

Beijing jeep case analysis

Business



In 1983 American Motors Corporation (AMC) signed a twenty-year agreement with Beijing Auto Works (BAW) to form Beijing Jeep Corporation (BJC) – an equity joint venture. AMC were the pioneers in Chinese brand new auto market, and, therefore, the process of creation of BJC was lengthy and arduous. Due to China's commercial isolation neither BAW nor AMC had a clear understanding of either side's business practices.

For example, the Chinese unfamiliarity with the inflation factor concept had created problems in the negotiations over the prices for auto parts.

Interestingly enough, “ the 1979 Law employed the use of terms, such as “ profits”, which had no meaning in the context of Chinese domestic law, which is based on socialistic principles. ” (<https://www.law.upenn.edu/journals/jil/articles/volume14/issue1/Potter14U>.

Pa. J. Int'l Bus. L. 1(1993).

pdf, 2012) Consequently, the negotiations between AMC and BAW had a great impact on formation and subsequent modifications of the Chinese 1979 Joint Venture Law.

Moreover, both AMC and BAW experienced political as well as perceptual barriers. First of all, some of the AMC's management considered Chinese auto market to be highly unstable and risky. Where as, BAW employees shared a belief that the relationships with a capitalist country were potentially destructive. The differences could also be observed in BAW's and AMC's perceptions of government's role in their business operations.

From the table below, according to McKinsey Global Survey, 28% of the US respondents believe that such government actions as passing laws has always positive effects on their company's economic value, in China the percentage of those who agree is almost twice higher (58%). When it comes to providing infrastructure, 75% of Chinese think that the action will only most likely have a positive effect, whereas the US respondents strongly believe that this action always affects positively on the economic value of their companies.

Last but not least, 67% of the Chinese respondents believe that advocating for the interests of their companies always affects positively, in the US the percentage of the respondents who agreed was significantly lower (38%). ?
([https://www.mckinseyquarterly.com/Public_Sector/Management/](https://www.mckinseyquarterly.com/Public_Sector/Management/How_business_interacts_with_government_McKinsey_Global_Survey_results_2495?pagenum=2)

[How_business_interacts_with_government_McKinsey_Global_Survey_results_2495?pagenum=2](https://www.mckinseyquarterly.com/Public_Sector/Management/How_business_interacts_with_government_McKinsey_Global_Survey_results_2495?pagenum=2), 2012) Regardless of the differing perceptions of the government's role in global business, it is obvious that government plays a significant role in any firm's business operations.

According to one study: "one problem of operating in China is that policies change often and quickly." ([http://www.isnie.org/ISNIE06/Papers06/08.1%20\(no%20discussant\)/Zhang.pdf](http://www.isnie.org/ISNIE06/Papers06/08.1%20(no%20discussant)/Zhang.pdf), 2012) The study addresses constantly

changing negotiation policies as one of the aspects. Therefore, foreign companies in China seek to develop organization collaborations as well as interpersonal relationships with the governmental officials. The personal

relations in turn provide moderating role in resolving conflicts and/or reaching consensus with the officials. Therefore, Don St.

Pierre, as BJC's general manager, should have developed interpersonal network with the key governmental officials.

This could have taken on a form of planned social events, gift giving, and maintenance of uninterrupted flow of information to build trust and mutual respect (i. e. disclose and consult the fact of the Chrysler-AMC merger). He then should have used that network to negotiate on the lower customs duty on imported parts so that to improve HR policies, for example, raise labor pay as part of the incentive to boost BJC's productivity level.