

# Case study on cultural and managerial issues facing michelin in china

[Business](#), [Company](#)



## **Introduction**

Michelin China is a world leading tire-manufacturing company originally started in France and moved to explore the huge market in China in the 1980s and 1990. The company started doing business with China in the late 1980s where they began supplying tires to the Chinese market. However, its decision to start business ventures in China began in 1996 when it established a joint venture in Shenyang. Opportunities became better with the beginning of the new millennium as the market widened and the China market proved to one where growth was a guarantee. The first opportunity came up in 2001 when an opportunity to open one of the largest tire industries arose in Shanghai. Market analysts were optimistic that the tire market would be growing by around thirty percent between 2003 and 2005 and this was an opportunity that Michelin were not ready to miss. With an estimated market demand of 108 million tires by the year 2010 Michelin were more than ready to establish their base in China.

The major stakeholders in the company were keen on establishing and manufacturing quality tires in the new venture and they promised to work as hard as they did in other countries in order to penetrate the local market. Despite the obvious gains from doing business in China, the organization was faced with management and cultural management decisions. China has its own unique culture different from other countries where Michelin was already established. The management had to make critical decisions on the kind of management they would adapt that would best suit the new business environment. The cultural differences were obvious and instilling the already existing Michelin, culture in the new market had its advantages and

disadvantages (Selmer, 1998 p. 90). The management had to make a decision on the best form of management and culture to use in China. The problems began when the business had to establish its team in the new territory and had to take into account the differences in cultures and the management strategies applied in the different countries. The challenges were many, but the Michelin management team in China was keen to establish a strong base where they would maintain their high level of productivity and at the same time fit into the Chinese cultural management (Street & Matelski, 2008 p. 67).

## **Cultural differences**

Establishing a new business in a new environment with different cultural values is always a great challenge for any enterprise. This is worsened when the two partners have different values when it comes to the cultural aspects of a business structure. This was one of the major challenges faced by the Michelin group in China after establishing a partnership with Shanghai Tire & Rubber Co., Ltd. (STRC) in 2001. The two companies now on a joint venture had different cultural values they ascribed to when managing their businesses. The Shanghai Tire and Rubber company was one the largest shareholders in China with a total share of 5% in the country' market. However, they enjoyed their own privileges like the use of Warrior brand and had rights to use land. All this were part of the Chinese market culture and had been in use since 1947. The company had its own unique culture dominated by the idea of a state owned enterprise or the SOE. This existed despite it being enlisted as one of the public companies in the stock

exchange. The workers in the company were not so keen on a merger with a foreign company. However, the top management was keen on establishing a relationship with a foreign company to help them acquire marketing skills and world-class craftsmanship. The culture applied in the Chinese market was very different from those ascribed to by the Michelin group in other countries.

The Michelin group believed in a five basic values when it came to their cultural beliefs. The first one was respect for the customer, which was the main value that acted as a guide to all its employees. The second value was respect for the people. This value was one of the key factors taken into consideration by any employee in the organization. By respecting people, the Michelin Company had been able to maintain a high level of innovation as it provided them with a chance to delegate functions to employees giving them a chance to initiate new ventures and ideas. The third value was respect for shareholders and the fourth one was respect for facts. Respecting shareholders was a proof that the employees appreciated the sacrifices and risks undertaken by the shareholders in making the company successful. On the other hand, respect for facts demanded a keen look at ones opinion and evaluation to establish objectivity of the ideas. The other value was respect for the environment. The organization made it their duty to manufacture environmentally friendly products and help in the conservation of the environment. These values were not applicable in the Chinese market culture as it was characterized by distance and absolute power, (Selmer, 1998, 231). Unlike the Michelin culture in other countries, the Chinese culture was very different as it focused on the traditional hierarchy of

management where the employees viewed their superiors as unreachable and accorded them with a lot of respect. This is explained by the traditional hierarchy theory of management where the organization is based on a strict hierarchy organization.

The top-level management and all the management make all the decisions and the business management is highly centralized. This was a common practice in the school of classical or historical period. This was explained by Max Weber's Bureaucratic theory. This kind of culture is characterized by division of labor where the roles of each and their responsibilities are clearly defined. The other characteristic of this kind of culture is organization of authority in a hierarchical manner characterized by a highly centralized management structure. This kind of culture leads to a chain of command where the junior is answerable to his or her senior and the senior is answerable to his or her own superior. Promotions in this kind of organizational culture are based on one's age and not on their expertise and qualifications. The senior officials in the organization appoint those suitable and fit for promotion. This kind of cultural organization gave those in leadership positions total control over their juniors making them less proactive. The same case applies to the pay rates used in this kind of cultural organization. The seniority and age determined the amount of pay one gets and not their qualifications or output. The measure of one's abilities were based on their loyalty and the time they serve the organization. In the case of the Shanghai Tire & Rubber Co., Ltd, the "iron rice bowl mentality" was a symbol of the lifetime guarantee to employment in the organization. This resulted in minimal payments and no accountability measures were

taken into account when making crucial decisions regarding the future of the company.

The other cultural difference that came out clearly was the Chinese *guanxi* that means a mutually beneficial relationship established between two people where one does the other a favor and expects that that person would be of help in future. This was a major challenge especially when it came to making the people change this perception and embrace the work group form of working relationship (Street & Matelski, 2008 p. 89).

Communication in the Chinese organization was very high context with non-verbal form of communication applied in many cases. This form of communication was not applicable in other Michelin organization as they focused on low context communication and employees were encouraged to communicate openly with each other and with their superiors. The non-verbal communication used in the Chinese culture included the use of many non-verbal cues, use of words with implied meanings, use of symbolic words and indirect statements. The other communication culture common between the Chinese was the use of pauses in mid sentences and silences at other times were highly welcomed. The use of indirect communication comes from long interpersonal relationships and close ties with family members where they learn to understand each other without necessarily exchanging any words. This makes it difficult to have a straight conversation in such a complicated context especially when it comes to communicating with people from other countries.

## **Solutions to the cultural differences**

The issue of culture had to be dealt with a lot of caution as the new management team had to work together to solve the differences. The Michelin team sent to work in the new site ensured the changed the cultural differences to suit the new working environment through a systematic procedure. The new team did not interrupt production of warrior tires and they let the new team take control of the management as they nourished the local talent. This required orientation to the management culture used by the Michelin group. The local managers had to integrate the cultural values used by the Michelin organization in all its ventures. They were however, keen to keep the Chinese culture and often consulted with the local team on major decision-making processes.

The management team sent to China by the Michelin team had to work extra hard to overcome the cultural differences that posed a huge challenge for the success of the business. This entailed changing some of the traditional procedures used in the Shanghai Tire & Rubber Co., Ltd. The issue with guanxi had to be addressed to help increase and enhance teamwork among the employees. This was not an easy thing to do because it was like changing the tradition of this people. The Michelin managers had to educate the employees on the importance of working as a team and not expecting one to do you a favor if you helped him or her in the past. This entailed giving them sufficient explanations on the need for the need to sign new contract with the emergence of the merger between the two companies. They did not see any reason for signing new contracts yet they had a guanxi relationship with the organization (Strange, 1998 p. 123).

With regards to communication issues, the management team made sure that there were structures and procedures in place to emphasize on communication and delegation of functions . this way the organization was in a position to increase communication as people had to be accountable for their actions and work in groups hence increase communication and enhance of verbal words. This meant managers had to take a step-by-step approach when dealing with problems and finding their solutions. This was a concern for the Chinese management who were used to a hierarchical and absolute decision making routine where there was no need for consultation. Their major concern was time wastage in dialogue with other member of the organization. Personal development was a major concern in the new venture as they had all the necessary technical and expertise, but were poor when it came to working in teams. This was attributed to the Chinese education system that focuses on individual evaluation and left team work and leadership skills unattended to.

## **Management issues**

There were difference approaches used by both companies when it came to managing the company's operations. Most of these resulted from the cultural differences that existed between the two countries and these differences had to be addressed before the company could claim the market and reap the profits that came with the business venture. Some of the management challenges faced by the new venture included the ability of the company to develop the employee's abilities in different career opportunities. Their measure of success was not based on their economic success, but on the



number of employees who are successful in their careers. This was possible with the constant training sessions and the requirement where each employee had to work in a production site for two weeks then write a report on what happens at the site. This was very different from the approach used in the Chinese market. The focus was on the ability of a business to make economic achievements and less focus was placed on the success of the employees. In order to solve this issue, the new management team sent from the headquarters established a base for future operations by using their expertise to teach the local managers on how to handle management issues that were employee centred (Strange, 1998 p. 112).

The Chinese company focused on management strategies that focused on control over the actions of the employees hence limiting their abilities to try out new ideas and explore their talents. This was not the case with the Michelin group, which ensured that its employees did not feel suffocated or under the control and watch of their superiors. They encouraged employees to explore new ideas and share them with their superiors. This was a part of the new management strategy to be applied in the new joint venture.

However, this was not an easy task as changing the traditional thinking styled of people and the hierarchical form of management was not as easy as it appeared to be (Regester & Larkin, 2008, 67). However, the management team ensured this was possible with the integration process. The management team reduced the concept of control over the employees through delegation of functions and encouraging the employees to be open and free with their superiors. This form of management aimed at ensuring that the employees and the managers were in a good position to admit to

their mistakes and take responsibility for their actions. The management team ensured this was possible through five-management steps namely individual carer management where the employees had the chance to increase their academic and managerial expertise through training and workshops. The other activity used to increase personal development was training and development provided to all employees. The third activity was focused on management of staffing aimed at current and future managers. The fourth activity was ensuring that there was a good relationship between the management and the labour force. The last activity focused on developing tools that could help the management teams increase efficiency and effectiveness in managerial tasks. All these activities aimed at building the unique capabilities of the personnel by giving them a chance to exploit their abilities and use them to improve their performance in the organization (Selmer, 1998 p. 98).

The other managerial issue arose from the distinct boundaries set by the hierarchical form of management. The structure was complicated hence made it difficult to incorporate management strategies required to establish a good business base. The traditional structure had blurred personnel and other departments in the business. This made it difficult to implement the new strategic practices.

The issue of recruitment practiced in Michelin interviews was a two-way traffic where both the interviewee and the interviewer have to know each other and the focus is not on the academic qualifications of an individual, but on their abilities and their character. This ensures that the recruits are fit for the job (Kotabe & Aulakh, 2002 p. 90). However, the recruits have to

undergo a number of interviews with company representatives to test them on various issues. The decision to hire new personnel lies on the recruiter and no one else has the power to question their decision. This is different from the recruitment used in the Chinese company. The focus was on the qualifications of the employees and the superiors had a say in the hiring process and the choice of new personnel.

The other difference on management issue came with the form of management applied in both companies. The Chinese management focused on functional form of management where the employees respected the managers. The Chinese personnel did not have much faith on the support form of career management applied by the Michelin group. They believed that functional departments were better off than the support form of management. This was a major problem in the integration of career management, as the Michelin group had to convince the employees the importance of a career manager.

## **Conclusion**

Venturing into a new market is not an easy task. The managers have to make crucial decisions regarding the best form of operations to be applied especially when there are issues of cultural and management differences to consider. This is the dilemma faced by the Michelin managers when they ventured into Chinese market. They had to consider the differences and look for the appropriate measure to make in order to establish a management and cultural organization fit for the two mergers. The cultural issues and

management differences that existed between the two companies helped the management manoeuvre the market and establish a successful business.

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