

- ✦ The Economic Transformation Process in China
- ✦ The Current Situation and the Prospects of the Reform of the Economic System in China
- ✦ Intercultural Communication on the Basis of Culturally-Rooted Values – a Key Factor for the Success of Business Relations
- ✦ Market Presence and Organizational Structures Across Cultural Boundaries: Case Studies on the Commitment of Bavarian Small to Medium-Sized Businesses in China
- ✦ Cooperation Modes, Problems, and Coordination of Chinese-Foreign Equity Joint Ventures
- ✦ German Machines in China: Market Opportunities and Problems of Location
- ✦ A Study of the Distribution Channels of Chinese Enterprises
- ✦ Dalian 's Private Enterprises: Present Situation and Future Prospects
- ✦ Privately Owned Enterprises in China: Context, Functions, and Outcomes
- ✦ The Challenges Small and Medium-Sized Enterprises Face in the Transition to Modern Management

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**T. M. Kühlmann / H. Dolles (Hg.) Sino-German Business Relationships**

**Torsten M. Kühlmann  
Harald Dolles (Hg.)**

# **Sino-German Business Relationships during the Age of Economic Reform**



Torsten M. Kühlmann  
und Harald Dolles (Hg.)

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## Introduction

by **Torsten M. Kühlmann & Harald Dolles**

This edited book is concerned with the rapidly changing business environment in the People's Republic of China (PRC) and its implications for the management of enterprises – be it a state-owned or a privately owned company, a Chinese or a foreign enterprise.

While it has experienced problems, many of which still exist, the Chinese program of economic reform has been remarkably successful. Since the beginning in 1978 the changes already accomplished and their consequences for business and management in the PRC cannot be overlooked: market forces have taken control of economic transactions; the Chinese economy has been opened for foreign trade and investment; management has been improved; the economic administration has been decentralized, resulting in greater autonomy on the level of provinces, municipalities and enterprises; living standards in China have risen considerably; production technology has been modernized; labor mobility has increased. On the other hand the beginning of the new millennium sees unemployment rising, income inequality widening, and social welfare for many layers of the Chinese society undermined. The long-term effects of the current Asian economic crisis on the PRC remain to be assessed.

Much has been written on China's economic reform program and its prospects. This book's justification lies in the fact that there is still little information available on the consequences the Chinese economic reform program has at the level of the management of enterprises. Certainly those present tremendous changes are not always convenient or easy but, as the Greek philosopher Heraclitus and traditional Buddhist philosophy both teach, change is an unescapable fact of life. Enterprises and entrepreneurs in the PRC must therefore manage change and it is to be hoped that the contents of this volume will make a positive contribution to this process. One of the best observations within this context of transformation comes from Peter Drucker, "Management is not just a creature of the economy; it is a creator as well. And only to the extent to which it masters the economic circumstances, and alters them by conscious, directed action, does it really manage" (Quoted from "The Practice of Management", London: Pan Books, 1968).

Most sections of this book are based on papers presented at the Conference on 'Successful Sino-German Business Cooperation', which was held in Dalian (Liaoning Province, PRC) from 8<sup>th</sup>-12<sup>th</sup> October 1999. During this conference a multidisciplinary group of researchers from both Germany and the PRC exchanged ideas and data about China's economic development, its industrial governance and the management of enterprises. The participants came from the disciplines of Economics, Business Administration, Geography, Sociology and Psychology.

The book is divided into 10 chapters.

Chapter 1 sets out some key aspects of the economic transformation process in China. The author, *Jingchen Bai*, examines the reform process taking place in rural and urban regions. Special attention is given to the problems state-owned enterprises encounter in their transformation to market-driven organizations.

Following this introduction, chapter 2, written by *Ma Guoqiang*, discusses eight ongoing reforms of the economic system in China, which together have an important bearing on management.

In chapter 3, *Dieter Böhm*, *Hemming Albrecht* and *Thomas Reichenbach* analyze Chinese business culture and the traps it offers for inexperienced foreigners when interacting and communicating with Chinese partners. Particularly, they address three forms of dealing with business culture differences: dominance, adaptation, and synergy.

Chapter 4, written by *Gerd Schmidt*, *Aida Bosch*, *Pamela Finley*, *Markus Promberger* and *Thomas Reichenbach* turns to the relationships between German parent companies and their subsidiaries in China. This chapter examines three conflicting demands or dilemmas in the relationship management, namely the 'autonomy of decision making vs. integration and control', 'risk avoidance vs. venturesomeness', and 'structural stability vs. functional flexibility'. The authors suggest a 'learning organization' approach to cope with these challenges in a culturally sensitive way.

In chapter 5 *Li Huai* looks at joint ventures in China. He gives a short overview of the different types of Sino-foreign joint ventures and their underlying legal framework. After this, the author deals with the manifold problems Sino-foreign equity joint ventures as important channels for inward investment are facing and how these problems can be overcome. In particular he proposes specific cultural innovations, institu-

tional innovations and management innovations as suitable strategies.

Chapter 6 presents information from several sources on the German machine industry and its internationalization efforts. Based upon this analysis *Hans-Dieter Haas* and *Johannes Reimer* discuss the risks and opportunities German machine tool manufacturers encounter in China. This contribution is largely centered on fieldwork undertaken in Germany and China. Finally the authors give specific recommendations of how and where to enter the Chinese market. A special emphasis is given to interfirm cooperation.

Chapter 7 looks at on-going trends in the product distribution system of Chinese enterprises. Starting with a review of traditional distribution channels *Feng Yunting* describes the on-going changes of product distribution in China as well as the inherent conflicts between different distribution channels. It is concluded that enterprises will have to build up integrated networks of distribution channels.

In chapter 8 *Lin Zhong* examines the current situation of privately owned enterprises in the city of Dalian. Their difficulties and prospects exemplify the development of private entrepreneurship in the coastal provinces of Eastern China. The promotion of Dalian privately owned enterprises should involve – as the author suggests – (1) creation of trademarks and brands, (2) transition from family business to corporate system, (3) access to the capital market, and (4) dismantling the administrative monopoly as well as providing stimuli for private enterprises.

Chapter 9 turns to the thinking and acting of Chinese private entrepreneurs. *Torsten Kuhlmann* and *Harald Dolles* examine the self-concept of entrepreneurs, their entrepreneurial motives, their action strategies and their success. This chapter is centered on interviews with Chinese private entrepreneurs in Shanghai and Dalian, supplemented by interview data dealing with the opinions of different stakeholders of private entrepreneurs (e.g. providers, customers, employees, state officials, trade union representatives) have about entrepreneurship in China.

In chapter 10 *Ge Jingtian* complements the examination of the Chinese private entrepreneur, done in chapter 8, by addressing the shortcomings of the traditional family business in present-day China. Particularly, he points out that qualification weaknesses, financial restrictions, cultural norms and staffing difficulties constitute barriers against the adoption of modern management systems. He concludes, that a rather new challenge for private entrepreneurs will be handing over the power to their

successors.

This book owes its genesis in the first place to the contributors. Without their efforts and patience our book would not have been completed. Each author wrote his contribution from his own perspective. Therefore the chapters vary in focus, style, and length. We encouraged all authors to approach their chapter in their own way, resulting in rich variety of ideas.

Torsten Funk carried out a considerable amount of copy-editing of this volume, for which we are grateful.

Those whose hard work contributed to the success of this conference are too numerous to mention individually but special thanks are due to the following: Dongbei University of Finance & Economics at Dalian for administrative and organizational support. The Project Promotion Bureau of Dalian Economic & Technical Development Zone and the Administration of Dalian Free Trade Zone for help and encouragement. The German Academic Exchange service (DAAD) for generously funding the Dalian Conference. Especially instrumental in this project has been the help from the Bavarian research program FORAREA. Much of the book's contributions would have been impossible to accomplish without the institutional as well as financial support it has granted<sup>3)</sup>. Particularly, we would like to thank Horst Kopp, the program's spokesman, who has always been of great help in facilitating the fieldwork in the PRC.

Last but not least, we like to thank Lin Zhong of Dongbei University of Finance & Economics at Dalian, Heike Boessenecker (formerly Bayreuth University) and Li Huimin of the Administration of Dalian Free Trade Zone, without whose great expenditure of time and effort the Dalian conference would not have succeeded.

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### Participants at the Dalian conference

