

**The University of Pennsylvania**  
**The Wharton School**  
**Management 288/788**  
**Governance and Management of Chinese Firms**  
**Fall, 2011**  
(v. 110905)

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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 109

### **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 limitations 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 visible rather than more typical Chinese firms, which are small and closely held. Two comments on this bias: (1) there is increasing concentration of assets if not output in the largest firms, most of which are state-owned or state controlled, and (2) state ownership notwithstanding there remains immense variety among Chinese firms due to regionalization, endemic experimentation, the rapid pace of development, and the tendency of firms not to share information with each other. As a consequence there are few typical firms or templates for firms in China compared to the West—there is no counterpart, for example, to GE, for example as a model of best practice. Hence there is little choice but to study Chinese firms case-by-case, as we will do in this course.

### **Course Requirements**

The course will meet Mondays and Wednesdays from September 7 through December 7 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 short 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 **two-page** single-spaced papers where the tasks are (1) to frame a case in terms of larger issues in the Chinese macro-economy, business context, and corporate governance in China, (2) to address the discussion questions, outlined below, pertinent to the case, and (3) to address any other issues you think pertinent to the case. Note that the discussion questions are organized by topic rather than individual cases and that not all questions under a particular topic may apply to all of the cases under that topic.

***Each student must submit four reaction papers.*** I ask students to select cases for their four reaction papers no later than the second class meeting. There are a couple of restrictions on choice of cases: (1) no more than one case per topic (in other words, you cannot choose China Merchants Bank and Minsheng) though A, B, and C parts count as a single case; (2) please do two of your four reaction papers no later than October 24 and

two afterwards. Once cases are chosen they are difficult to change since it is important to have roughly the same number of reaction papers per case. Reaction papers must not exceed two single-spaced pages of text plus limited footnotes, references, and exhibits. Reaction papers should be emailed to [mgtmeyer2@wharton.upenn.edu](mailto:mgtmeyer2@wharton.upenn.edu) no later than noon on the day the case is discussed in class. For topics spanning two classes (e.g., commercial banking), assume that all cases under that topic (again, Merchants and Minsheng) will be discussed in the first 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 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>.

### *Team reports*

The class will be divided into eight teams. I'm aiming for six students per team. Each team 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. Teams will be formed by the second class meeting on September 12<sup>th</sup>. Brief summaries of team reports will be presented and discussed in the final class sessions, December 2<sup>nd</sup> and 7<sup>th</sup>—please plan on a late afternoon or evening session on December 7<sup>th</sup>.

It is important to form teams quickly since (1) the choice of industry and firm often needs to be negotiated (e.g., everyone can't do banking), and (2) I need to know the membership of each team right away since I organize student meals by team (see FSMP below).

*There is no final examination.*

## **Grading**

Grades will be calculated as follows:

Four reaction papers:	40 per cent
Class participation	30 per cent
Team 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, promptly and am happy to give suggestions for improvement. Note that it is not always easy to translate numerical scores into letter grades since there a forced grade distribution for Wharton MBA students and the final distribution of numerical scores is hard to know in advance. 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. Also business-relevant though not obviously so is Henry Kissinger's *On China* (2011). Kissinger remains the consummate strategist, and his insights on Chinese diplomatic strategy in my judgment have direct relevance to Chinese business. *My mantra is read widely*, not just business publications.

## **Guest Speakers**

I hope to have occasional short guest presentations drawing on speakers from large firms like COSCO and Haier as well as experts on medium-sized Chinese banks and on IP/innovation issues in China.

## **FSMP (Faculty-student meals program)**

Entering its third year is a faculty-student meals program where student groups share lunch or dinner with instructors. The default location is San-Kee in the Sheraton

University City Hotel, 34<sup>th</sup> and Chestnut Streets. I've found it easiest to organize lunches by project teams (see above) rather than using webCafé-based signup sheets.

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

**September 7: Introduction and Overview**

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

**September 12: The Structure of Chinese Markets**

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

*Discussion questions:* Many Chinese industries are fragmented and hyper-competitive. Are fragmentation and hyper-competition artifacts of China's current stage of development or are they "hardwired" into China's economic and political structure and if the latter with what long-term consequences?

**September 14 and 19: Corporate Governance (1)**

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

*Discussion questions:* Is effective corporate governance possible in the context of state ownership? Can legacy Chinese industries be consolidated and rationalized? How can state-controlled enterprises balance responsibilities to shareholders with social responsibilities including the obligation to maintain employment? Can consolidation save the Chinese steel industry, or is it Pittsburgh all over again?

**September 21: Corporate Governance (2)**

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

*Discussion questions:* Does the shift from asset ownership to asset management improve corporate performance? Does it buttress or diminish state control? Does it pose unforeseen risks in the context of ultimate state ownership?

**September 26 and 28: 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.

*Discussion questions:* How does CIMC's governance differ from most state-controlled enterprises? What is CIMC's core competence? Will CIMC's diversification away from shipping containers succeed? Will CIMC's strategy for management succession prove successful? Could the CIMC model be replicated by other large enterprises?

**October 3 and 5: Chinese Commercial Banking**

6. China Merchants Bank (HBS 9-307-081)
7. Minsheng Bank: Penetrating the U.S. Market through Acquisition (HKU-785)

*Discussion questions:* Will the state-owned commercial banks (ABC, BOC, CCB, ICBC) continue to dominate commercial banking or will the medium-sized banks like CMB (Merchants) and CMBC (Minsheng) grow their franchises? Has Minsheng operated like a private bank as intended and has the experiment succeeded? What is China Merchants strategy in retail banking and credit cards, has the strategy proved successful, and will Merchants' competitors be able to replicate this strategy?

**October 10: Fall break—no class**

**October 12: No class**

**October 17: Managing Township and Village Enterprises**

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

*Discussion questions:* Kelon may have been the greatest success and, ultimately, failure among Chinese township and village enterprises (TVEs). Why was Kelon initially successful? Why did Kelon collapse? Why were the early hopes that the TVE's would drive Chinese economic reform dashed?

**October 19 and 24: Managing Collective Enterprises**

10. Haier Hefei Electronics (A) (HBS 9-300-070)
11. Haier Hefei Electronics (B) (HBS 9-300-071)
12. Haier: Management Control on a Tactical Level (HKU-739)

*Materials on Haier's ZZJYT management system to be distributed.*

*Discussion questions:* What was Haier's strategy in the initial stages of its development in the 1990s? What is Haier's strategy today? How does Haier's management of its people reflect its strategic priorities? Is team-based management plausible in a firm of Haier's size and scope? As it reforms its management and ownership, does Haier become a plausible alternative to state ownership of large enterprises?

**October 26 and 31: Globalization of Chinese Firms**

13. China Goes Global: The new Taste of Chinese Companies for Foreign Assets (HKU-434)
14. UNOCAL Corporation: China's Unwelcome Bid (HKU-588)
15. Lenovo: Building a Global Brand (HBS 9-507-014)

*Discussion questions:* Is globalization of Chinese firms premature, even today? What are the expected benefits of globalization; what have been the unanticipated costs? What has been learned from Chinese globalization initiatives to date; what should have been learned?

**November 2 and 7: The Chinese Auto Industry**

16. Shanghai VW: Facing a New Era (HBS 9-700-001)
17. Shanghai General Motors: The Rise of a Late-Comer (HKU-395)
18. Chery Automobile Company: Evolution of the Chinese Automotive Industry (HKU/ECCH 307-401-1)

*Discussion questions:* What were VW's initial advantages in China. How did GM counter these advantages? Today, how do VW and GM China strategies differ? Which do you think is more promising? What are the advantages and disadvantages do domestic players like Chery have? Long-run, do you think global or Chinese brands will dominate domestic auto markets? How will Chinese brands fare in global auto markets?

**November 9 and 14: Managing Product Quality**

19. Mattel Toys—Made in China (A) (HKU-768)
20. Mattel Toys—Made in China (B) (HKU-770)
21. Mattel Toys—Made in China (C) (HKU-772)
22. Sanlu's Melamine-Tainted Milk Crisis (HHKU-837)

*Discussion questions:* In general: what conditions in China potentially contribute to product defects and product contamination; can these conditions be controlled or remedied; if so, how? (Consider among other factors the fragmentation of the Chinese markets, trust and contract enforcement, and whether the significance of order qualifiers like safety in comparison with order winners like price is fully appreciated.) In particular: should Mattel have apologized to the Chinese government for defective toys manufactured in China? What steps might Sanlu have taken to remove melamine tainted milk from retailers' shelves, when should they have taken them, and why in some instances were they delayed?

**November 16: No class****November 21: The Future Chinese Labor Market and the Future of Migration**

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

*Discussion questions:* What will be the effects of continuation or relaxation of the one-child policy, likely relaxation of the residential permit (*hukou*) system and rapid urbanization, and the Lewis turning point whereby a labor surplus turns into a labor shortage on: (a) migration, (b) industry location, (c) regional income disparities, (d) the strategy of low-cost manufacturing for export, and (e) consumerism and consumer-driven (as distinct from investment-driven) economic growth?

**November 23: The Future of Chinese Agriculture**

24. COFCO Xinjiang Tunhe Co., Ltd. (HBS 9-508-079)

*Discussion questions:* There are two distinct sets of issues: (1) whether China will be able to improve agricultural output dramatically to feed an increasingly urbanized and

wealthy population; and (2) whether, the rhetoric of marketization notwithstanding, the reach of large state-owned enterprises like COFCO is extending as they absorb private firms like Sanlu and Tunhe.

**November 28 and 30: Managing Innovation and Intellectual Property in China**

*Materials to be distributed.*

Discussion questions: What is the capacity of the Chinese central government to implement the industrial policies announced under the 12<sup>th</sup> five-year plan given endemic decentralization and current tight-money policies? Have policies supporting indigenous innovation been withdrawn as announced, or do they remain in effect sub-rosa? Will China ultimately evolve an IP regime and IP protections similar to the West or will China pursue a different path? Will firms unable to protect their IP ultimately abandon the Chinese market or alter their strategies and product mix to accommodate the Chinese environment?

**December 5: Group Presentations**

**December 7: Group Presentations and Course Wrap-Up**

Please plan for late afternoon/early evening session, dinner served.