

The University of Pennsylvania
The Wharton School
Management 288/788
Governance and Management of Chinese Firms
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Class hours: MW 3-4:30

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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 5 through December 5 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 *four* reaction papers during the term, to participate actively in class discussions, and to contribute to team reports 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 third class meeting, September 12th. There are a couple of restrictions on choice of cases: (1) no more than one case per topic (in other words, you cannot choose Shanghai VW and Shanghai GM); (2) please do two of your four reaction papers by October 17 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 no later than noon on the day the case is discussed in class. For topics spanning two classes (Haier, Chinese auto industry, institutional borrowing vs. differences), reaction papers are due before the first class where these topics are discussed. 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>.

Team reports

The class will be divided into 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 should be formed by the third week of the class. Brief summaries of team reports will be presented and discussed in the November 26, November 28, December 3, and December 5 classes.

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). Here are some suggested non-banking industries and firms: accounting, railways, electrical power generation and distribution, firms in pillar industries (e.g. ChemChina, Chalco), telecom equipment (Hauwei and ZTE), insurance (PingAn, PICC).

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 books and book chapters) 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) 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. Similarly, Ezra Vogel's *Deng Xiaoping and the Transformation of China* (2011) is a monumental work, imperfect in the view of some, showing how the agenda of the party and the Chinese government shifted toward economic growth under Deng's leadership.

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 other industries and topics.

FSMP (Faculty-student meals program)

Entering its fourth year is a faculty-student meals program where student groups share lunch or dinner with instructors. The default location is Sang-Kee in the Sheraton University City Hotel, 34th and Chestnut Streets. I've found it easiest to organize lunches by project teams (see above).

Course Outline (cases are numbered as on Study.net)

September 5: Introduction and Overview

September 10: The Structure of Chinese Markets

1. 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 12: Corporate Governance - (1) Boards of Directors

2. 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 17: Corporate Governance - (2) Listing of SOEs

3. 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 19: Corporate Governance - (3) Parent-Subsidiary System

4. 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?

September 24: Chinese Commercial Banking

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

September 26: Yom Kippur—no class

October 1 and 3: Neither State nor Private - Collective Enterprise

7. Haier Hefei Electronics (A) (HBS 9-300-070)
8. Haier Hefei Electronics (B) (HBS 9-300-071)
9. 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 8: The Chinese Private Sector (1)

10. China Entrepreneurs Forum (HBS 9-312-095)

Discussion question: What is the state of the Chinese private sector today—is it in ascendance (as most assume) or in retreat?

October 10: The Chinese Private Sector (2)

11. China's Solar Industry: Struggling for Survival (Amity Research Centers Bangalore 212-015-1)

Discussion questions: To what extent did the Chinese solar industry though private depend on direct and indirect government subsidies? To what extent does the industry remain vulnerable to tariff barriers erected by the US and EU?

October 15: Foreign Entry into China (1)

12. Best Buy's Misadventure in the Middle Kingdom (IBS Center for Management Research 312-032-1)

Discussion questions: How did Best Buy misperceive the Chinese retailing environment? Will the Five Star model be more successful? Long-term, what is the staying power of the two current industry leaders, Gome and Suning?

October 17: Foreign Entry into China (2)

13. Yahoo: Relationship Crisis with Alibaba in China (HKU-970)

Discussion questions: There are many in a company as tumultuous as Yahoo. I'll have specific questions no later than October 10th. With this in mind:

Should Yahoo! maintain the Alibaba relationship or sell their (remaining) shares? Assuming the former, how should Yahoo!'s new CEO Marissa Mayer approach this relationship? How can Yahoo's global presence aid Alibaba's expansion plans in the B2B2C market?

October 22: Fall break—no class

October 24: Globalization of Chinese Firms (1)

14. China Goes Global: The new Taste of Chinese Companies for Foreign Assets (HKU-434)

15. UNOCAL Corporation: China's Unwelcome Bid (HKU-588)

Discussion questions: Was the CNOOC bid for UNOCAL driven by market-seeking, resource-seeking, knowledge-seeking, or other factors? Generally, do Chinese firms "go out" from strength (following conventional theories of internationalization) or weakness?

October 29 and 31:

Meetings with TA regarding team projects.

November 5: The Climate for Chinese Outward Investment

Materials to be distributed.

Discussion questions: The U.S. remains the only nation with large private oil firms (Exxon-Mobil and Chevron). How does the U.S. interpretation and reaction to CNOOC's past and current initiatives (e.g., the pending acquisition of Nexen) affect the capacity of U.S. petro firms to extend their reach overseas?

November 7 and 12: 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)

Book: G. E. Anderson, *Designated Drivers*. Singapore: John Wiley (2012), chapters 1-6.

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 14: China's Food Chain (1)

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

Discussion questions: There are two distinct sets of issues: (1) whether China can become globally competitive in agriculture; 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 Tunhe.

November 19: China's Food Chain (2)

19. Sanlu's Melamine-Tainted Milk Crisis (HHKU-837)

Discussion questions: What conditions in China potentially contribute to product defects and product contamination; how can these conditions be controlled or remedied given persistent reports of adulterated food supplies and endemic consumer concerns for adulterated? What specific steps might the Chinese central government take to reduce both the incidence and the fear of food contamination?

November 21: China's Food Chain (3)

20. China's Challenge to Feed its People (HKU-963)

Discussion questions: Will China remain self-sufficient in agriculture given rapid urbanization and increased levels of consumption; does self-sufficiency matter; assuming China regards food as a strategic resource like oil, what steps will be taken to protect the food supply?

November 26: The Future Chinese Labor Market and the Future of Migration

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

Team presentations.

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 28 and December 3: Institutional Borrowing vs. Institutional Differences

Books: (1) Edward Steinfeld, *Playing Our Game: Why China's Rise Doesn't Threaten the West*. New York: Oxford University Press (2010). Chapters TBA. (2) James Fallows, *China Airborne*. New York, Pantheon (2012). Read entire book—it's a gripper.

Team presentations.

Discussion questions: Steinfeld foresees a world where China and the West will rapidly converge on a single global economic system. Fallows isn't so sure. Where do you stand and why?

December 5: Course wrap-up

Team presentations.