



# Case Study: **“Guanxi in Jeopardy”**

---

Meredith DeCenzo

Tammy Nash

Ashley Taliana

# Outline:

---

- **History of China post World War II**
- **Economic environment in China—facts and figures**
- **“Guanxi in Jeopardy”**
  - Companies involved
  - Interest of companies
  - Problem
  - Actions/Reactions
  - Avoidable situation?
  - Possible solutions
- **Cultural Differences—Americans vs. Chinese**

# China: Immediately After 1945

---

- At the end of WWII, in 1945, China emerged as what would appear to be a strong military power, yet was actually economically exhausted and on the verge of their own civil war.
- The Chinese economy did in fact deteriorate for some time after the War.
- The Communist party in China was strengthened by the war—both in popularity and as a practical fighting source.
- Under Mao, China began to prepare for the establishment of a new China. If successful, the Chinese Communists would eventually seize power.
- China's civil war continued through and after the war, which ultimately resulted in the establishment of the People's Republic of China.

# China: Post WW II

---

1949	The Communists win victory in the civil war and establish the People's Republic of China.
1954	Beginning of China-Russian Communist split.
1962	Break with the Soviets is complete, and begins positioning to become the "other" superpower.
1976	The death of Mao Zedung brings the Cultural Revolution to an end.
1979	Reconciliation efforts between China-U.S. in the 1970s culminate in establishing formal diplomatic relations.
1995	The U.N. 4th Conference on Women held in Beijing, to address issues and problems obstructing the advancement of women.
1997	Jiang Zemin comes to power. Many predict that China will become a leading industrial power sometime in the next century.
1998- Present	China is on a course of economic liberalization.

# China's Economy: THE FACTS

---

- China's economy grew at an average rate of 10% per year during the period 1990-2004, the highest growth rate in the world.
- China's gross domestic product (GDP) grew 10.0% in 2003, and even faster, 10.1%, in 2004, and 9.9% in 2005 despite attempts by the government to cool the economy.
- China's total trade in 2005 surpassed \$1.4 trillion, making China the world's third-largest trading nation after the U.S. and Germany.
- Natural resources: Coal, iron ore, crude oil, mercury, tin, tungsten, antimony, manganese, molybdenum, vanadium, magnetite, aluminum, lead, zinc, uranium, hydropower potential (world's largest).
- Trade (2005):
  - *Exports*--\$762.3 billion: electronics; machinery; apparel; optical, photographic, and medical equipment; and furniture.
  - *Imports*--\$660.2 billion: electronics, machinery, petroleum products, chemicals, steel.

# China's Economy: THE FIGURES

## Leading exporters and importers in world merchandise trade 2004

(Billion dollars and percentage)

Rank	Exporters	Value	Annual percentage			Rank	Importers	Value	Annual percentage	
			Share	change	Share				change	
1	Extra-EU (25) exports	1203,8	18,1	21	1	United States	1525,5	21,8	17	
2	United States	818,8	12,3	13	2	Extra-EU (25) imports	1280,6	18,3	20	
3	China	593,3	8,9	35	3	China	561,2	8,0	36	
4	Japan	565,8	8,5	20	4	Japan	454,5	6,5	19	
5	Canada	316,5	4,8	16	5	Canada	279,8	4,0	14	

# “Guanxi in Jeopardy”

## Joint Venture Negotiations in China

---

- This particular case involves two companies:
  - *Electrowide, Inc.*—A multi-billion dollar American manufacturer of automotive electronics products. They are undergoing a massive structural renovation to allow various product line departments to have more autonomy. Strategically, Electrowide, Inc. would like to become a competitor in the Asian market.
  - and *Motosuzhou*—An enterprise of the Beijing municipal govt. that is known for its ability to achieve economies of scale in engine control subassemblies.



# The Interest of Electrowide, Inc.

---

- Looking for an Asian partner to help manufacture and sell engine management systems.
  - Such as emission control, fuel nozzle and ignition systems for Chinese vehicles.
- Output would initially be sold to the Chinese market and plans to export later.
- They also want to provide product development and expertise in the region.



# The Interest of Motosuzhou

---

- To develop a long lasting relationship that will work in harmony with local government policies.
- To gradually acquire technology through transfer by importing equipment and designs and adapting them to the automotive industry in China.
- To succeed in the eyes of the government or the community.

# The Problem

---

- For Electrowide:
  - Electrowide, Inc. may be a \$5 billion company, but in order to be successful in a globalizing economy they must expand their market and have a higher efficiency. Electrowide also believes that there are major inconsistencies between the companies' accounting systems.
    - *How could Electrowide conquer this problem?*
      - In order to succeed in a global economy, Electrowide would need to locate production in Asia—the fastest growing economy.

# The Problem (cont.)

---

- For Motosuzhou:
  - Motosuzhou is worried about losing control to a foreign company in a local market.
  - They want Electrowide, Inc. to provide training, consulting, and warranties free of charge.
  - They want to keep control of accounting practices.



# The Motosuzhou Team

---

- Composed of three men.
- Ages are 55, 62, 65.
- Only one team member speaks fluent English.
- Two members have a B.S. degree.
  - One in Accounting
  - The other in Business Administration
- Two team members are related to each other.



# The Electrowide, Inc. Team

---

- Composed of two men and one woman.
- Ages are 31, 42, and 55.
- Only one team member can speak conversational Chinese and is also fluent in French.
- All have a B.S. degree.
  - One in Engineering
  - One in Psychology and Computer Science
  - One in Finance
- Two team members have some international experience.



## Definition: *Guanxi*

---

- The word that describes the intricate, pervasive network of personal relations that every Chinese cultivates with energy, subtlety and imagination.
- It usually governs Chinese attitudes towards business relations.



# Actions and Reactions

---

- After much “deliberation” Mr. Sherman presented Motosuzhou with a written contract.
- This greatly offended Ai Hwa Chew who later cancelled negotiations.
- Chinese culture is high-context and prefers verbal communication.

# Avoidable Situation?

---

- A better team was needed:
  - None have degrees that would aid in international business relations.
  - Only Ms. Morgan (a woman) spoke conversational Chinese.
  - Mark Porter's individualistic, self-propelling personality is opposite of Chinese cultural ways.

# What time zone are we in?

---

- Electrowide's team was not mindful of the Chinese's polychronic time.
  - EW allotted specific time slots specifically for business negotiations.
- Motosuzhou, the host company, maintained a polychronic schedule.
  - Planned meetings do not allow Guanxi to flow freely, therefore the company regularly cancelled them.



# Solutions

---

- If Electrowide was set on sending this team to China they should have educated the group on the Chinese culture and business relations.
- Classes on Chinese culture and Guanxi would have made this a successful joint venture.