

The University of Pennsylvania
The Wharton School
Management 288/788
Governance and Management of Chinese Firms
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(v. 20100829)

Instructor: Marshall W. Meyer

Office: 2014 Steinberg Hall-Dietrich Hall

Phone: 215-898-6992

Email: *For reaction papers:* mgtmeyer2@wharton.upenn.edu
For correspondence: meyer@wharton.upenn.edu

Study.net URL: <http://www.study.net>

webCafé URL: <https://webcafe.wharton.upenn.edu>

Office hours: MW 11-12 and by appointment

Class hours: MW 3-4:30

Classroom: SH-DH 1203

Course Description and Objectives

The course provides an intensive examination of the governance and management of some of the largest business firms in the Peoples Republic of China. From 1949 to 1988, business firms as we know them did not exist in the PRC. In 1988, independent legal status was granted to state-owned enterprises, which were made responsible for profits and losses; in 1993, state enterprises were redefined as business corporations, and private businesses were allowed to incorporate as limited liability or stockholding companies. China's economy has grown rapidly since, but the development of Chinese firms has been uneven. A few have large domestic market share and are global competitors, but most outside of state-controlled monopoly or quasi-monopoly industries like electrical power, petroleum, and telecommunications remain regional competitors at best and are small by Western standards. The governance of Chinese firms remains work in progress. Repeated reforms aimed at corporatizing firms while preserving state ownership have created extremely complicated ownership structures and governance practices, which differ from industry to industry and from region to region. Moreover, where there is substantial state ownership, boards of directors may have little influence over the selection of CEOs.

The course has several purposes:

- To acquaint students with the governance and management—both management structures and top management teams—of some of the largest and best known Chinese firms.
- To acquaint students with the capabilities and liabilities of Chinese firms and hence their strategic options.
- To provide students tools needed to assess the investment potential of Chinese firms.
- To provide students the opportunity to do original research on issues of governance and management of Chinese firms.

Inevitably there is a bias toward studying the largest and most conspicuous rather than the most typical Chinese firms, but this notwithstanding there remains the question of whether norms of best practice have emerged given China's pace of development to date. This is a nice way of saying that there are few typical firms or templates for firms in China compared to the West. As a consequence, Chinese firms must be studied case-by-case, as will be done in this course.

Course Requirements

The course will meet Mondays and Wednesdays from September 8 through December 8 with exceptions as noted on the course outline. Class sessions are 1½ hours. Students are expected to read assigned materials with care, to attend all class sessions, to prepare 2-3 page reaction papers for each class, to participate actively in class discussions, and to contribute to a group report on the governance and management of a Chinese firm not otherwise covered in the course. Some details are as follows:

Reaction papers

These are 2-3-page single-spaced papers where the tasks are (1) to frame the case in terms of larger issues in the Chinese macro-economy, business context, and corporate governance in China, and (2) to describe what you found that was new, different, interesting, disappointing, or simply puzzling about the firms that are the subject of the assigned cases—in short, your reaction to the cases and what you learned from them and ancillary sources. The larger issues include (but are hardly limited to) the capacity of private firms to grow and consolidate domestic markets, the role of independent directors in state-controlled firms, whether internationalization of Chinese firms is from strength or weakness, and so forth. I'll discuss a number of these issues in the first class session and the conversation will continue throughout the course.

Each student must submit four reaction papers. I will ask students to select cases for their four reaction papers *before* the second class meeting. Once choices are made they cannot be changed since it is important to have roughly the same number of reaction papers per case. Reaction papers must not exceed 3 single-spaced pages plus footnotes, references, and exhibits. Reaction papers should be emailed to

mgtmeyer2@wharton.upenn.edu no later than noon on the day the case is discussed in class. Please note that I cannot accept reaction papers submitted after class discussion of a case.

Participation

All students are expected to participate actively in class discussions by bringing to the classroom their insights on assigned cases resulting from their experience and research (mainly on the internet) on the firms described in these cases as well as on larger issues of corporate governance management in China. Chinese firms morph quickly, and cases can be incomplete and in some instances inaccurate. Hence, even though most of the cases are new or recent, there are gaps in each that can be filled only by on-line research.

I suggest that students to track daily China business-relevant articles in these English sources, which are available directly or via Factiva:

Wall Street Journal, Asia Edition
New York Times
South China Morning Post
China Daily

There are also many China business blogs; one of my favorites, penned by a Wharton MBA, is <http://chovanec.wordpress.com>.

Group reports

The class will be divided into groups of five or six. Each group will prepare a report not to exceed 20 double-spaced typewritten pages plus footnotes, references, and exhibits analyzing issues of governance and management of a Chinese company not covered in the course. Groups will be formed at the second class meeting on September 13th. Reports will be presented in the three final class sessions—December 1st, 6th, and 8th.

There is no final examination.

Grading

Grades will be determined as follows:

Four reaction papers:	40 per cent
Class participation	30 per cent
Group reports	30 per cent

I score reaction papers on a 0-5 scale, where 1 is acceptable, 3 excellent and 5 extraordinary. I'll return reaction papers, with comments and a score, very promptly and am happy to give suggestions for improvement. However, I have difficulty translating numerical scores into letter grades since there a forced distribution of letter grades for

Wharton MBA students and it is hard to know in advance the final distribution of numerical scores. Some rules-of-thumb may help, however: if you're receiving all 1's, you're probably not in the top half of the class. On the other hand, if you have 4's and 5's, you're probably near the top of the class since scores of 4 and 5 are scarce.

Course materials

A virtual bulk back containing the materials assigned for the course (except the China Prime case, which will be distributed in class) is available through Study.net at <http://www.study.net>.

Please let me know if you encounter issues locating or downloading materials from Study.net.

Background Reading

You could fill a bookcase with recent books on Chinese business. The choice is yours. However, I found Richard McGregor's *The Party: The Secret World of China's Communist Rulers* (2010) a gripper and highly business-relevant.

Guest Speakers

I hope to have guest speakers from COSCO and Haier as well as an expert on medium-sized Chinese banks like China Merchants and Minsheng.

FSMP (Faculty-student meals program)

Entering its second year is a faculty-student meals program where groups of 3-7 students share breakfast, lunch, or dinner with instructors. I prefer dinners in Chinatown (e.g., Lee How Fook, Shiao Lan Kung) but may also suggest suburban locations (e.g., Sang Kee in Ardmore; Margaret Kuo in Wayne) if you're willing. Sign-up sheets for the FSMP will be posted on webCafé.

Course Outline (cases are in same order on Study.net)

September 8: Introduction and Overview

1. China Prime: Creating Corporate Governance with Chinese Characteristics (IMD-3-1488). *Out of print—class handout.*

September 13: The Structure of Chinese Markets

2. Business Competition in China Beer, PCs, Steel, TV Sets (HKU-207)

September 15: Corporate Governance (1)

3. Baosteel Group: Governance with Chinese Characteristics (HBS 9-309-098)

September 20: Corporate Governance (2)

4. The COSCO Group: From Asset Owner to Asset Operator (Wharton MGMT-006)

September 22: Corporate Governance (3)

5. Marshall W. Meyer and Xiaohui Lu, “Managing Indefinite Boundaries: The Strategy and Structure of a Chinese Business Firm” *Management and Organization Review* 1: 57-86.

September 27: Chinese Commercial Banks (1)

6. China Merchants Bank (HBS 9-307-081)

September 29: Chinese Commercial Banks (2)

7. Minsheng Bank: Penetrating the U.S. Market through Acquisition (HKU-785)

October 4: Failures of Corporate Governance (1)

8. Kelon (A) (HBS 9-701-053)
9. Kelon (B) (HBS 9-703-008)

October 6: Failures of Corporate Governance (2)

10. The Fall of D’Long (ICFAI/ECCH 207-014-1)
11. COFCO Xinjiang Tunhe Co., Ltd. (HBS 9-508-079)

October 11: Fall break

October 13: Failures of Corporate Governance (3)

12. Sanlu’s Melamine-Tainted Milk Crisis (HHKU-837)

October 18: Managing People

13. Haier Hefei Electronics (A) (HBS 9-300-070)
14. Haier Hefei Electronics (B) (HBS 9-300-071)

October 20: Managing Performance

15. Haier: Management Control on a Tactical Level (HKU-739)

October 25: Globalization of Chinese Firms (1)

- 16. China Goes Global: The new Taste of Chinese Companies for Foreign Assets (HKU-434)
- 17. UNOCAL Corporation: China's Unwelcome Bid (HKU-588)

October 27: Globalization of Chinese Firms (2)

- 18. Lenovo: Building a Global Brand (HBS 9-507-014)

November 1: The Chinese Auto Industry (1)

- 19. Shanghai VW: Facing a New Era (HBS 9-700-001)
- 20. Shanghai General Motors: The Rise of a Late-Comer (HKU-395)

November 3: The Chinese Auto Industry (2)

- 21. Chery Automobile Company: Evolution of the Chinese Automotive Industry (HKU/ECCH 307-401-1)

November 8: Managing Product Quality

- 22. Mattel Toys—Made in China (A) (HKU-768)
- 23. Mattel Toys—Made in China (B) (HKU-770)
- 24. Mattel Toys—Made in China (C) (HKU-772)

November 10: Cooperation with Chinese Authorities (1) Privacy

- 25. Yahoo! in China (A) (HBS 9-609-051)
- 26. Yahoo! in China (B) (HBS 9-609-073)

November 15: TBA

November 17: TBA

November 22: Cooperation with Chinese Authorities (2) Censorship

- 27. Google China (A) (HBS 9-510-071)
- 28. Google China (B) (HBS 9-609-073)

November 29: The Chinese Labor Pool

- 29. China's Migrant Workforce (HKU-839)

December 1: Group Presentations

December 6: Group Presentations

December 8: Group Presentations and Course Wrap-Up