



Trouble in Paradise

by Katherine Xin and Vladimir Pucik

The Zhong-Lian Knitting Company joint venture in China is one of the region's shining success stories. So why is general manager Mike Graves thinking about pulling the plug on it?

FROM Mike Graves's tall windows, which were draped in red velvet, the view of Shanghai was spectacular: the stately old Western-style buildings, the riot of modern skyscrapers, the familiar needle of the TV tower. But today Mike barely noticed it. Clenching a copy of his Chinese partner's proposal for another acquisition – it would be the company's fourth – he paced the floor and replayed in his mind that morning's unsettling phone call.

He had called his boss, Bill Windler, at headquarters in Ohio, hoping to get a nice quote to inject into the brief remarks he was to make at that day's banquet celebrating the joint venture's tenth anniversary. But as he gave Windler a quick rundown of what he intended to say – mostly about the joint venture's progress toward “world-class quality” – Mike could sense his boss's growing frustration. About five minutes into the call, Windler cut Mike off in midsentence,

saying, “Don't throw your shoulder out patting yourself on the back.”

Windler reminded Mike about the margins he was looking for across all of Heartland Spindle's businesses. “A 4% ROI is pathetic,” Windler said. “We've been in there ten years, Mike. The numbers should look better by now.” He said he was looking for a 20% ROI, adding that such a number could surely be achieved through greater efficiency and more automation. And in Windler's view, the company had at least 1,200 employees too many. “That needs to be fixed, fast,” he said.

Mike knew his boss wouldn't take no for an answer, but he had also learned that his Chinese partners would never agree to drastic moves such as the layoffs suggested by Windler. It was beginning to look as though the five good years he had spent here as general manager might be destined to come to a painful end. Mike couldn't help but

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wonder if those harsh words from Ohio were a warning that his contract might not be renewed in six months.

Then, to top things off, just as Mike had extricated himself from the phone conversation, this latest acquisition proposal had arrived from deputy general manager Qinlin Li. The top executive on the Chinese side of the joint venture, Qinlin had been with the JV since its inception. As before, there would be almost irresistible pressure to go along with the deal. The Chinese side would make it clear yet again that the delicate partnership depended on Mike's support for continuous expansion and protection of jobs. The timing couldn't have been worse: The last thing Windler would want was more growth initiatives eating into the profits.

A knock on the heavy teak door snapped him out of his musings. Feng Chen, Mike's assistant and translator, informed him that his car was waiting.

Enhance Friendly Cooperation

As the car pulled up outside the Shangri-La Hotel, Mike forced himself to smile at the red carpet lined with dozens of lavish flower baskets sent by local government officials, business partners, suppliers, customers, and even competitors. A marching band in full uniform stood at the hotel entrance, and above it stretched a bright red banner that said, in Chinese and English: "Enhance Friendly Cooperation and Ensure Mutual Growth" and "Celebrate the Tenth Anniversary of Zhong-Lian Knitting Co. Ltd."

Mike exchanged greetings with Qinlin, who had been there for an hour already and was still seeing to last-minute details. In the ballroom, an elegant young woman in a red silk *qi-pao*, a traditional dress for formal celebrations, escorted Mike to the round table that was front and center. Two Chinese se-

nior executives, Qinlin's immediate subordinates, stood up and nodded their greetings.

There was a burst of excited applause, and cameras flashed. Qinlin was accompanying three important government officials into the room. They approached Mike's table and politely bickered for several minutes over who should enjoy the most prominent seat at the table, as required by Chinese custom. At last, the eldest and most highly placed official accepted the seat of honor. Qinlin stepped up to the podium, above which hung a huge Chinese knot of red silk, the symbol of cooperation. There was an expectant hush as he tapped the microphone.

"Ladies and gentlemen," Qinlin began, "thank you for joining me to celebrate the tenth anniversary of Zhong-Lian Knitting Company Limited. Those who were with the company at the beginning remember the hardships we endured and the hard work we put in. Since the establishment of Zhong-Lian as a 50/50 joint venture between Suzhou First Textile Company and our U.S. partner, Heartland Spindle Company, Zhong-Lian has faced many difficulties and obstacles. But we succeeded." Mike was listening to the translator's words, but he could hear the passion in Qinlin's voice. "We turned a money-losing company into a money-making company, and we made great headway as a result of support from our government, efforts on the part of both parent companies, and all our managers and employees."

Mike hadn't been there during the early days, but he knew the stories. He was the fourth GM sent by Heartland in ten years. His two most recent pre-



decessors had left before their three-year assignments were complete, one for family reasons – his wife couldn't adapt to China – and the other for a better job offer (allegedly). Mike, a veteran manager with 20 years of international experience, had lived and worked in Japan, Hong Kong, and Australia before Heartland sent him to Shanghai.

Mike's toughest challenge at the outset was the language barrier. He wouldn't have survived without Feng Chen's help. It didn't take long for Mike to learn what *cha-bu-duo* meant: "almost okay." He hated that word! It was baffling to him: Even though his Chinese partners were intelligent and willing to work hard, they weren't exactly obsessed with quality. They cut corners and hardly ever followed operating procedures to

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An elegant young woman in a silk qi-pao escorted Mike to his table. But he was preoccupied by the Chinese executives' plans and what they would mean for profitability.

the letter. Buttons often fell off sweaters before the garments were even shipped out of the factory. *Cha-bu-duo* is why Mike insisted on introducing Total Quality Management to Zhong-Lian – and TQM was probably why the JV had been so successful. Mike had also felt a small sense of satisfaction when he taught his Chinese colleagues a new term: Six Sigma.

Cha-bu-duo wasn't the only expression Mike heard all too often. He also quickly got used to *yan-jiu-yan-jiu*, which means "Let's review and discuss." When he proposed a new system to deal with

sewage disposal three months after he started (he was astonished that his Chinese partner hadn't updated it already), his counterparts said, "Okay, *yan-jiu-yan-jiu*." Two months later, after Mike's repeated prodding, the proposal made it onto a meeting agenda. But at the meeting, the Chinese managers seemed reluctant to discuss the matter, and no one wanted to assume responsibility for solving the problem. When Mike asked managers for feedback individually, they all had ideas, many of them excellent. He couldn't imagine why the managers hadn't spoken up at the meeting.

It didn't make sense to him until months later, when Mike heard someone say, "Keeping silent in a group is safer. You won't get in trouble if you don't do anything. But you will get in trouble if you make a mistake. We are experienced under this system, and we know how it works." At any rate, Mike was relieved when the equipment was set up – even though it took two years and outside pressure from the provincial Environment Protection Bureau to make it happen.

There was another burst of applause. Qinlin's voice reverberated through the room. "We have acquired three money-losing state-owned enterprises and managed to earn an annual profit of between 5% and 6%," he said. "The number of employees increased from 400 to 2,300 in the past decade. Given the slump of the textile industry in these years, Zhong-Lian's achievement is remarkable. In the coming years, we will further enhance the company and maintain our growth momentum."

Qinlin paused, and his eyes sparkled. "Let me tell you another piece of good news," he said. "We are preparing our fourth acquisition, which is expected to raise our production capacity by 40%. The number of our employees will grow to nearly 3,500. And all this will help us launch our next initiative: building our own *national brand*."

What little appetite Mike had for the celebration vanished. He had long been trying to quash that kind of talk. Heartland, he knew, would never support launching an apparel brand that would eat up resources and limit profits for years. Qinlin knows this well, Mike thought, so why is he raising expectations in such a public way?

Qinlin thanked the vice mayor and the other government officials without whose "wise supervision," in his effusive words, the joint venture would not have made such great progress. The vice mayor rose to speak and returned the compliments, praising Zhong-Lian's contribution to the local economy – especially to maintaining employment levels – and calling the joint venture a flagship among the city's enterprises.

When it was Mike's turn, he too voiced the expected praise for the officials – it was a ritual whose airy forms and steely seriousness had become almost second nature to him. But throughout his little speech, he felt he was hardly doing more than going through the motions. He was preoccupied by Qinlin's plans and what they would mean for profitability.

Later, the lazy Susan at each table was filled with eight cold dishes, eight hot dishes, and two showpiece dishes: a whole suckling pig and a whole braised mandarin fish in the shape of a squirrel. Qinlin, as the host of his table, proposed

Life here was easy and comfortable – a world away from what it was like back in Ohio. But Mike knew he wouldn't be here much longer if he signed off on that acquisition deal.

a toast. Then he emptied his glass as a sign of his sincerity and joy. Glasses clinked; champagne and Coke bubbled. But Mike had become so attuned to the subtleties of these gatherings that he immediately noticed the response of the officials: Instead of emptying their glasses, they merely took sips. Mike supposed that they must have heard about his opposition, muted though it had been, to the expansion ideas.

Living in Style

Sitting in the backseat of the company car, Mike felt his tension ease when his driver, Lao Li, turned into his neighborhood. The car slipped by a row of cypresses and passed a perfectly manicured golf course. Designed in European country style, the elegant Green Villa was an ideal residence for expatriates. Mike loved this village – its extensive recreational amenities, its first-class service. At very little cost, for example, Mike's family had hired a live-in domestic helper who happened to be a superior cook. His wife, Linda, played golf three times a week with her friends in the village, and she had recently taken up yoga. The company paid \$7,800 a month to rent the family's home; it also paid for a chauffeur, a nanny, and the

children's education at Concordia International School (the best in Shanghai). Life here was easy and comfortable – a world away from what it would have been like back in Ohio.

But Mike's tension returned when he thought about his meeting the next morning with the people at Hua-Ying, the potential acquisition. He wouldn't be living in Green Villa much longer if he signed off on that deal.

Over dinner, Mike told Linda about the conversation with Windler.

"Don't they understand that the Chinese way of doing business is different from the American way?" Linda asked

him sympathetically. "It's not all about squeezing the most out of your workers here. They value stability and long-term employment. You'd think Heartland would've been prepared for this sort of performance. It's not like you're losing money, like so many JVs here do. Just last week on the course, Christie and Maya told me that their husbands' businesses hadn't turned a profit yet."

"I know, but that doesn't seem to be good enough any more," Mike said. He recounted Bill's suggestions about layoffs and investing in more automated equipment. He knew that he would soon have to broach these subjects with his Chinese partners.

Mike's biggest problem was that he could see both sides. Heartland wanted to reposition itself in the U.S. market – selling at discount stores wasn't profitable enough. But to enable Heartland to make the jump to high-end retailers, the joint venture would have to meet much higher standards of quality. Those old dyeing machines, for instance, would have to go; they had cost the company a lot of money over the last few years, not just in shipping and handling charges for returned products but also in terms of the company's reputation. New machines would fix that problem, but they'd

create another one: Many jobs would disappear.

The Chinese partners were much more concerned with creating jobs and keeping government officials happy than with improving quality. They wanted to keep growing into new provinces and buying up unprofitable companies, even if turning them around took years. But expansion would require significant additional resources that Heartland Spindle clearly wasn't ready to commit. And now there would be pressure to create a new company to market a national brand, again a drain on cash.

"So what do you think you're going to do?" Linda asked.

"I'm meeting with executives from Hua-Ying tomorrow morning. Maybe they'll surprise me with an operation that won't take forever to turn around – that'd be the best case," Mike said. "After that, I'll have to talk to Qinlin and the others about Heartland's concerns. But I know how that conversation will play out. They'll say Heartland is being shortsighted and that the JV's history of turning around money-losing businesses should prove that we just need to be more patient.

"I wish Bill and the rest back in the States had a better understanding of how things work here. I was skeptical myself at the beginning. Remember when we first got here and I was fuming at the business expenses? Seemed like every executive on the payroll was winning and dining some key partner or contact. And Robert O'Reilly, our controller, came to me shouting that our Chinese partner spent money like water. But, gradually, we both figured out that those expenses were paying off for us. The Chinese ritual of sharing food – nurturing *guanxi* – is so powerful in making deals that it became one of our hidden assets. I'm afraid we won't get those kinds of results if we focus only on cutting costs and laying off workers, as Ohio wants us to do."

PowerPoint and Green Tea

The chief executive of Hua-Ying, Genfa Wang, sent his own limousine to pick up Mike and Qinlin as a symbol of his

sincerity and hospitality. Genfa and his top managers were waiting at the gate when the car pulled up, and one of the men stepped forward to open the car door. Genfa greeted Mike, Qinlin, and Feng Chen with, "My honor! My honor! It is a great pleasure to have you here with us."

The first building they entered looked fairly clean, but the conference room carpet was pocked with cigarette burns. Not exactly a high-class operation, Mike thought. Up on the third floor, there was a disagreeable odor—no flush. He could just imagine the state of the plumbing. And hadn't leaky pipes been responsible for the initial spread of SARS into cities in Hong Kong? He was sure he had read something like that. His unease grew. What other hidden risks were lurking in this facility? There was no way he was going to be able to agree to this acquisition, he thought.

But he was pleasantly surprised to see seven cups of Bi Luo Chun tea, one of the best Chinese green teas, on an ele-

gant redwood table. And a minute later, Genfa pulled out a laptop and began making his presentation using PowerPoint slides. Mike was shocked. He hadn't expected such sophistication from a company this size, especially a company that seemed to lack modern sanitary facilities. Genfa, sensing Mike's reaction, said proudly, "My nephew gave me training on this high-tech stuff. He is a college graduate, a vice GM of our company in charge of technology and engineering."

Great, Mike thought with exasperation. There were probably a few relatives on the board, too. But his mood swung back during Genfa's 40-minute presentation as the CEO spoke precisely and clearly about the numbers—it was obvious he was shrewd about the market. Mike was intrigued.

At the second building, his earlier impressions were reinforced: The machines in here looked old and shabby. Some workers were busy, but others were idly waiting for a product deliv-

ery. Bales of goods were stacked high in one corner, and Mike stumbled over a box as he picked his way through the dim light. When he noticed that the record sheets on the desk and walls were handwritten, his heart sank: So much for high tech.

On his way home that night in his own company's car, Mike gazed out the window, trying to figure out what to do next. Should he recommend the acquisition to Bill? Should he propose rejecting the deal and thus probably bring an end to the partnership? The idea of buying out the JV had occurred to him, but it clearly wouldn't work, not with the Chinese partner dreaming of a national brand. When the Audi came to a stop outside Mike's house, he hadn't reached any conclusions. He knew he was going to have another sleepless night at Green Villa.

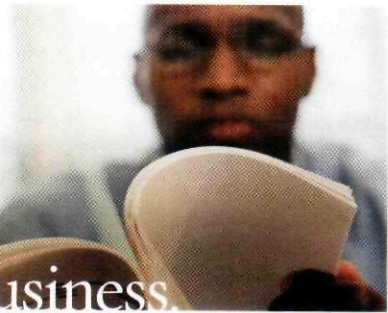
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Mike must reach out to political officials and understand their goals. I cannot overstress how crucial relationships are in China.

Mike Graves needs to do four things, and quickly. First, he needs to develop a clearer vision of Heartland Spindle's – and its partners' – strategic goals in China. Second, he needs to assemble a much stronger team for the company. Third, he needs to consider alternatives to the traditional 50/50 joint venture. And, finally, he needs to move outside his personal comfort zone as a manager.

The lack of a clear, shared strategy is the most glaring problem in this case. Is Heartland chiefly interested in China as a low-cost production base for U.S. exports? Or is it hoping to win a share of the domestic market? If so, which segment is Heartland focusing on – and based on what competitive edge?

Without a clear strategy, it's impossible to choose the right structure for and extent of cooperation with a foreign partner. Conversely, when your intent is clear and reasonable, you can get past a surprising number of obstacles. When Michelin started discussions in Shanghai with China's largest tire manufacturer, we were clear that we intended to develop a major center there for the world tire industry and that we would therefore have to bring our best technology. To protect that technology, we would need control of the venture, which initially seemed impossible to achieve from a legal standpoint. As it turned out, we got control because the municipality shared the goal and recognized the necessity.

Perhaps there once was a clear strategy that has been forgotten over the course of ten years and several changes in management. Mike should study the contracts and, more important, have discussions with the original sponsors of the deal. If he can learn the initial intentions, he might find a positive starting point for rebuilding a spirit of cooperation with his partner.

This brings me to my second point: the importance of mobilizing a team of people

to further the JV's strategy. Political officials are going to be a big part of that team; they have a stronger influence on economic life in China than Mike might realize. He must reach out to them and understand their goals. It is not a matter of good dinners and dubious expenses left to the Chinese staff. Success will depend on the personal involvement of top executives. I cannot overstress how crucial relationships are in China. Only when individuals know and understand each other can they develop the level of cooperation required for success.

Mike should convince his boss to be the one who owns the relationship with a key official – the vice mayor, say. Yes, this will add a layer of complexity, but success in China is as much about time as it is about money. This is the most important fact for Mike to impress upon the leadership back at headquarters. Our CEO, Edouard Michelin, is in the habit of coming to China two or three times a year, with a flexible agenda, and that does a great deal to develop and support our operations here.

Mike also needs to think creatively about alternatives to the traditional 50/50 joint venture. For instance, if Heartland Spindle is focused on exports and profitability, it might make more sense to have a minority share in the venture. Heartland would bring know-how to the table and would purchase the export production, leaving the Chinese partner to manage productivity and profit levels. That would protect Heartland's margins and reduce its investment, yielding a higher return on assets.

The point is that this situation might require a creative solution, and that brings me to my final concern. Mike needs to move out of his comfort zone and learn to strategize and negotiate in a highly dynamic environment. He should be the one taking the initiative, not reacting in surprise to the ideas and actions of others.



Eric Jugier is the chairman of Michelin (China) Investment in Shanghai.

It's never easy making joint ventures work, especially when the strategic objectives of the partners diverge. Zhong-Lian Knitting has had a very successful ten years, during which the partners have been able to work out their differences. But this JV may well have outlived its usefulness.

Zhong-Lian is similar to many other joint ventures in that its problems are partly due to its success. I am reminded of the JV created in the early 1980s by Merck and the Swedish pharmaceutical company Astra to help Astra enter the U.S. market. It operated successfully for more than a decade; by the late 1990s, various analysts estimated it to be worth up to \$10 billion, largely because of sales of the blockbuster drug Prilosec. But the parties increasingly found that their objectives were incompatible. Merck wanted to continue benefiting from Astra's current products and R&D pipeline, but Astra needed control over its U.S. operations to pursue its vision of becoming a leading global pharmaceutical company. The partners eventually agreed to restructure the venture so that

Heartland should consider establishing a portfolio of joint ventures. That would reduce the risk associated with any one partner.

Astra had control, and Merck would receive payments based on the sales of future products. Zhong-Lian and its Chinese parent, Suzhou First Textile, may be at a similar crossroads.

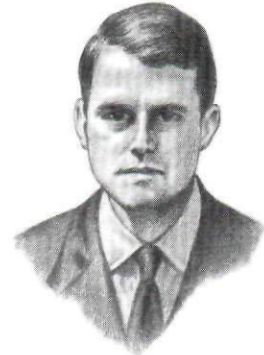
To determine his next step, Mike Graves needs to answer a fundamental question: Have the partners' strategic interests moved so far apart that the JV no longer makes sense in its current form? The answer appears to be yes. Suzhou is focused on expansion within China and on developing a national brand; this strategy will continue to put pressure on the venture's financial performance. Heart-

land Spindle is focused on short- to medium-term financial returns and on transforming Zhong-Lian into a high-quality manufacturer. No amount of discussion is going to reconcile their differences.

If he concludes that the status quo is not viable, Mike must ask himself a second question: How can he restructure or exit the JV in a way that makes sense for Heartland? To answer, he must take into account any termination or exit clauses in the joint venture agreement. He must also determine whether Heartland needs to have an ownership interest in the JV to continue the commercial relationship with it and whether Suzhou is financially able to buy out Heartland's interest in the JV.

Mike would be well advised to investigate several options in parallel. They could include selling some or all of Heartland's interest to Suzhou. A phased exit in which Heartland reduces its ownership stake over time could make sense if Heartland wants to minimize disruption in the relationship; it might also make it easier for Suzhou to raise capital (if this is a constraint). Alternatively, Mike could explore the sale of Heartland's interest to a more compatible third party. The partners might also wish to consider an IPO, assuming that Zhong-Lian is sufficiently developed to make this option realistic. An IPO would give Heartland an exit while providing the joint venture access to capital to continue its growth.

A third question Mike should be asking is, What is Heartland's overall joint venture strategy, not just in China but also in other markets? Heartland should consider establishing a portfolio of joint venture relationships in China and other low-cost regions. That would allow the company to diversify its sourcing relationships, reducing the risk associated with any one partner. It would also allow Heartland to upgrade its skills in establishing and managing international joint ventures. Perhaps if Mike's boss became involved in negotiating a few international JVs, he would acquire a better appreciation for the challenges involved in managing such relationships.



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Heartland Spindle entered the China market at the same time many multinationals did, about a decade ago, seeing the same enormous opportunity. The market was huge and there was undercapacity in many segments and industries, so high margins seemed assured. But that was a shortsighted and static view of the market. As the multinationals rushed in and productivity quickly improved, the immediate result was a dramatic expansion of capacity, and margins deteriorated. In very short order, the companies' expectations about revenues and profits became obsolete.

Many foreign executives said that if they were to move into China again, they would do so through a solely owned business, not a joint venture.

Heartland also went the usual route of entering China by means of a joint venture. Many multinationals chose this path because of regulation requirements, others because of their unfamiliarity with the Chinese business landscape. Many of them have come to regret that decision. In a McKinsey survey of executives of foreign companies in China three years ago, a great number of respondents said that if they were to move into China again, they would do so through a solely owned business, not a joint venture. The main reason was that the partners often don't share the same vision or philosophy, and the disparity in the viewpoints hampers performance. The survey also found that more than half of the joint ventures in China are not working properly.

In Zhong-Lian's case, the problem does not seem to be the cultural difference so much as the difference in the two partners' visions and definitions of success. One question, then, is whether Heartland's high-margin vision is sensible. The textile industry in China is extremely competitive and will be for the foreseeable future because the entry barriers are low. The margins in textiles are therefore typically very low, except for special textiles

and products with very strong brands. My first advice to Mike Graves would be to study the industry structure closely and determine whether a 20% return on investment is theoretically possible for Zhong-Lian's products.

The next question is whether this joint venture is in a position to capture the highest margin in its industry. Does it have a unique business model, perhaps, based on some core competence? Maybe it can leverage its channel or its brand back in the United States or in other developed markets. Or perhaps Heartland can make the venture a bigger part of its global strategy, exploiting the region's labor costs and productivity edge to reconfigure its worldwide production strategy.

If Mike doesn't discover a unique business model that will generate a 20% ROI, he needs to inform his boss that it's time to exit. But if he believes such a return is achievable, he needs to restructure the JV to get there. If Heartland doesn't want to make any more of an investment in the venture, it could bring in a private shareholder or other market-driven companies to buy the government's shares. Mike also needs to ensure that he is linking compensation packages to performance. I've observed that employees in China—especially senior managers—respond very, very well to pay-for-performance plans.

It's been my experience that Chinese organizations are quite adaptable to other cultures. The problem here, and perhaps for many companies, is that real assimilation can't occur unless the two partners are working toward the same goals. Zhong-Lian is under the strong influence of the government, and, as a result, it is doing exactly what should be expected: creating jobs and boosting revenue rather than profits. The minute Mike starts to create a market-driven and value-creation-driven company—largely by rewarding senior managers for gains in those directions—things will start to change.

The joint venture is already one of the success stories on the Chinese business landscape. If the venture is restructured and incentives are aligned with higher performance, it might even meet the expectations Heartland has set for it.



David Xu is a principal at management consulting firm McKinsey & Company in Shanghai.

Mike Graves needs to start by acknowledging that his boss is correct: A 4% ROI is not enough for most foreign investors after ten years. So where is the problem? Is it in the Chinese market itself? Is it with the partnership agreement? Or is it with Mike? I'd argue that all three contribute to this dilemma.

Let's look at the Chinese market first. Many foreign companies are finding it tough to generate acceptable profits there. Even the Japanese, historically the biggest investors, are seeing their lowest returns in China. (And when the Japanese do invest, the size of their subsidiaries tends to be smaller; they don't employ anywhere near the number of people Zhong-Lian Knitting does.)

China is also becoming a more expensive place to do business. Between 1992 and 2001, the consumer price index in the United States increased by 1.27 times; in Shanghai, it went up 2.21 times. Wage rates in Shanghai more than tripled between 1991 and 2000. It's not surprising that more and more competitive Japanese corporations have begun to pull out of the market—they are a

ment unless it improves the bottom line, wants to improve quality, and sees no benefit to creating a Chinese brand because it views China as a low-cost manufacturing platform rather than a market. In the absence of congruent performance objectives, the joint venture has no underlying strategic logic. Thus the partners immediately need to revisit both their older and continuing reasons for staying together. If the partners cannot agree on a minimally acceptable ROI or that such a goal is a top priority, they should think about exiting the venture.

Finally, Mike is part of the problem. It is absolutely stunning that he learned on the day of the anniversary banquet that his partner wanted to make another acquisition. Either the Chinese partner is out of control or Mike is out of touch. How much time is Mike spending with the partner? Has he grown too comfortable in paradise?

Mike needs to be proactive. Rather than simply waiting for his Chinese partner to hand him the names of acquisition candidates, for instance, he could develop specific acquisition criteria with his partner or even



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One of the largest costs in many joint ventures is the expatriate manager package. Perhaps he could save by reducing the number of expats.

little further along the "exit curve" than Bill Windler is.

Next, the partnership. In any international joint venture, the partners must share congruent performance measures. That is certainly not the case here. While both partners have an explicit goal that the JV be profitable, they differ widely in terms of what constitutes an acceptable financial return. Furthermore, some of their nonfinancial goals for the JV seem to have evolved and have only now become explicit. The Chinese partner is happy with achieving a 5% to 6% profit and being viewed as a local hero. It wants to grow the scope of the JV and establish a national brand. The U.S. partner wants a 20% ROI, will consider growth only if it improves profitability, has no interest in creating employ-

conduct some investigations himself. He should also look for additional ways of improving the JV's profitability. One of the largest costs in many joint ventures in China is the expatriate manager package. He could save money by reducing the number of expats, perhaps by promoting local managers. Lots of smart people are available.

Various factors have contributed to the current situation, some of which—such as the condition of the Chinese market—Mike cannot control. He needs to concentrate on the things he can change: the relationship between the U.S. and Chinese partners and his own managerial behavior. ▢

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