A rare success in china – the celanese joint venture essay

Business, Accounting

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The Celanese case study has been reproduced for the purposes of study only, and is in no way a condonement of the damage the tobacco is causing. Overview One of the most closely studied Chinese joint ventures is that involving Celanese Corporation of the United States, a producer of value-added industrial chemicals, and China National Tobacco Corporation (CNTC). The venture produces tow, the fluffy synthetic fiber in cigarette filters. In 1982, when CNTC decided to increase its production of filter cigarettes, it was on the lookout for international suppliers. Since all tow providers refused to sell their technology to China, CNTC approached Celanese, a highly regarded tow producer, with a view to setting up a joint venture. Celanese declined the offer after two years of arm's-length, long-distance discussions through its Chinese agent, London Export Company (LEC), which was well regarded in China. Celanese believed that the joint venture would destabilize the international market and adversely affect its cash flow.

In early 1984, LEC reviewed the negotiations and found there might be greater mutual benefit than had at first appeared. A senior LEC executive asked Celanese for permission to continue mediating the joint-venture proposal and, by mid-year, he had persuaded both parties of the potential joint-venture benefits. As a result, CNTC promptly made Celanese the preferred supplier of tow, even before the joint-venture plant was finished; classified the output of the new plant as import substitution, so that foreign exchange would be conserved and CNTC would not need to buy tow abroad; and would share top management decisions fifty-fifty.

First StepsNext came face-to-face negotiations, discussions, and communications between the parties. Differences in formal communication almost stalled these discussions before they had got off the ground, with suspicion arising over the language used and the legal requirements put forward. Some of the main issues were: * The Chinese insisted on a holistic approach, asking the U. S. team to agree to a macro-concept for the new venture, with details to be agreed to later. Meanwhile, the U.

S. party insisted that they would only regard the overall venture as generally agreed to after agreement on each component of the new venture had been reached. The Chinese insisted on the prior development of friendship and harmony, while the U. S.

negotiators were blunt in their demands for openness and frankness about differences. * The Chinese opposed the U. S.

company's proposal that lawyers be brought into the discussions. LEC, which was respected by both parties and was a China hand, helped resolve the problems and develop an atmosphere of trust, so that basic agreement was eventually reached. Stage Two The second stage, comprehensive planning, cost $1 million, took two years to complete, and involved the translation of the basic agreement into a new plant and business organization. It had been agreed, in early talks, that Chinese regulations on technology transfers, feasibility studies, and joint ventures were not well suited to the new enterprise, so much time was spent anticipating problems related to the design and construction of the plant, its general management, human resources policies and practices, purchasing, finance, and accounting. As a result, specific plans were drawn up by U. S. and Chinese teams, with some fifty experts involved at any one time.

Cultural problems were not lacking, and included the difficulty the Chinese encountered when their Celanese colleagues argued with them or expressed differences of opinion. As one senior Chinese manager said: “ I had to learn that someone could argue with me and still be my friend. ” Cross-culturally sophisticated LEC personnel mediated for both sides on a number of troublesome issues. Stage Three The third stage involved construction of the plant, in the city of Nantong, Jiangsu province. New cultural difficulties arose daily, as Chinese practices collided with Western performance imperatives.

Celanese employees noted: *Crews of Chinese subcontractors would disappear for days at a time, leaving work unfinished. * In work units supervised by foreigners, the Chinese observed workloads; but in those supervised by Chinese, the workloads were usually reduced and additional employees hired. * Many employees appeared indifferent to the satisfactory completion of the project.

* The Celanese habit of flagging errors or shortcomings was taken by many Chinese as a personal affront—compounded by the indignity of seemingly being “ talked down to. ” The Nantong factory was completed in 1989, when the joint venture went into operation, with a mixture of Chinese and U. S.

managers and staff. Most of the Chinese managers appointed to the new enterprise saw themselves as loyal to CNTC, and their allegiance to the new venture was initially fragile.

The Chinese managers discussed problems with their seniors at CNTC, rather than with their U. S. venture colleagues. Neither side could identify with the new entity at first, and managers held meetings in their native tongue, which upset those on the other side. But overall, a long-term perspective was taken regarding the factory, where training was provided to enable employees to carry out prescribed operations. At the same time, Celanese managers, believing that the performance of local suppliers had to be upgraded, spent much of their time helping suppliers improve deliveries.

William Newman (1992, 72) points out: " Chinese plants… are accustomed to loose standards. Erratic delivery times are common with last-minute flurries of action to meet emergencies. " By 1992, the Nantong plant was meeting corporate goals and becoming profitable, and so it was expanded; and in 1994, the production of acetate flake (the raw material for tow) was added.

Then two additional manufacturing sites for acetate tow, each a separate joint venture with CNTC, were built and started up in 1995—one in Zhuhai, Guangdong province, and one in Kunming, Yunnan province. Efforts Bear Results Looking back, Celanese says its joint-venture agreements reflect the learning and the changes that occurred in the wake of the original Nantong joint venture. In 2002, the flake facility in Nantong was expanded to provide flake to Zhuhai and Kunming. A senior Celanese manager said that the performance of the Celanese joint ventures in China had exceeded original investment expectations. There are few joint ventures in China that have been as successful and learned so much from their own experiences. At the same time, the Chinese laws and regulations affecting joint ventures have seen tremendous changes since 1989, making it easier to do business in China. In May 2001, after ten years of increasingly successful operations, the two partners announced they had “ formed joint work teams to complete a feasibility study on an expansion of their joint venture to produce diacetate tow cigarette filters in China” (Chemical Market Reporter, May 21, 2001). This coincided with the Celanese plan to phase out its Rock Hill, South Carolina, plant by the end of the first quarter of 2002.

It is to be assumed that Celanese and CNTC will be more professional this time around in planning their joint venture, particularly since China is a growing contributor to the bottom line. Celanese is now firmly established as a profitable corporate citizen in China, but cross-cultural learning and problems remain part of joint-venture life. A senior Celanese manager commented: My wife and I lived in Nantong from June 1997 until March 2000.

We found the Chinese people, regardless of their personal circumstances or status, to be extremely friendly and supportive. One very unexpected aspect of life in China is the way we felt completely safe and secure, more so than in any place we have lived, including in the United States. ” “ Close friendships are developed between expatriates and people in every walk of life, including government officials. The only observation I would make here is that it probably takes longer and more effort to cultivate friendships at higher levels, and this usually requires a peer relationship. ” “ As I expected, I saw that there was a big variation in how well expatriates respected and adjusted to the culture.

Those who tried to have things work the way they did back home became frustrated, and the Chinese quietly resented their attitudes. Likewise, some Chinese had no desire or ability to learn and adopt modern business and management ideas, and they became frustrated and were resented by the expatriates. “ In such cases, the performance of the venture was affected, so the Chinese and Celanese directors ended up looking for ways to resolve the issues, which usually meant moving someone out of the joint venture. Over time, this has made the directors much more careful in the management selection process. ” Commentary This case illustrates how vital it is that a very long-term view be taken when planning one’s objectives, to ensure that every debatable issue—often resting on widely divergent cultural values and practices—is thrashed out among the parties concerned.

We believe that the Celanese approach could not have been bettered. Both parties handled problems as they arose, choosing not to adopt stereotypical formats. Meanwhile, LEC’s role as long-term mediator easily qualifies as the No. 1 point to note and mull over in this case. This Case Study can be found in Dr Bob March’s excellent book The Chinese Negotiator, together with many more instructive case studies and indespensable advice to the western business negotiator.