XCO China

It had been a bad morning for John Ross, the general manager of XCO's Chinese joint venture. He had just got off the phone with his boss in St Louis, Phil Smith, who was demanding to know why the joint venture's return on investment was still in the low single digits four years after Ross had taken over the top post in the operation. "We had expected much better performance by now," said Smith, "particularly given your record of achievement; you need to fix this Phil. Our patience is not infinite. You know the corporate goal is for a 20 percent return on investment for operating units, and your unit is not even close to that." Ross had a bad feeling that Smith had just fired a warning shot across his bow. There was an implicit threat underlying Smith's demands for improved performance. For the first time in his 20-year career at XCO, Ross felt that his job was on the line.

XCO was a U.S.-based multinational electronics enterprise with sales of $2 billion and operations in more than 10 countries. XCO China specialized in the mass production of printed circuit boards for companies in the cell phone and computer industries. It was a joint venture with Shanghai Electronic Corporation, a former state-owned enterprise that held 40 percent of the joint-venture equity (XCO held the rest). Although XCO held a majority of the equity, the company had to consult with its partner before making major investments or changing employment levels.

John Ross had been running XCO China for the past four years. He had arrived at XCO China after a successful career at XCO, which included extended postings in Mexico and Hungary. When he took the China position, Ross thought that if he succeeded he would probably be in line for one of the top jobs at corporate within a few years. He had known that he was taking on a challenge with XCO China, but nothing prepared him for what he found there. The joint venture was a mess. Operations were horribly inefficient. Despite very low wage rates, productivity was being killed by poor product quality and lax inventory controls. The venture probably employed too many people, but XCO's Chinese partner seemed to view the venture as a job-creation program and repeatedly objected to any plans for cutting the workforce. To make matters worse, XCO China had failed to keep up with the latest developments in manufacturing technology, and it was falling behind competitors. Ross was determined to change this, but it had not been easy.

To improve operations, Ross had put in a request to corporate HR for two specialists from the United States to work with the Chinese production employees. It had been a disaster. One had lasted just three months before requesting a transfer home for personal reasons. Apparently, his spouse hated China. The other had stayed on for a year, but he had interacted so poorly with the local Chinese employees that he had to be sent back to the States. Ross wished that XCO's corporate HR department had done a better job of selecting and then training these employees for a difficult foreign posting, but in retrospect he had to admit that he wasn't surprised at the lack of cultural training—after all, he had never been given any.

After this failure, Ross had taken a different tack. He had picked four of his best Chinese production employees and sent them over to XCO's U.S. operations, along with a translator, for a two-month training program focusing on the latest production techniques. This had worked out much better. The Chinese had visited efficient XCO factories in the United States, Mexico, and Brazil and had seen what was possible. They had returned home fired up to improve operations at XCO China. Within a year they had introduced a Six Sigma quality control program and improved the flow of inventory through XCO's factory. Ross could now walk through the factory without being appalled by the sight of large quantities of inventory stacked on the floor, or bins full of discarded circuit boards that had failed postassembly quality tests. Productivity had improved, and after three tough years, XCO China had finally turned a profit.

Apparently, this was not good enough for corporate headquarters. Ross knew that improving performance further would be very difficult. The market in China had become very competitive. XCO was vying with many other enterprises to produce printed circuit boards for large multinational customers who themselves had assembly operations in China. The customers were constantly demanding lower prices, and it seemed to Ross that prices were falling almost as fast as XCO's costs. Moreover, Ross was limited in his ability to cut the workforce by the demands of his Chinese joint-venture partner. He had tried to explain all of this to Phil Smith, but Smith didn't seem to get it. "The man is just a number cruncher," thought Ross, "he has no sense of the market in China. He has no idea how hard it is to do business here. I have worked damn hard to turn this operation around, and I am getting no credit for it, none at all."[67]

Case Discussion Questions

1. Why do you think John Ross' prior expatriate experience failed to prepare him for the task of managing XCO China?
2. What does the experience of XCO with American expatriates tell you about the problems of working abroad and about the difficulties of using home-country employees to transfer valuable knowledge with a multinational firm?
3. In order to transfer valuable knowledge, why was it apparently more effective to take Chinese employees to the United States, and then transfer them back home, than it was to use U.S. expatriates?
4. How might XCO's performance appraisal system be adjusted so that Ross gets credit, if it is deserved, for the difficult work that he is doing in China, work that is not reflected in a level of performance at XCO China that matches XCO's operations elsewhere?

Notes

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