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<th>Title</th>
<th>SingChina Tire Pte Ltd: managing an international joint venture</th>
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<td>Author(s)</td>
<td>A. Ahad M. Osman Gani; Allampalli, D. G.</td>
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SINGCHINA TIRE PTE LTD: MANAGING AN INTERNATIONAL JOINT VENTURE

AAhad M. Osman-Gani and D. G. Allampalli

On 20 January 1995, Kimberley Tan was reviewing an expatriation offer from SingChina Investments Holdings Ltd (SCIHL), Singapore. It was a three-year contract as finance manager for its joint venture, SingChina Tire Pte Ltd, Hefei, China (SCT). On the upside, Kimberley was aware that SCT’s transition from state-owned to joint venture enterprise offered immense challenges she was looking forward from an overseas assignment. In addition to generous allowances for agreeing to work in China, the new position of finance manager brought her authority and responsibility at a very young age of 28 to hone her managerial skills for a quick ladder up in the corporate world. On the downside, Kimberley wondered as to how she will handle the differences in national and organisational cultures and balance the conflicting interests of joint venture partners.
On 20 January 1995, Kimberley Tan was reviewing an expatriation offer from SingChina Investments Holdings Ltd (SCIHL), Singapore. It was a three-year contract as finance manager for its joint venture, SingChina Tire Pte Ltd, Hefei, China (SCT). On the upside, Kimberley was aware that SCT’s transition from state-owned to joint venture enterprise offered immense challenges she was looking forward from an overseas assignment. In addition to generous allowances for agreeing to work in China, the new position of finance manager brought her authority and responsibility at a very young age of 28 to hone her managerial skills for a quick ladder up in the corporate world. On the downside, Kimberley wondered as to how she will handle the differences in national and organisational cultures and balance the conflicting interests of joint venture partners.

NATIONAL AND ORGANISATION CULTURE

Culture, defined as the assumptions, values, and artifacts that were shared by the members of a group at organisational level and citizens of a country at the national level. As most joint ventures have members from different organisations and nationalities, the cultural differences impacted the performance of international joint ventures (IJV). National and organisational values, beliefs and assumptions had profound influence on the behaviour of managers and employees. Although SCIHL and SCT were joint ventures, they inherited different organisation culture that was shaped by the cultural and business values of the founders and country environment in which they operated, namely, Singapore and China.

Cultural differences between countries and their impact on management of international joint ventures attracted the attention of researchers, academicians and management consultants. As several factors influence national and organisational culture and impact on the functioning of international joint ventures through the behaviour of managers and employees, its understanding was of paramount importance. It was made easy by the simplified model presented below.

A detailed analysis of these generic factors became essential component of the overall international joint venture management strategy. For example, control in IJV’s was very important issue for the partners. However, in a country like China, where state owned undertakings form the major component of the economy, control in research & development, marketing and finance was likely to be located with the foreign partners. To take advantage of the local resources, foreign partners must rely on Chinese partners to negotiate with the local governments, ministries and management of labour. Therefore, national factors assumed significant importance in

Figure 1: Simplified Model of Cultural/National Factors and Organisational Behaviour
determining how the international joint venture had to be managed. At the organisational level, the behaviour of employees and managers in China was influenced by the Chinese culture. In a Singapore-China joint venture, the cultural differences played a pivotal role in developing and managing international joint venture. Exhibit 1 provided a comparison of the two countries' cultural differences using Trompenaars and Hofstede's dimensions, the most relevant and influential values that distinguished two cultures.

PROBLEMS IN MANAGING TRANSITION

Background - SCIHL

SCIHL, a multinational investment holding company invested in joint ventures (joint ventures) or wholly owned subsidiaries (WOS) in China. Its investments were highly diversified and ranged from light to heavy industries (see Exhibit 2). In China, it had also invested in housing and hotel properties, and had recently bought over one of the oldest Shanghai bank towers along with the Shanghai bund. Generally, these factories and properties were located along the east coast: Shanghai, Fuzhou and Putian and in major cities: Hefei (See Exhibit 3), Beijing and Lanzhou. To oversee their management and prevent squandering of funds by the Chinese associates or employees, SCHIL had adopted a policy of deputing Singaporean accountants as finance managers.

SCHIL's corporate culture was predominantly Chinese, as its shareholders were the Indonesian Chinese conglomerates. Its Singapore investment arm was managed by a group of Chinese professionals, and the investments in China were mainly hatched via strong political connections and business networks. To act as SCHIL's representative and assist the general manager of the new joint venture, SingChina Tire Pte Ltd. (SCT), Kimberley Tan was chosen from the Singapore office as finance manager. She joined SCT in February 1995.

Managing operational changes

SCHIL’s entire equity was invested in financing modernisation of SCT to retain competitive edge. With it, the whole operations landscape took a dramatic change. It enabled SCT to easily achieve a higher level of output, cost and labour efficiency and effectiveness besides reducing the number of workers required and wastage. As a result of such improvements, Kimberley was tasked to design and implement a retrenchment program to terminate half of the existing workforce. For many reasons, it was a difficult task to undertake. First, the joint venture was just established and SCHIL was concerned about the backlash from the existing workers, the Chinese partners and the Chinese Ministry, at a time when the "feel-good" relationship between the partners was still in the building and adaptation process. Second, Kimberley's downsizing package had to take into account the "face saving" for both the Chinese JOINT VENTURE partners and Chinese Ministry to their fellow compatriots, especially when the latter brokered the deal between SCHIL and its Chinese JOINT VENTURE partner. However, retrenchment was necessary to ensure that the JOINT VENTURE was profitable in a highly competitive industry.

In Singapore, Kimberley would not have been so perturbed in taking such drastic measures, as the employment market was more liquid and mobile. Retrenchment was common and associated with "fat" retrenchment benefits. Moreover, it was also common among the multi-national corporations like Seagate to terminate workers when the economic cycle was down. In addition, employees job-hopped frequently for better pay. Thus, in Singapore, a pragmatic retrenchment exercise could be implemented with minimal emotional strain or protests from workers. In contrast, SCT's Chinese workers were used to the concept of "the iron rice bowl", where the organisation had a duty to provide for the workers and their families with a decent living and life-long employment upon recruitment.
Because of the illiquid and bureaucratic job market, migration of workers between corporations was difficult without the right references and connections.

Guided by Singapore practice, Kimberley proposed an attractive retrenchment package of one-month pay for each year of service besides allowing six months stay at the factory premises. Her proposal was positively received by the expatriate management team, but was vetoed by the Chinese partner on sentimental grounds: long years of service, loyalty and difficulty to find subsidised outside-accommodation. Upon hearing the retrenchment news from the grapevine, the workers started to sound their protests saying it would affect their livelihood. A sharp drop in their morale was reflected in the production quality and output. With this stalemate, Kimberley could not proceed with the retrenchment program, until a consensus could be found between the partners. At the same time, operations manager was pressing for a solution to stop further decline in the workers’ morale, arrest hostility and the negative effect on production.

As the retrenchment deadlock continued, Kimberley pondered on some of the available options. First, entrust the Chinese partner with the task to come up with solutions on the redundant workers (i.e. re-deploying them to other affiliated factories which were still state owned). Second, to proceed with the retrenchment without any consideration of the disagreement of the Chinese partner or protests from the workers. Third, revise and offer a more attractive retrenchment package to entice voluntary resignation.

Managing supplier and customer relationships

SCT’s modernisation caused surge in production capacity and output, which led to the tremendous increase in the purchase of raw materials. Emphasising it, Kimberley held a number of discussions with the purchase department and stressed the need to secure better credit terms with its local and foreign suppliers. For this purpose, Kimberley, along with SCT’s purchase manager met a major local rubber supplier from Hainan Island in August 1995. The supplier agreed to ship 1000 tons of raw rubber at Rmb. 6,000 per ton to SCT in 2 months time. A written supply contract was signed to close the deal. Kimberley was elated that the credit period had been negotiated to more favourable terms, as compared to the past deals. However, the following month saw a huge shortage of raw rubber in world market. As Kimberley had already confirmed 1000-ton raw rubber order to Hainan supplier, she was not unduly worried. Also, she thought that stock would last for next three-months production.

In the last week of September, the SCT’s purchase manager came knocking on Kimberley’s door to convey the news that the Hainan supplier had the original negotiated price of Rmb. 6,000 per ton of raw rubber had to be increased now to Rmb. 9,000 per ton due to the shortage in world market. Unless SCT agreed to the new price, the Hainan supplier would not ship the materials on time for the next round of production. Under these circumstances, both the purchase manager and Kimberley knew that replacement of supplier in such a short time was impossible as orders are issued three months prior to the receipt of goods.

With only one month left before the start of next production run, Kimberley knew that she had very few options left. First, sue the Hainan supplier and enforce the agreed written contract signed with them. Second, agree to their new price, which was 50 percent higher and absorb the loss. Third, purchase from fellow tire manufacturers who had excess stock of raw rubber.

Kimberley was so infuriated and had seriously contemplated taking a legal action against the Hainan supplier and force them to abide by the signed supply contract, but a check with few local lawyers was were discouraging as they opined that not only the legal process was long drawn (does not help in Kimberley’s current tight situation), the Court usually placed little importance on the enforcement of such commercial contracts as its legal system had sizeable backlog of unresolved outstanding cases.

Unlike Singapore’s transparent, effective and efficient legal system, the legal system in China did not offer much to redress the victims. Moreover, the Chinese partner stressed to Kimberley that they do not want to strain the decade long cordial relationship with Hainan supplier, its top management and the Ministry. Considering Hainan’s past help to SCT, the Chinese partner felt that they should not reciprocate with unkind gestures (i.e. legal suits) that would make the Hainan supplier and its Ministry “lose face”. However, in the interest of the joint venture, Kimberley was also unwilling to accept the price increase. Kimberley found that there was no rational ground for the price increase apart from the fact that the Hainan supplier could fetch a higher price for its raw rubber if he had sold the goods in the world market. A check with fellow tire manufacturers did not yield any better result as they too were faced with such a shortage, and they
would have to protect their own competitive interests first before they could offer any help to SCT. Under these circumstances, Kimberley was at a crossroads on what she could do to resolve the problem while wondering about the validity of the written contracts entered by SCT’s customers.

Managing long term relationship (“Guanxi”)

Apart from purchase and operations, Kimberley was expected to manage internal and external relationships. In addition to big pile of work to clear in managing the two former activities, little time was left for relationship management that saddled her with so many lunch and dinner entertainment appointments with the bankers, the Ministry people, tire manufacturers, suppliers and customers. Her local and expatriate colleagues had made it a point to have her involved in these various entertainments so as to get her to know the people from the industry with whom she would need to liaise frequently.

Kimberley had dined and wined “excessively” ever since her tenure with SCT, and she had beginning to question whether all the entertainment was necessary. Like in Singapore, she would want to spend some personal time for herself, either in clearing her work or for checking out the city, but she felt that since her arrival, she had no personal time. She tried to excuse herself from “relationship building” entertainments organised by her colleagues, but met with little success as it concerned the “face saving” of hosts. However, over-spending on entertainments and gift-giving culture in China in exchange for favours and perks (personal or corporate) did affect the bottom line and performance. When she tried to rein-in the entertainment expenses by various departments (i.e. especially in sales), and tried to implement budgetary controls by putting a cap on the amount, various department heads, however, had vehemently objected and disregarded such controls.

Kimberley brought the budgetary controls issue up to the GM and DGM for discussion, and while the former agreed on some form of control, the DGM and the head of the departments were against it on the basis that it would affect the sales and relationship-building with the third parties. In view of the forthcoming audit from the Singapore corporate office, Kimberley knew that the entertainment expenses at 20 percent of sales would stick out like a sore thumb. Though sales had increased by a good 35 percent year-on-year basis, growth in entertainment expenses was more than that of sales. Kimberley had decided to approach her GM again and to try and persuade him to exercise his authority to enforce cap on the entertainment budget. However, she knew that her DGM and the sales manager would make a big fuss out of it, and it would likely strain her future working relationship with them. Nevertheless, she was hoping that the GM would be able to help.

Managing employee relationship

With the replacement of local heads of department by expatriates in many departments, SCT’s reorganisation resulted in difficulties in managing relationships with employees. (See Exhibit 4.) Within the finance & administration (FA) department, the former local head of department, Mr. Wang Jian was demoted as deputy finance manager. (See Exhibit 4.) to make way for Kimberley. Jian, 50, was well respected and had been with the company for three decades. In the same department, most of the staff had spent at least one to two decades with the company, and were older than Kimberley. She was aware that her current senior position might be a liability rather than an asset in the department, as she was young, and was not exposed to the business management and environment in China. Many employees viewed her appointment skeptically and attributed it to being a foreigner, rather than merit. As such, she was very careful and humble to her fellow colleagues.

As far as Jian was concerned, she went to great length to show her respect to him, seeking his opinions on most of the decisions that she made. In the event of any difference of opinion, she would try to seek a 3rd party’s opinion (i.e. from her fellow expatriate colleagues) to resolve the impasse so that the “face saving” aspect was still intact for both parties. Kimberley made sure the relationships with staff members in her department were managed delicately to ensure smooth transition of duties, responsibility and authority from Jian to her. However, she noticed that FA staff members still referred all her instructions and work delegations to Jian for his decision before they executed them. Likewise, the independence spirit that she tried to inculcate in her staff members backfired too as they continued to refer to Wang for his approval on every minor issue. To avoid being marginalised by her own staff members, and also to cultivate a culture of autonomy and proactiveness within her staff, Kimberley had many options. First, continue to work harder to prove her professionalism and regain her authority as head of the department. Second, engage in relationship-building with her staff through dinner or lunches. Third, transfer Jian out of the department to reduce staff members’ reliance on him and re-exert her authority. Fourth, delegate
responsibility and authority to the staff on specific projects so as to make them more independent and proactive in taking on more responsibility.

Looking back in Singapore, she was never perturbed by the fact that she was young as long as she could function and deliver professionally. However, the heavy association of capability with age and seniority had instead limited her performance in China, as clearly demonstrated by SCT’s staff members’ behaviour towards her.

Managing training & development

Modernisation necessitated training of existing workers to equip them with skills to operate the machinery. To impart such training, the machinery manufacturer deputed engineers from Germany and Indonesia to Hefei to provide training on the shop floor. An interpreter was also arranged to assist the workers in communicating with the foreign engineers. The training program was successfully completed without any hitches, and within a month, the factory was ready for the trial run.

On the first day of trial run, there were major glitches, and it was then that both the production manager and the foreign engineers noted that the Chinese workers had not clearly understood all the instructions. As nobody sought clarification during training, foreign engineers assumed that the workers understood everything that was presented by foreign engineers. Unlike fellow Singaporeans, the Chinese’s tendency towards politeness and reluctance to disappoint guests eventually cost SCT a good Rmb 500,000 in trial run wastages. As the same cultural behaviour prevailed in the entire organisation, Kimberley was assigned to devise few solutions to tackle the problem of miscommunication and under-communication between local and local, as well as between local and expatriate staff members. She had many options. First, segregate the whole workforce into project teams and appoint a local team leader to coordinate the effort between teams. All communication and queries would be communicated via the team leader to the third party and the management. Second, set up confidential feedback boxes and notice boards where all team members and leaders were encouraged to ask questions without having to identifying themselves. Third, provide monetary rewards to encourage workers to raise questions (for the benefits of other workers who encountered the same problem) and to suggest improvements to the existing operations. However, it was difficult to identify which of the above solutions would work better.

KIMBERLEY’S RECOMMENDATIONS

Within a span of three years, Kimberley encountered problems in many areas in the management of SCT. These problems were SCT’s management reorganisation following the transition from wholly owned subsidiary into a joint venture, modernisation and downsizing to attain competitive advantage. They in turn caused many problems: retrenchments, failure to honour signed contracts to supply and renegotiation of price, communication problems between locals and expatriates, balancing conflicting demands of partners and internal and external relationship management. For the smooth management of SCT, Kimberley had identified 13 options in four problem areas of international joint venture management that surfaced during her tenure. Although Kimberley thought that the joint venture management could be tackled by accepting her recommendations, (See Exhibit 5.) she wondered how much of it could be effective if the organisational and national culture were to constantly interfere in their implementation? While Kimberley had enriching experience working at Hefei, China, she wondered, how the joint venture partners could balance their interest and manage it efficiently and profitably if cultural issues were not addressed.
EXHIBIT 1

TROMPENAARS AND HOFSTEDE’S DIMENSIONS FOR SINGAPORE & CHINA

(a) Trompenaars & Hampden-Turner Dimensions

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Singapore</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universalism vs. Particularism (measures Universalism)</td>
<td>69 percent</td>
<td>47 percent</td>
</tr>
<tr>
<td>Individualism vs. Communitarianism (measure Individualism)</td>
<td>56 percent</td>
<td>57 percent</td>
</tr>
<tr>
<td>Neutral vs. Emotional (measure neutral)</td>
<td>48 percent</td>
<td>55 percent</td>
</tr>
<tr>
<td>Specific vs. Diffused (measure specific)</td>
<td>58 percent</td>
<td>32 percent</td>
</tr>
<tr>
<td>Achievement vs. Ascription (measures Achievement-% disagree)</td>
<td>37 percent</td>
<td>28 percent</td>
</tr>
<tr>
<td>Time * (Long vs. short horizon)</td>
<td>4.7*</td>
<td>5.07*</td>
</tr>
<tr>
<td>Environment (believe in worth controlling)</td>
<td>20 percent</td>
<td>22 percent</td>
</tr>
</tbody>
</table>

(* On a scale of 1 to 7: 1 - seconds, 2 - minutes, 3 - hours, 4 - days, 5 - weeks, 6 - minutes, and 7 - years)


(b) Hofstede’s Dimensions

<table>
<thead>
<tr>
<th>Hofstede’s Dimensions</th>
<th>Singapore(1)</th>
<th>China(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distance</td>
<td>Fairly High (74)</td>
<td>High</td>
</tr>
<tr>
<td>Individualism vs. Collectivism</td>
<td>Low towards Collectivism (20)</td>
<td>Low</td>
</tr>
<tr>
<td>Masculinity vs. Femininity</td>
<td>Moderate/ neutral (48)</td>
<td>Medium</td>
</tr>
<tr>
<td>Uncertainty Avoidance</td>
<td>Low (8)</td>
<td>Medium</td>
</tr>
<tr>
<td>Long-term orientation1</td>
<td>48</td>
<td>118</td>
</tr>
</tbody>
</table>

Sources:

1 Hofstede, G.H. (1997), Cultures and Organisations: software of the mind, McGraw-Hill, USA, pp.166

Note: The above dimensions act as a guide and over time shifts are likely between the dimensions due to modernisation of societies (one view) and possibly other environmental factors. The lesson learnt here really is that an understanding of the dimensions that help business managers having international exposure to recognise traits and to apply the recommended approaches in dealing with the other person.
## EXHIBIT 2

**SINGCHINA INVESTMENT HOLDINGS LTD.: INVESTMENTS IN CHINA**

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Product line</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Paper products</td>
<td>Diapers, napkins, tissues</td>
</tr>
<tr>
<td>2</td>
<td>Food products</td>
<td>Soft cakes, cookies, instant noodles</td>
</tr>
<tr>
<td>3</td>
<td>Plastic films products</td>
<td>Stretch films, cling films for food</td>
</tr>
<tr>
<td>4</td>
<td>Property</td>
<td>Housing, Hotels and Office space</td>
</tr>
<tr>
<td>5</td>
<td>Others</td>
<td>Micro fiber products, garments and tires (and nylon cords).</td>
</tr>
</tbody>
</table>
EXHIBIT 3

A PROFILE OF HEFEI, ANHUI PROVINCE, CHINA

Location: Anhui Province is situated in the northwest of East China across the basins of the Yangtze River and the Huaihe River. Provincial capital: Hefei

Area: 30,000 square kilometers

Population: 59.86 millions (March 2001)

Ethnic groups: Han, Hui, and She

Major Cities: Huangshan; Bengbu; Tongling; Ma’anshan

Climate: Warm-temperate, semi-humid, monsoon climate north of the Huaihe River, with frequent spring droughts and summer floods; subtropical, humid, monsoon climate in the south; clear-cut seasons; plum rains between spring and summer, sometimes followed by summer droughts.

Agriculture: Benefitting from the mild climate, Anhui Province is rich with agricultural resources and products, and possesses 64 million mu of farmland, 62 million mu of forest land and 8 million mu of aquatic farm. Many Anhui’s agricultural products are famous both at home and abroad including: grapes, pears, pomegranates, green tea (Huang Shan), black tea (Keemum), crab, bull, Fuyang yellow cow, Dingyuan pig, silver fish (Chaohu lake) and white goose of Luan.

Industry: The major provincial minerals are coal and iron. Anhui is home to steel, copper, aluminum, tools, metal cutting machinery, forgings, many white goods and many specialized industry development zones. In addition, it has many universities in science and technology.

Source:
EXHIBIT 4
MANAGEMENT STRUCTURE OF THE JOINT VENTURE (SCT)

General Manager (F)

R&D engineers (F)  Finance Mgr (F)  Dep. GM (L)  IT manager (F)

Dep. FM (L, Jian)  Production manager (F)  Purchasing Manager (F)  Sales Manager (L)

The rest of staff within the organization but not depicted in the above chart are mainly local Chinese.

Abbreviations
F = foreigner
L = local Chinese
EXHIBIT 5

RECOMMENDATIONS

To resolve various problems encountered by Kimberley in managing joint ventures, she suggests the following recommendations and their possible outcomes:

a) Managing the Transition from WSO to JV

- Entrust the Chinese partner or the workers to come up with a better solution to resolve the redundant workforce problems, which if left unresolved, may result in greater unemployment when the factory was forced to shut down due to inefficiency and high operating costs.

- Participation from the Chinese partner and workers on such strategic decision making would ensure greater success in resolving the issue amicably.

b) Managing the Contractual Relationship with Suppliers/Customers

- Threaten to enforce the agreed contract in Court may work and may bring the suppliers or customers back to the negotiation table. The Chinese partner could assist in exerting more pressures on the supplier on account of their past long term working relationship, and help resolve the impasse between the supplier and the joint venture.

- Even if the conclusion may not be as per what was agreed earlier, but it would likely to be significantly cheaper than what was last quoted, and it would also help to resolve the standstill and timing of delivery.

c) Building Long Term Relationship

- Gifts giving and entertainments to build long term relationship were recognized as inherent cultural traits in China. However, it should not be excessive and without due consideration to the bottom line. The GM could help to alleviate the predicament by either publicly announcing the budget limit as a policy to be adhered to, or the GM could impose a higher sales quota for the Chinese partner (DGM and sales staff) to achieve so as to warrant a higher entertainment expense.

- The first method may result in conflicts between the foreign shareholders and that of local shareholders, if the GM were to decree it as a corporate policy. The second recommendation on tying the entertainment expenses to the sales achievement would probably be more acceptable to the Chinese.

d) Managing Employees Relationship

- It may not be a good idea to transfer the Deputy Finance Manager (DFM) out of the department as the plan may be resented by the current subordinates, and may even result in greater isolation of the new Finance Manager (FM).

- Building relationship through regular gatherings with staff could work more effectively as it enables the staff to increase their understanding of their new FM. A higher level of autonomy could also be introduced to the staff to give them a sense of achievement in making the decisions.

- Greater level of acceptance of the new FM by the staff could be achieved using the second alternative suggested above.
a) Managing Training & Development

- A mixture of solutions, including setting up project teams and having confidential feedback boxes, should help to facilitate increased communication between workers and management. Guarded confidentiality would further facilitate more exchanges that may eventually help the company to improve efficiency & to cut costs.

- Monetary rewards could be issued to staff or project teams if their feedback or suggestions to increase the efficiency and effectiveness (including cost savings) works within the organization.

- The above solutions would likely increase the morale, productivity of the workers, and improve relationship and communications between workers and management.