Their CEO, Guillaume de Fougières, commented,

> I think our experience in China is one of the best because we managed our own inputs and technology. It was a big investment but the growth in that county is huge, it is almost scary. We needed to control our own technology, to be able to sell our brand[s] Luminarc in the consumer goods segment and Arcoroc in the hotels and restaurants segment with a quality not matched by local players. In glass if you don't control the technology it is very difficult. If you buy the local available technology, then you don't make a difference, you are like everybody else. Controlling the technology is our competitive advantage edge, and we were the first Westerners to invest in China in our industry.

They produce almost entirely for the domestic market with a small portion of production being used for neighboring markets.

Arc has found that controlling the technology means that they are not in danger of losing control of their intellectual property to a competitor, even though it is a real challenge to protect their technology in China. They are also able to sell their quality product for a 10–15 percent premium over the competition. Thus they are able to appeal to the quickly growing Chinese middle class that aspires to Western consumer goods. Their key success factors in China are (1) produce a higher quality and different products than the local offer; (2) control your technology with a full control of your operation; (3) invest in branding to show the consumers the value of your offering thus bringing a solid foundation to your business for a sustainable growth; and (4) invest in human resource to attract, train, and keep outstanding talent.

Case 10.2 IMAX

The IMAX approach in China has been used quite successfully by half a dozen of those interviewed for this research in various emerging markets throughout the world. It entails creating a presence in the country from which to develop an understanding of that market, culture, buying habits of both customers and end users, and to cultivate key relationships with government and potential partners. Over a period of literally years, one cultivates a better knowledge of that country's unique landscape and as a consequence makes better informed choices in terms of locations and partnerships. This approach is likely to take years before seeing any tangible results.

IMAX's approach was quite simple. In 2000 they moved their Asia Pacific headquarters from Singapore to Shanghai as they understood the future importance of the Chinese market. Once there they began to make connections in the local community. According to Greg Foster, of IMAX:

> For five years, we did whatever the Chinese government pretty much asked us to do and never asked for anything in return. We gave some of their science centers some IMAX theatres, some IMAX projection systems at very very reduced prices. They wanted us to make a movie about panda bears, so we did and we basically just said, "Whatever you want, let us know; we're good partners." We asked for nothing. And finally, after about five years, they got it. They realized we weren't going to come in, exploit the situation and leave—that we were really in it for the long term ... then in early 2008 all of a sudden, things started working and certain things started happening. They [the Chinese] want to know you are not there to screw them and ... you are there for the long term. By the way, we had no intention of doing anything other than being their partners, but sometimes people are suspicious and, you know, we proved over time that we really were [trustworthy]. I think a lot of companies go in with an Anglo-Saxon view that you go in with a contract, which is worth nothing in China, and they fly in and they think they're going to do a business deal in two weeks. Now, we're not going to start asking for everything, but then it becomes a symbiotic relationship—you know, you have to show them that you really want the same thing they want.

IMAX subsequently partnered with two firms in China, one Chinese (Wanda) and one Korean (CJ CGV Entertainment). They are expanding dramatically having grown the number of screens from 75 to over 400 anticipated, including 75 with Wanda, their Chinese business partner.

The industry is inconsequential but the underlying theme is consistent. While getting to understand any nation takes time, it is well worth it if one is either unable or unwilling to "go it alone." The risks associated with doing otherwise have, time and time again, proven overwhelming as seen in the Danone case next.

Case 10.3 Danone and Wahaha Group

One of the more recent and high-profile cases highlighting the importance of pretransaction mutual understanding is the joint venture between France's Danone and China's Wahaha Group.

The joint venture was formed in February 1996 by three parties in order to supply the fast growing and lucrative Chinese soft drinks market. The Wahaha Group, which was owned exclusively by the Hangzhou Province government, held 49 percent of the joint venture. Danone, the giant French fast moving consumer goods manufacturer, and Jinga, a Singapore company with whom Danone already had joint ventures, equally controlled the other 51 percent. Danone relinquished day-to-day and managerial control of the Chinese operations entirely to Wahaha who in turn was supposed to contribute the famous Wahaha brand and trademark to the entity. Danone's oversight of the operation was provided by its inclusion on the board of directors (Harris, 2007).

The waters got muddied relatively quickly even before the deal was completed. Firstly, the Chinese government ruled that the trademark was Chinese state property and couldn't be given to a foreign third party. Rather than renegotiate the deal, the parties agreed to modify the arrangement and opt for a licensing agreement to which the Chinese government had tentatively agreed; full disclosure of the extent of the entire transaction, however, was never made to the officials. This left an opening that later proved fatal for the foreign joint venture partners. Secondly, Wahaha was privatized and the responsibility to run the operations was given to Zong Qinghou who began running the joint venture as if he owned it, which in practical terms, he did. Danone ultimately agreed to this but the change in partners meant a misalignment of objectives of the various

joint venture partners. Finally, Danone bought out their Singapore joint venture partner who was struggling financially thus creating the scenario where they held legal control of the joint venture. This latter action appeared to greatly upset Zong who allegedly felt as if he had been mislead by Danone and they had intended to seize control all along. The stage was set for animosity and distrust between the joint venture parties (ibid.).

Wahaha flourished in China, with sales growing to over $2 billion per year and a 15 percent market share making it the market segment leader. By this stage Zong had become one of the wealthiest men in China. By 2006 it became clear that there were parallel companies supplying Wahaha products through the joint venture's supply chain that were not joint venture assets. Danone accused Zong of cheating the joint venture out of millions of dollars and demanded to have these operations brought under the joint venture umbrella. Zong refused. Danone sued in several jurisdictions while the case went to arbitration in Sweden. Simultaneously, Danone lost both its initial case and its appeal in the Chinese court system that stated, among other things, that the use of the Wahaha trademark was illegal and it had never been properly granted to the joint venture in the first place. Danone was left with little choice other than to drop its legal charges and sell its half of the joint venture to Zong for a reputed $500 million (Barboza, 2009).

There are several salient lessons to be learned by this case. Firstly, when forming joint ventures in China, common, agreed, and transparent objectives between the partners is absolutely paramount; in most cases, this involves an enormous amount of effort and time to ensure fit. In terms of legal control in China, there is no difference between a few percentage points of ownership—it really becomes theoretical. If a Chinese partner has a clear minority stake in the joint venture, say 30 percent, it is viewed as being a distinct significant minority holding. By contrast, even if the partnership is 45–55 percent, it is seen as a true partnership with both sides contributing equally to the venture's success. This distinction was not seen by Danone. Secondly, the role of trust on both sides in the Chinese market cannot be emphasized enough. Danone gave Zong operational control of the joint venture with very few control systems put into place. The duplication of operations went on for some time before Danone was even aware of it; as an incoming company, this is very dangerous. Thirdly, understand and accept the Chinese landscape shifts in terms of management and shareholder intentions especially when dealing with SOEs further complicating the ability to ensure common goals and strategies. Fourthly and related, while trust and mutual respect is critical, one cannot rely on that alone. When push comes to shove, the Chinese legal system is not going to save a foreign company when there is a significant conflict of interest with an indigenous firm, so foreigners do not have this to fall back on. They simply cannot hand outright control to a Chinese partner without active involvement in the running of the venture's operations. To do otherwise is to invite disaster.

Case 10.4 Chinese car industry

The Chinese automotive industry is a prime illustration of the development of Chinese manufacturing both home and abroad. Shanghai Automotive Industry Corporation (SAIC), a wholly state-owned enterprise, has grown exponentially in the past 30 years driven in part by a series of high-profile joint ventures. Their partners include Volkswagen and General Motors for automobiles and Iveco and Volvo in bus and truck technology. According to one developing world participant, SAIC has been very systematic in moving employees around between the joint ventures to ensure they gain maximum knowledge on best practices of vehicle production and technology. As our participant said, "Because they can shift their people across different companies and different cultures that gives them a learning curve, which is far steeper than all the other ones."

The next stage of Chinese automotive development follows the before-seen route of Chinese manufacturing: partner with leading developed nation organizations to learn as much as possible, buy a brand to support that brand, go to market in China first before tackling the rest of the world. Nanjing Automotive purchased the Rover car brand from BMW in 2005. Nanjing, including the Rover brand, was subsequently purchased by SAIC with the Chinese government's encouragement as SAIC has become an industry leader in China. Now with a brand that has recognition and prestige in China, SAIC has tackled the domestic Chinese market in earnest.

The research suggests that it is this approach that will propel China onto a world automotive scene in record time. One participant noted that Japan took 30 years to become fully established in the developed world, and South Korean automotive manufactures took half the time. Several participants agree that China will do it even faster. On survey participant said, "With China it is a case of 'when' not 'if'." Thus, as another participant suggested, the biggest issue for Western car manufacturers in China is not the competition from other car manufactures as the industry is projected to double by the year 2030 (McKinsey & Company, 2009); instead, "[t]he biggest threat that I see is the point when the Chinese are saying we don't want to work in a joint venture anymore." And that time will be when they are confident that they have learned all they need to know in order to go it alone.