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Chapter 13

Case: Eurochem Shanghai: Corporate Policy or China Practice?

Miles Dodd

Paul Paus had worked in Eurochem head office in Antwerp for four years since joining the company in 1993 with an MBA. He had only just turned thirty, but had already established himself as one of the young "high flyers," and was now on his way to the Eurochem office for China in Shanghai. He was about to move into the international environment which had always been his objective.

The plane from Hong Kong, where he had spent a day on his way from Europe, passed over the lights of Shanghai before landing smoothly. After passing through the immigration and custom formalities, Paus found himself faced with a mass of people all waiting to meet passengers from the many flights arriving at that time of the evening.

He was relieved finally to notice a young man holding a "Eurochem" sign. It was a driver from the Eurochem office. A letter from the branch manager welcomed him, and told him to expect to be picked up at 8.45 at his hotel the following morning and brought to the office.

It was early July, and Shanghai was hot and humid. A typhoon was hovering off the coast some distance away, and there were heavy bursts of rain as the car struggled through the evening traffic to Paus' hotel.

At 9.00 the following morning a Mr Wu of the marketing department called Paus in his hotel room, and said that he was waiting downstairs to take him to the office. It had been a long journey from Europe, and Paus was still tired, however he finished his breakfast, packed his briefcase, and went down to the lobby just after 9.15 to meet Wu.

It took more than an hour to drive to the Eurochem office. The humidity and heat were uncomfortably oppressive, and the rain was still heavy. Hordes of cyclists cowered under ragged inadequate waterproofs. The traffic was very congested and the streets were dirty and flooded where garbage had accumulated to block the drains. Paus felt sticky and hot and wondered whether his move to Shanghai had been as wise as he first thought.

The head of the China subsidiary, Mr Olsen, had been called away to urgent business in Wuhan, so on his arrival, Wu took Paus to the office of Mr Li, the deputy manager. Li did not look very pleased, he was offended by Paus' arrival at the office over one hour late. He greeted Paus briefly, then took him to his new office and introduced him to a secretary, Miss Wang, who had been assigned to him.

Paus set about discovering more about the office, from which the whole China activity of Eurochem was managed.

Olsen was the general manager. He was not originally a Eurochem man. He had studied Chinese for several years and then worked for ten years based in Hong Kong covering the Chinese market for a Swiss chemical company. From there he had been recruited to the Eurochem position. The Eurochem board had little knowledge of China, but knew that it was a market they could not ignore.

The normal Eurochem practice was to appoint managers from within the company to operate overseas branches, but no one had been willing to go to China. The only person with any experience of the country was the international development director who had joined two trade missions to China and identified a number of business opportunities. Olsen was employed through a Hong Kong based head-hunter, and two months later Eurochem gave notice to the trading firm through whom they had been selling their products up to that time. Since his appointment, Olsen had patiently built up a good client base. With Li's help he had carefully developed relationships with customers so that they had come to trust him, and this had enabled him to establish a sound Chinese business for Eurochem. He negotiated a manufacturing joint venture which had earned him the respect of the Eurochem head office, and was now working hard on a second one.

Olsen worked closely with Li and they had managed the branch together since it was opened in 1992.

Li was in his early fifties. He had been an interpreter in his younger days, but had lived through very difficult times. He had joined Eurochem from the Shanghai branch of the Swiss company for which Olsen had previously worked, and they were good business colleagues, although they had little contact outside the office. Li had formerly worked on the marketing side before taking charge of the administration of the office. He still had many friends and contacts amongst the companies buying Eurochem's products.

There were 60 staff of whom 35 were on the engineering side, heavily involved in building a plant at Pudong, a joint venture with a state-owned Chinese company. There were five European engineers in this group. A further 10 people were in the marketing department, which Paus had been appointed to manage, and the remainder were in the accounts department and the management team. Paus was the only expatriate in the marketing team.

Until Paus' arrival, Olsen himself had covered the marketing activity, ably assisted by Wu, who had studied marketing in Hong Kong, and who spoke excellent English. However Olsen was now heavily involved in negotiations for another new plant in Sichuan province, and had no time to deal with the marketing function. He would have been very happy to put Wu in charge of the marketing operation, although he was only 34 years old. However after some discussion between Olsen and Mr Vandenberg, the director of marketing, head office in Belgium had decided to give the task to Paus, who had been very successful in the European market. Paus assured Eurochem that he would faithfully apply the company systems in China to bring it in line with the rest of the world. Wu thus now reported to Paus.

Paus soon found that the Eurochem Shanghai office was not following head office practice at all. For example it was allowing longer credit to buyers than the head office guidelines indicated. Wu explained that he had carried out his own investigations into the

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Further, Paus was visiting customers purchased by these men should be seen existing ones. Once the office had been specialised nature Olsen that an old Kasei, reported that less, the marketing the general chem see how he could was sure would in

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credit worthiness of the companies to whom they were giving credit, and that he had every reason to trust them. He had discussed each case with Olsen, who had thus approved the credit decisions. Up till now, there had been only one default.

Further, Paus noticed that the Eurochem salesmen seemed to spend a lot of time visiting customers who were already well established Eurochem clients. The amounts purchased by these customers remained more or less stable, and Paus felt that the salesmen should be spending more time developing new customers than drinking tea with existing ones. Overall sales of Eurochem products had risen steadily by 8% per year since the office had been opened. This was lower than some competitors had achieved, but the specialised nature of Eurochem's products made direct comparison difficult. Li had told Olsen that an old friend of his working with Eurochem's most direct competitor, Nippo Kasei, reported that Nippo was finding it difficult to maintain its market share. Nevertheless, the marketing director in Antwerp, Mr Vandenberg, had heard from his contacts in the general chemical industry that "8% in China is nothing" and he had asked Paus to see how he could introduce stricter adherence to Eurochem practices, which Vandenberg was sure would improve the subsidiary's performance.

Two months after his arrival, Paus called Wu to his office, and announced that he had decided to change the marketing system in order to comply more strictly with the world wide Eurochem system.

He explained that the head office expected the China office to introduce the marketing systems which had proven successful in Europe and the US. Instead of salesmen visiting their own group of customers, they were to form new product teams in which they would concentrate on a particular product throughout the client base. He said that travelling to visit customers took too much time and was inefficient, and was certainly not something which they did very much in Europe. He expected Wu and his team to spend much more time on the telephone to customers instead of going out to visit them. Paus told Wu that the excellent quality of Eurochem products was well known, and that Wu and his salesmen should persuade customers to visit the Eurochem office rather than to expect that the Eurochem staff would visit them. He wanted to see more market data produced and to see more frequent reports of competitors' activities. Paus also declared that he intended to limit the budget for entertaining customers. In addition, he said that Eurochem would no longer permit customers ninety days credit, they should now be limited to thirty days.

Wu was not sure what to think about his new boss. While studying in Hong Kong, he had been introduced to the latest US marketing theories and he could see that many of the practices in China were still based on the old, "*guanxi*" networks which he privately felt to be a little old-fashioned. For the time being he decided to follow his new boss's instructions, but he felt quite uneasy.

From the beginning, Paus had treated Li as an old-timer, out of touch with the demands of modern business. He had not been outwardly rude, but he made it plain that he did not consider that Li had anything to contribute to the new marketing plan. He had not mentioned his new ideas to Li, and had only hinted to Olsen that he thought that changes should be made as head office had directed - Olsen had told him to discuss any changes with Wu before implementing them.

About three months later, Olsen returned late one afternoon from a visit to Chongqing to find a worried Li awaiting him. His old friend Mr Leung of Shanghai Batteries had called Li angrily to say that, from now on, he would buy his chemicals from Nippo and

that he was finished with Eurochem. Li tried to find out the reasons for Leung's unhappiness, but Leung rang off before he could ask.

Next morning Olsen asked Paus to come to his office, and asked him what he knew about the Shanghai Batteries complaint. Paus said that Leung had been very demanding, making some complaints about quality which he had telephoned to Wu and which Paus had judged to be unfounded. He had also complained about the new credit rules imposed by Eurochem. Paus told Olsen that Eurochem practice should be enforced – he showed him a fax from the marketing director in head office fully supporting his efforts to bring discipline to the Chinese market.

Olsen knew Leung of Shanghai Batteries – he was a difficult old man, but had always honoured agreements, and had paid within the terms fixed. He decided to hear what Li and Wu had to say before talking again to Paus.

Paus' cool attitude to Li had continued, frequently offending the elder man by his obvious lack of respect. Since Leung's call, Li had carefully contacted a number of his old friends, and it was soon clear to him that the old networks he, Olsen, and Wu had created were beginning to break down. Another important customer, Mr Deng of Wuzhou Plastics, told Li that he would order his next supply of chemicals from Nippo. Li told Olsen that he thought that the new marketing policy, about which he had heard from Wu, was likely to have a serious negative impact on Eurochem's sales. The latest monthly figures already showed a significant drop – Wu said that Paus had dismissed them as a result of the transition to the new approach and had assured Wu that they would quickly recover.

When Olsen discussed the problem with Wu he found Wu less pessimistic than Li, but still unhappy. Wu said that Paus seldom discussed matters with him, but repeated the head office policy, in Europe and the US. Paus' opinion was that this policy had worked well elsewhere, and the Chinese market should therefore accept them. Wu said that he had asked Paus to visit all the important customers with him soon after his arrival which was considered important in China, but that Paus had not yet found time to do so.

Olsen had talked to Paus on several occasions in an effort to introduce him to the China market, and had suggested several times that he talk to Li and Wu and seek their help and advice. He now knew that his advice had not been followed and felt that Paus was determined to apply the head office practices in China without any modification or adaptation to local practice.

Olsen knew that he must act quickly and decisively to prevent further deterioration in Eurochem's business. He was worried that Paus' connections with the marketing people in Head Office might prove stronger than his own, and thought that it would require several months of repeated falling sales to convince them, by which time it would be too late. He telephoned Vandenberg, the marketing director, but did not receive much help. Vandenberg again expressed his full confidence in Paus, but did agree with Olsen that Eurochem Shanghai had performed reasonably so far, and conceded that there were sound technical reasons why Eurochem's 8% growth rate had been good in the particular market circumstances for their products. He also accepted Olsen's important point that Eurochem's main objective was to create relationships with companies such as Jilin Industries, Wuzhou Plastics, and Shanghai Batteries who were already building new facilities which would sharply increase their need for Eurochem products. Vandenberg was aware that he would have difficulty in justifying his position should Olsen prove to be correct in his judgment of the situation, and thus accepted reluctantly that there might possibly be

special circumstances.

After some consultation with Eurochem who were sympathetic, Paus decided that his present was sympathetic.

Olsen recognized the company, and that many of the people who had been there.

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special circumstances prevailing in China which could not be ignored.

After some consideration, Olsen decided to discuss his worries with the President of Eurochem who was visiting China in connection with the Chongqing project. The President was sympathetic, and encouraged Olsen to take whatever steps he considered appropriate.

Olsen recognized Paus' good qualities, he was young, intelligent, committed to the company, and a determined character. He also knew that China was changing rapidly, and that many of the old practices would eventually disappear.

He had spent many hours in discussion with old Li, and had learned to value his judgement and advice. It had been tough in the early days of Eurochem's Shanghai operations, and the partnership that had grown between them had been the basis of their success.

He had been attracted by Wu's enthusiasm at the employment interview, and had not regretted selecting him from the several hundred applicants for the job. He was bright and open, and keen to apply the skills he had learned in Hong Kong. Olsen felt he represented a new generation of Chinese managers on whom the company would have to rely to run its Chinese business in future.

As he sat at home after enjoying a rare evening with his family, he discussed the dilemma and the personalities involved with his wife. She knew Paus, Li, and Wu - and gave him some valuable ideas. He made up his mind - and decided to talk separately to Paus, Li, and Wu the following morning.