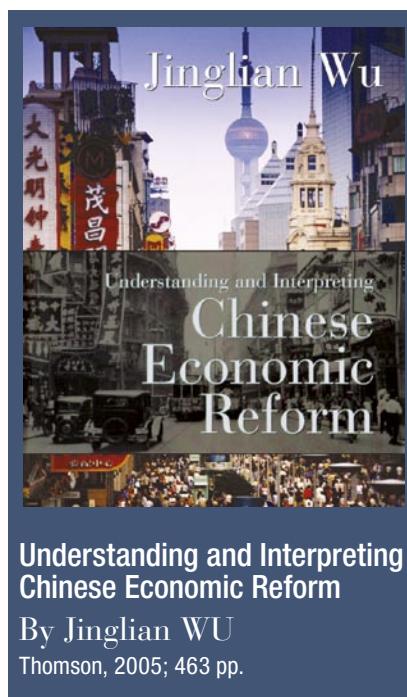
By Alfredo Pastor



“Understand, so that you should believe”, Augustine’s words on faith and reason, might apply to the West’s attitude towards Chinese economic reform: for some, the reform process started with Mr Deng Xiaoping and has proceeded without hitches to make China a formidable machine ready - and probably willing - to conquer the world; for others, China’s reforms are too timid to save it from economic and social collapse, which last- ing disregard for the prescriptions of the Washington consensus must inevitably bring about. Both views contain a grain of truth, and it needed Professor Wu’s book to put them both in perspective.

Professor Wu, one of China’s most respected economists, graduated from Fudan University in 1954, and has been an influential actor in the reform process for more than four decades, both as an advisor to Government and as a teacher and researcher; he has played a role in most of the controversies engendered by the reform process; he summarizes his position, not always popular in government circles, in the introduction to his book: “With our common effort, an orderly and sound market economy based on the rule of law will be established in China and the country will develop into a land of social justice and common well-being”.

Reform in China started in the mid-fifties, almost as soon as it was decided - as it had been in the Soviet Union, after Lenin’s initial hesitations- that a centrally planned economy was the inevitable complement of a communist regime. By 1956, during the period called “letting a hundred flowers blossom and one hundred schools of thought contend” the first criticisms of the inefficiencies of the central plan were heard; unfortunately - as was also the case in the Soviet Union- it was believed that admin-



istrative decentralization was the answer: decision powers were transferred to lower levels of the administration following Mao’s *On the Ten Major Relationships* (1956); but, without serious budget constraints and deprived of the information carried by the market price system, the decisions of lower-level units resulted in chaos: that was the institutional underpinning of the Great Leap Forward. Even though a new wave of centralization corrected the worst excesses of the period, the notion that administrative order was the only way to allocate resources under socialism was to hamper the process during this first, and longest, stage of reform (1958-1978).

The second stage (1979-1993) is labeled that of “incremental reform”: at first - under the ideological influence of reforms taking

place in Yugoslavia and Romania- reform centered on the state-owned enterprises (SOEs); but, without market competition and a price system reflecting relative scarcities, reform efforts could not go far; after some hesitations, the emphasis switched from “inside the system” (SOE reform) to “outside the system”, promoting growth in the periphery of the state-owned industrial sector: encouraging the growth of non-state enterprises, setting up the household contracting system for agricultural production, opening up the economy through the creation of special economic zones. The result was the first big push in China’s growth; while it avoided the pitfalls of excessive concentration on public enterprise reform, as was the case in other transition economies, it led to the establishment of a dual-track system, which granted non-state enterprises long-deprived access to material and financial resources at the cost of encouraging corruption and rent-seeking behaviour. Furthermore, this period made it plain that the tools of macroeconomic control were lacking, and that rapid growth was making the economy much more unstable.

The third stage of reform, started in 1994, is labeled that of “over-all advance”; its ideological foundations date from 1984, when the 3rd Plenary Session of the 12th Central Committee of the Party declared that “the fundamental task of socialism is to develop social productivity”; but a period of hesitation followed, culminating in the reaction to the events of Tiananmen (June, 1989); it is not until November, 1993, that a *Decision of the 3rd Plenary Session of the 14th Central Committee of the Party* stated that reform was to be carried on all fronts, and endorsed a blueprint for major reforms in fiscal and tax policies, banking, foreign exchange, enterprise

Book Review

and social security: the major institutional changes needed for stabilization policies are put in place.

To show how much remains to be done, the second part of the book is devoted to sector reform: agriculture, SOEs, the financial system, the tax system and the trade regime. Lastly, the third part covers macro issues: the social security system, macro policies, and the role of the State. In this third part, most of the questions that Westerners pose about the future of the Chinese economy are addressed in a competent, thoughtful fashion.

So much for the contents of reform. Two other perspectives are worth noting: first, the account of the political controversies surrounding reform: although these are not described in detail, the main names - and their fortunes- are there, and provide clues to the interested reader. Second, the intellectual landscape surrounding reform is described in a vivid way, as surveyed by a scholar: Professor Wu makes parallels between the process in China and that taking place in other socialist economies, and shows how China learned from the efforts of others; he shows how the “logic of the market” imposed itself after the failure of piecemeal reform; precisely why half-way measures were often counter-productive, and thus lent political capital to those opposing liberalization. For those belonging to the generation that saw central planning presented as a viable alternative to a market-based economy, this is more than just interesting reading.

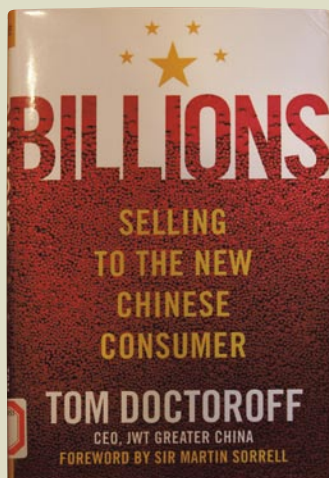
The book originated in notes for the lectures delivered in Chinese by Professor Wu; in their raw form, they would have been hard to appreciate by Western readers. Fortunately, Professor Jianmao Wang has provided us, not only with an outstanding translation, but also with summaries of the main documents and extensive references to sources, hitherto unavailable to all except sinologists. In its present form, Professor Wu's book gives non-specialists the opportunity to gain a genuine understanding of the Chinese economy; as such it is likely to become the definitive work covering this essential period of China's history. [TheLINK](#)

Alfredo Pastor is Spanish Chair Professor of Economics at CEIBS.

CEIBS' Recommendation

BILLIONS: SELLING TO THE NEW CHINESE CONSUMER

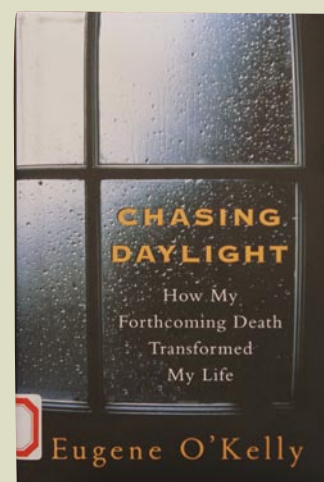
By Tom Doctoroff. Palgrave Macmillan, 2005.



This book cracks the supposedly indecipherable code of marketing to the new Chinese consumer - all 1.3 billion of them. It distils what Tom Doctoroff has learned over the past eleven years in Greater China with J. Walter Thompson, one of the region's largest advertising agencies. Marketers of some of the world's leading brands tend to come to China with mistaken ideas of how to apply Western thinking to the marketplace. But the Chinese are different. The same rules do not apply. As a result, Doctoroff will delve into the psyches of contemporary Chinese consumers for the reader to explain the importance of culture in shaping buying decisions. He uncovers the core drivers of behaviour and preference in key market segments, provides tools to help readers harness the power of insight into consumers' fundamental motivations in the Chinese marketplace, and, lastly, reveals the pitfalls into which many multinational competitors often fall. Anyone who plans to do business in China shouldn't get on the plane without this book.

CHASING DAYLIGHT: HOW MY FORTHCOMING DEATH TRANSFORMED MY LIFE

By Eugene O'Kelly with Andrew Postman. McGraw-Hill, 2006.



At 53, Eugene O'Kelly, the hard-driving CEO of KPGM, one of the world's top professional services firms, had it all--a string of career accomplishments, a loving family and a circle of friends among whom he counted the Sage of Omaha, Warren Buffet. Then Eugene received news that would change everything. The diagnosis was late-stage brain cancer. The prognosis: six to eighteen months to live.

Chasing Daylight is the account of his final journey. Starting from the time of his diagnosis and concluded upon his death less than four months later, this book is his unforgettable story.

With startling intimacy, it chronicles the dissolution of Eugene O'Kelly's life and his gradual awakening to a more profound understanding. Interweaving unsettling details of his battle with cancer with his moment-to-moment reflections on life and death, love and success, spirituality and the search for meaning, it provides a testament to the power of the human spirit and a compelling message about how to live a more vivid, balanced, and meaningful life



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