
For Alumni and Friends of the UW-Madison School of Business

GO EAST, YOUNG EXECUTIVE

Doing business in China is finally starting to pay off, but is the time right for your company?

By Kevin Orfield

If you want to observe the rapid economic change occurring in China firsthand, watch the skyline of Shanghai. Since 1990, the city has constructed enough skyscrapers to fill an area the size of Manhattan. The space-age skyline of Shanghai's growing Pudong district is home to some of the world's largest business districts and dozens of research centers.

"You can stand anywhere and look at the skyline and it's constantly moving," says Professor Randall B. Dunham, faculty director of the Center for International Business Education and Research (CIBER) at the School of Business. "But no more so than the economic base of the city. Walk into the stock exchange—you'll see what's being done to make Shanghai the financial center of China."

The closest parallel to China's amazing growth is America's emergence as an economic giant during the nineteenth century. But China's sustained growth is without precedent. Over the last 20 years, China has experienced an astounding 9.5 percent growth per year. Many economists predict this growth rate will continue at 7 to 8 percent per year for several decades.

In 2002, for the first time, China attracted more foreign investment than the United States. The world's fastest-growing economy is the second largest behind the United States, and by mid-century, it is expected to be number one.

"China is at the epicenter of a boisterous capitalism emerging in Asia," says Linda Gorchels, program director for marketing in the Executive Education arm of the School of Business who has done extensive consulting in China. (See page 14). "It has 1.3 billion people and 174 centers with populations exceeding a million, compared with nine in the United States. It has a steadily growing middle class roughly the size of the entire United States. With its sheer size and growth rate, it cannot be ignored."

Land of opportunity

China may continue to dominate mass manufacturing, providing a low-cost manufacturing base for U.S. and foreign companies. But it also is rapidly acquiring technical and managerial skills and is becoming a growing source of intellectual capital for scientific work and research and development. It also provides immense marketing opportunities for global firms. Those that choose to not play now may lose their chance for a competitive advantage.

Success ultimately depends on suspending your beliefs about what you think you know about doing business in China.

Challenges of Doing Business in China

Even with China joining the WTO, protections for intellectual property rights are not consistently enforced.

Markets are subject to sudden changes in the government's economic growth policy.

Companies such as General Motors, Procter & Gamble, and Caterpillar have done business in China since the 1980s, investing enormous resources to make headway. But it wasn't until five years ago when China joined the World Trade Organization (WTO) and opened its economy more to foreign competition that doing business in China has really become profitable. According to a survey by the American Chamber of Commerce, 68 percent of the more than 450 U.S. companies it surveyed are profitable in China, and 70 percent say margins are at or above their global average. New opportunities have opened up in industries in which foreign companies—and in particular U.S. companies—hold a competitive advantage, such as insurance, banking, retail, and a whole range of services.

Today, the majority of multinationals are invested in China, entering into joint ventures or setting up wholly owned enterprises to produce products for the Chinese market or export to other markets. Now many small- and medium-sized companies are entering the fray. Dunham says an informal study of students enrolled in the Wisconsin Executive MBA program found that more than 80 percent of those polled said their company is actively involved in business in China, either through manufacturing, marketing or suppliers.

For 10 years Manitowoc Crane Group has had a factory in China for the Chinese market. The company, which builds, sells and services huge building cranes on five continents does approximately half its business overseas, 10 percent of it in China.

"Learning how to do business in low-cost countries and building relationships in the region has increased our revenues," says Glen Tellock, BBA '83, president, Manitowoc Crane Group. "It's never been our strategy to build product in China for export to Europe or the United States—it's cost prohibitive. But doing business in China provides us with an additional vendor base for low-cost components that we can source back to the U.S."

Business challenges

Sourcing is a relatively safe way many companies have started to do business with China. According to a Morgan Stanley study, since the mid-1990s imports from China have saved U.S. manufacturers untold billions in cheaper parts for their products. Pat Gore, who earned his Executive MBA from the School of Business in 1997 and serves on its CIBER advisory board, says the easiest way for companies to begin doing business in China is by sourcing parts for sale elsewhere, rather than trying to own or co-own factories in China to produce products for local consumption.

Gore is senior vice president global purchasing for Spectrum Brands, formerly Rayovac, a \$3 billion consumer-products company with global headquarters in Madison and factories in the United States, Europe, Latin America and China. Gore, who visits China some 10 times a year, said doing business in China is not for the faint of heart, due to its lack of infrastructure, especially legal and banking infrastructure. "The laws change region by region. The government looks at rules as works in progress. So, business decisions based on rules may not be correct a couple months later," he said. "It's

difficult to assess consumers' credit-worthiness.

China is undergoing rapid social and economic change; a widening disparity between haves and have-nots could cause significant upheaval.

Multinationals often must compete against local players with lower cost operations and lower prices.

The diversity of the Chinese market is significant, requiring a variety of products to meet segmented needs.

Infrastructure is less developed than in U.S., making transportation a challenge.

Conducting market research and identifying market sectors is extremely difficult.

Learn More

Executive Education offers a new three-day program for executives and managers interested in evaluating, developing and/or growing opportunities in Greater China. The program explores how to:

- Evaluate the best methods and factors to consider when entering the Chinese marketplace

- Compete against both local and global enterprises

- Select channel and vendor partners

- Improve operations through appropriate hiring and management practices

The program will next be offered December 5-7, 2006 and June 4-6, 2007.

For more information, [visit the Executive Education web site](#), or call Linda Gorchels at 608/441-7336.

Learning Opportunities in Asia for Students

Wisconsin business undergraduates have two semester- abroad options in Asia with our exchange partners—the Hong Kong University of Science and Technology or the National University of Singapore. A third will be launched with Chulalongkorn University in Bangkok, Thailand next year.

very important to have local legal counsel." Another area of concern, he said, is in collecting receivables. "You need a good sales force on the ground."

The cost of doing business in China is going up, particularly labor costs, according to Gore. "Due to demand, engineer salaries in China are rising dramatically. Costs in China are increasing to the point that the next international location ripe for investment may be Southeast Asia."

Cultural barriers

Cultural and political differences also present significant barriers to doing business in China. When Western businesses enter the Chinese market, they tend to focus on the language barrier and bureaucratic red tape. But to be successful, you must also understand China's long history and culture, say School of Business faculty with expertise in doing business in and with China.

"China is rapidly transforming from an agricultural society to an urban society and from a command economy to a market economy," says Professor John Eichenseher, who leads an annual China Study tour sponsored by the School of Business and the College of Agricultural and Life Sciences that is now in its ninth year. "The government still plays a much greater role in the economy than in the West, so Chinese tend to think in more bureaucratic terms. If you want to do business there, you need to understand a whole new set of the monetary, regulatory, and legal issues that are involved."

It's not enough to have a good business plan. You need to understand and respect the culture. "Many expatriates have told me that when they demonstrated respect for the culture, they were far more likely to be accepted by the Chinese and therefore be successful doing business in China," said Eichenseher.

Overcoming cultural hurdles, however, can be a major challenge. For example, Western companies want to strike a deal very quickly, while Chinese prefer to negotiate and seek concessions. "Things just aren't done very quickly," said Tellock. "You may think you have a deal and a day or two later something changes – that's just the way it is. You have to be patient but it can work."

Developing human resources in China and staffing a local management team are also significant challenges. "It's important to manage from the region and not try to manage from somewhere else," says Tellock. "The challenge is to find the right people. We would love to use all local Chinese, but we also need someone who understands the culture of Manitowoc Crane Group. We need a happy medium."

Solving the management dilemma

Expatriate managers can be very expensive and they do not have the same level of cultural knowledge as locals. But finding local senior-level management is difficult in China, as many do not have experience harnessing U.S. technology. Plus, many companies are competing for the same talent, so demand often exceeds supply. Some companies have experimented with using managers from Hong Kong or Taiwan, but the culture can be quite

MBA students have limited access to semester-long programs due to the lock-step nature of their curriculum. Many, however, can take advantage of a summer program in China. Each May, a four-week China Study Tour sponsored by the School of Business and the College of Agricultural and Life Sciences helps students experience business and rural life in China. In May 2005, 26 UW-Madison undergraduate and graduate students learned about Chinese business, agriculture, development and culture through a series of lectures, site visits, group projects and cultural opportunities in Shanghai, Yunnan Province, Nanjing and Yangzhou. Students also stayed overnight at the homes of rural farming families. The last two weeks of the tour were based at the University of International Business and Economics in Beijing where students were able to visit many companies, some with Madison connections.

Leading the tour on behalf of the School of Business was Professor John Eichenseher, who believes the opportunity for students to interact with Chinese citizens on an everyday basis adds real value to the experience. "It is unique to experience rural China and see how Chinese families live," he says.

For more information on international programs for students at the School of Business, visit the [International Programs Web site](#).

Center for International Education and Research (CIBER)

The mission of the UW-Madison Center for International Business Education and Research (CIBER) is to strengthen the competitiveness of U.S. business internationally and enhance international business-related teaching and research. Among its initiatives, CIBER presents or co-sponsors more than 40 international business and trade-related events each year. In 2004, for example, it sponsored a daylong pre-departure briefing for participants of Wisconsin Governor Jim Doyle's Business Development Mission to China.

[Visit CIBER's web site](#) for a list of upcoming CIBER programs of interest to business and other initiatives..

different than in mainland China.

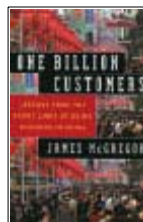
"As a result, more American companies are starting to hire local Chinese nationals trained in the United States, whether it's for market research or managing a new facility," says Professor Urban Wemmerlöv, director of the Erdman Center for Operations and Technology Management, which has offered a seminar on doing business in and with China for regional managers. "You have the best of both worlds, someone who has an understanding of both the local culture and the American way of doing business. In recent years, the Erdman Center has placed several Chinese graduates in such roles."

Companies are also starting to build awareness among employees who may be doing business in or with China in the future. "Companies are sending employees to Executive MBA programs such as ours so they have a better understanding of doing business with China and other parts of the world," says Dunham. "It begins with cultural and language training and then focuses on technical issues such as laws, regulations, trading standards, currency issues, and so on."

Success ultimately depends on suspending your beliefs about what you think you know about doing business in China. "We've interviewed U.S. expatriates over the years and many of them told us the same thing," says Dunham, who has conducted extensive research on management issues in cross-cultural boundaries. "If you go over there assuming you know how to do business better than the Chinese, you'll get eaten alive. No matter what preparation you do beforehand, it's not until you are actually over there doing business that you can fully understand how markets work, how financing works and how relationships work."

Kevin Orfield is a Milwaukee-area freelance writer.

Related Reading



"One Billion Customers:
Lessons from the Front Lines of
Doing Business in China"

James McGregor
2005
Free Press, New York

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