



CHINA CEO

A CASE GUIDE
— *for* —
BUSINESS LEADERS
IN CHINA

JUAN ANTONIO FERNANDEZ
LIU SHENGJUN



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I want to dedicate this book to my parents, Laly and Eugenio, and my sister Laura. Despite the enormous distance between us, I want you to know that the heart can travel through time and space much faster than light.

Juan A. Fernandez

To those I love and those who love me.

Shengjun Liu

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Introduction

Welcome to *China CEO: A Case Guide for Business Leaders in China*. The book that you have in your hands is the result of more than five years of work with companies in China. It includes a collection of cases on international companies doing business in this country. These cases have been used in the course Managing in China that Juan has delivered to international executives from all over the world.

The objective of this field guide is to complement *China CEO: Voices of Experience from 21 International Business Leaders*, my previous book with Laurie Underwood, published in February 2006 by John Wiley & Sons. While *China CEO* introduced a number of important themes and was based on interviews with CEOs of multinationals in China, this new book presents case studies on the same topics.

Every chapter in the field guide follows the same structure:

- 1 A short introduction to the topic covered by the chapter.
- 2 A case study tailored for that topic.
- 3 Commentaries on the case studies by a professor at the China Europe International Business School (CEIBS) and at least one practitioner with years of work experience in China.

Our purpose with this new book is to offer new information not included in *China CEO*. The case studies included in the collection are:

CASE STUDY 1: EMERSON ELECTRIC (SUZHOU) CO., LTD

This case deals with the communication problems experienced between US and Chinese management on the operation of the multinational company in Suzhou (China). The general manager from Taiwan resigned after one year in the position, leaving the new general manager with the difficult task of regaining control of the organization. He will need to create a culture of trust and open communication among its members.

CASE STUDY 2: ELI LILLY & COMPANY, CHINA AFFILIATE, WAR FOR TALENT

Eli Lilly and Company is a global, research-based pharmaceutical company with a history of over 126 years. Lilly China had more than 50 representative offices and about 500 medical representatives in 2003. Compared with its key global competitors, Lilly's presence in China is still very small. To facilitate Lilly's expansion strategy in China, Lilly China had an urgent need to recruit and maintain a pool of top medical representatives. However, Lilly China had high employee turnover for three consecutive years. Obviously, the company needed to strengthen employee retention. Should Lilly maintain current recruiting practices or switch to better options? Human Resource Director Mary Liu decided to ask a consulting team to help out with the whole problem. The case describes Lilly China's background, its human resources concept and structure, and the Chinese labor market.

CASE STUDY 3: GUANGZHOU PEUGEOT AUTOMOBILE CO., LTD

In 1985 Peugeot established a joint venture in South China. Peugeot introduced its management system into the joint venture, controlled key decisions and helped Chinese employees learn French and Peugeot culture. Before 1992,

the joint venture enjoyed glorious days. With the increase in competition, however, many problems emerged, including unsuitable car designs, outdated car models, high prices, bad quality and poor service. Its production dropped so quickly that it almost ceased operation by 1996. Moreover, the serious cultural conflicts and interest fights dimmed the future of the joint venture. Finally, the Chinese partner lost patience until the joint venture ended in divorce.

CASE STUDY 4: PICANOL CHINA

Picanol was founded as a family business in 1936. It manufactures weaving machines for the textile industry and is headquartered in Belgium. Picanol hired a new CEO with the mandate of preparing the company for the competition in the global market. As part of the changes, the new CEO introduced a new business unit structure. Picanol China, under the leadership of expatriate manager Hans, is in a dilemma as to whether to implement the new structure rigidly or to be more flexible. The case traces the development of the new organization, together with the problems that ensued. It also discusses how an expatriate manager works with headquarters.

CASE STUDY 5: GM VERSUS CHERY, DISPUTES OVER INTELLECTUAL PROPERTY RIGHTS

Chery, a Chinese domestic car maker, launched a new mini car model, the QQ, in July 2003. This was several months earlier than the planned launch date for General Motors' (GM's) new mini car, the Chevrolet Spark. The QQ looked very similar to the Chevrolet Spark, but was much cheaper. GM claimed that the Chery QQ was a knockoff of the Matiz, a model owned by GM Daewoo. The QQ turned out to be a real hit with consumers, while Chevrolet Spark sales were

much lower than expected. To make matters worse for GM, Chery was aggressively expanding into other countries where GM had a presence. Intellectual property rights (IPR) disputes were common in China's automotive industry; several multinational car makers had also brought infringement cases forward. GM had its hands full: it had to compete with Chery head to head in the market while deciding what actions to take with regards to its IPR infringement claim.

CASE STUDY 6: MERCEDES-BENZ AND WUHAN WILD ANIMAL PARK

In the morning of December 25, 2001, many people in Wuhan, a large city in middle China, were surprised to see a Mercedes SLK230 sports coupe being towed by a water buffalo in the street. The next day the car was wrecked by five strong men in Wuhan Wild Animal Park (WWAP); this publicly humiliated Mercedes. After the negotiations between WWAP and Mercedes failed, WWAP threatened to smash another Mercedes car. Why did such a terrible incident occur? What makes the car owner resort to such an extreme solution? How will Mercedes handle this situation? Could Mercedes avoid this incident happening again? No matter what Mercedes plans to do, the threat of another incident means that they have to act fast. This case will be particularly useful in discussing the company's public relations strategy and crisis management skills.

CASE STUDY 7: CARREFOUR CHINA, REVAMPING BUSINESS TO FOLLOW LOCAL RULES

China was a market that tempted the MNCs (multinational corporations). However, it set strict restrictions to protect

domestic retailers. Though China did have a plan of opening the domestic market to foreign retailers step by step, it seemed to be beyond the patience of retail giants like Carrefour. As a result, many foreign retailers managed to expand in a secret but illegal way in China. Carrefour found that local governments had a strong motivation for introducing foreign retailers for the sake of employment and taxation benefits. With the help of local governments, Carrefour quickly established footholds in China's major business cities and developed into the No. 1 foreign retailer. It was not hard to imagine that the illegal expansion irritated local retailers and the Central Government. After this the Central Government issued circulars and regulations to warn foreign retailers and local governments, who just turned a deaf ear to the warnings. In 2001 rumors spread that Carrefour would be shut out and the Central Government would not appease it any more. Carrefour would have to do something to solve the crisis.

CASE STUDY 8: THE LOLLYPOP THAT TURNED BITTER, THE EXPERIENCE OF AN EXPATRIATE COUPLE IN CHINA

This case describes the experience of an expatriate couple in China. Alain, the husband, decides to take a challenging assignment in China. Montse, the wife, follows, but has to give up her own career. Once in China, things don't go as expected.

CASE STUDY 9: PERSONAL REFLECTIONS OF THREE FOREIGN ENTREPRENEURS IN CHINA

In this case three *real* stories are told by foreign entrepreneurs in China. The first protagonist was an

expatriate who became a supplier to his previous employer. Later, he started a successful new company. The second protagonist started her China experience as a diplomat. After trying a low-risk, small business, she made a new move with help from a venture capitalist. The third protagonist went to China attracted by its culture. He learnt the language and even studied in a Chinese university. He later founded several companies with his classmates. Though these three foreign entrepreneurs had different growth paths and met different challenges in their ventures, they did share a lot of best practices and lessons for doing business in China.

Each case study covers one specific topic that is connected to the previous book *China CEO: Voices of Experience*. The relation between the two books is presented in the following table:

China CEO: Voices of Experience	China CEO: A Case Guide for Business Leaders in China
Chapter 1 Qualities of a successful international leader in China	Chapter 1 Leadership in China: Putting the heart where the mind is Case study: Emerson Electric (Suzhou) Co., Ltd
Chapter 2 Managing Chinese employees	Chapter 2 Human resources in China: Chasing the runaway bride Case study: Eli Lilly and Company, China affiliate, war for talent
Chapter 3 Working with business partners	Chapter 3 Joint ventures: Dancing the Chinese tango Case study: Guangzhou Peugeot Automobile Co., Ltd
Chapter 4 Communicating with headquarters	Chapter 4 Dealing with headquarters: The art of juggling Case study: Picanol China
Chapter 5 Facing competitors Chapter 6 Battling intellectual property rights	Chapter 5 Counterfeiters in China: Catch me if you can Case study: GM versus Chery, disputes over intellectual property rights
Chapter 7 Winning over Chinese consumers	Chapter 6 Chinese consumers: The new kids on the block Case study: Mercedes-Benz and Wuhan Wild Animal Park
Chapter 8 Negotiating with the Chinese government	Chapter 7 Government relationship: Playing Chinese poker Case study: Carrefour China, revamping business to follow local rules
Chapter 9 Living in China	Chapter 8 Expatriates in China: Lost in translation Case study: The lollipop that turned bitter, the experience of an expatriate couple in China

The case guide includes a Chapter 9 that has no corresponding chapter in *China CEO: Voices of Experience*. This chapter covers the topic of foreign entrepreneurs in China and it caters to the request from several readers for us to include a chapter on small companies and their challenges in China.

The guide can be used in two ways:

1 As a self-study book. We recommend that our readers follow the following steps:

- read the corresponding chapter in *China CEO*
- read the cases and try to decide what you would do in such a situation
- compare the commentaries in the cases to your own reflections
- read the introduction to the corresponding chapter in the field guide.

2 As course material. You can follow the same procedure used for self-study, except that you can add group discussions after your own reflections on the case study. Basically, the steps to follow would be:

- use the corresponding chapter of *China CEO* as pre-reading
- refer to the cases in the corresponding chapters of the field guide
- participate in a group discussion
- ask the participants to read the case commentaries and see if they can add something new to what they have discussed
- refer to the introduction to the chapter in the companion case guide as the conclusion by the instructor.

We wish to thank the commentators who so generously shared their experiences with us. Each case study received comments from a professor and at least one practitioner. A big thank you for your generosity.

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Finally, we want to thank all the companies that have contributed to the case studies. Without them, this book would not have been possible.

Chapter 1

Leadership in China: Putting the heart where the mind is

INSIDE

Case study: Emerson Electric (Suzhou) Co., Ltd

Commentary 1: Howard Ward

Commentary 2: Guosheng Zhu

INTRODUCTION

One question frequently asked by foreign managers in China is whether there is a most appropriate leadership style to use with the Chinese staff. Behind that question there is some expectation of a silver bullet or magic formula. Unfortunately, that formula does not exist. In our experience, most of the things that work elsewhere also work in China, with certain differences that we will explore later in this introduction.

Leadership is basically about influence, and influence rests on two pillars: results and respect for people. John C. Maxwell in his bestselling book *Developing the Leader Within You*⁴ presents a model of leadership based on the development of influence.

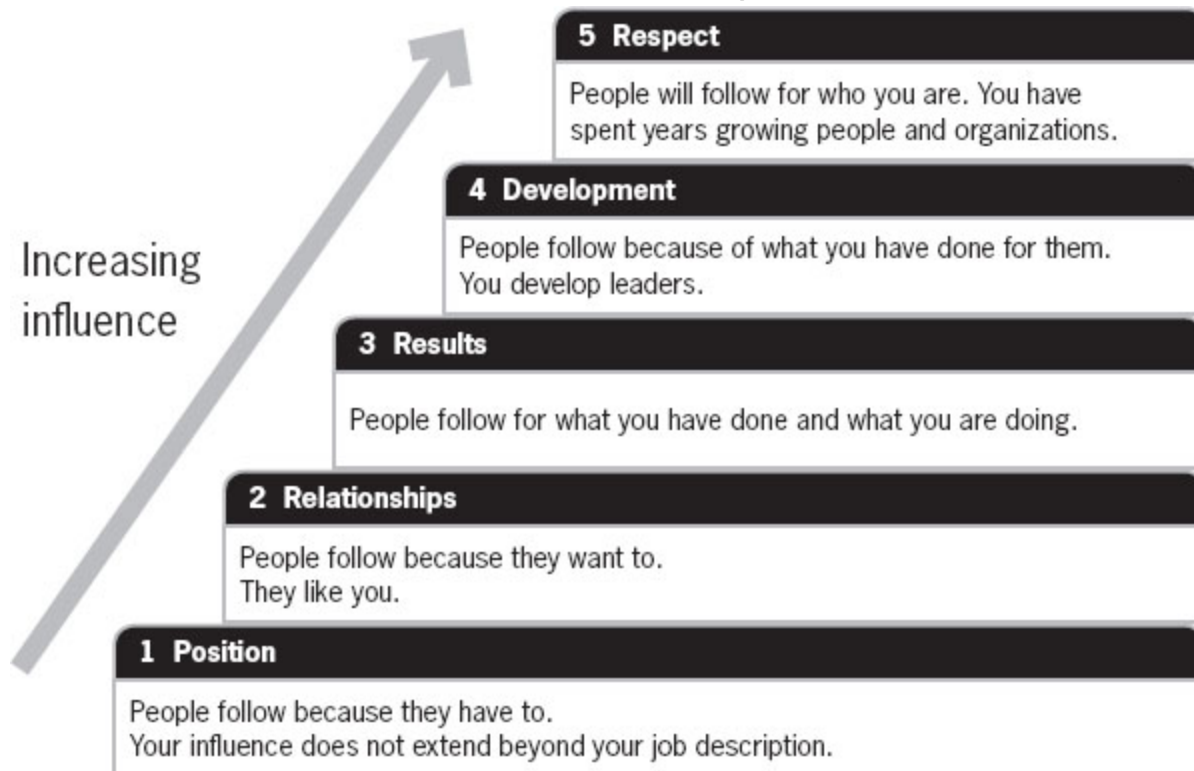
The first step in this model is influence based on position, at the lower level of the stairs. This clarifies a frequent confusion between power and leadership. In a certain way, leadership is also power, but it is a power that emanates

from the person and not so much from the position they occupy. Actually, you can have leaders with little position power but a great influence in the organization. The next step up is that of relationships: people follow because they like you. Results is the next step: people follow you because you get things done. Now, when you combine relationships and results, you start getting the influence that makes others want to follow with their hearts and minds. Development follows; this means that you help the people around you to become leaders themselves - you develop other leaders. Finally, on the last step is respect: people follow because of who you are. This is the top level of the model where true leadership is placed. According to Maxwell, real leadership is achieved after a life of helping others and organizations. We could not agree more.

The basic tenet of this model is the idea that a leader has to go through all these steps. The target to aspire to is gaining the respect of others, which also confers an important ethical component to leadership. Leadership is about influence emanating from a well-rounded person who considers others' needs, including those of the organization. This model presents an excellent road map for gaining influence and becoming a wholesome leader. It is appropriate in the West as well as in the East.

However, if we have to stress one important leadership practice in the Chinese cultural context, it would be social skills. Daniel Goleman developed the Emotional Intelligence Model² in which social skills is one of five elements (self-awareness, self-regulation, motivation, and empathy being the other four). Goleman defines social skills as the proficiency in managing relationships and building networks. It is an ability to find common ground and build rapport. This concept of social skills is certainly related to the concept of *guanxi*,³ so popular and, somehow, misunderstood when talking about business practices in China.

EXHIBIT 1.1: The Path to Leadership

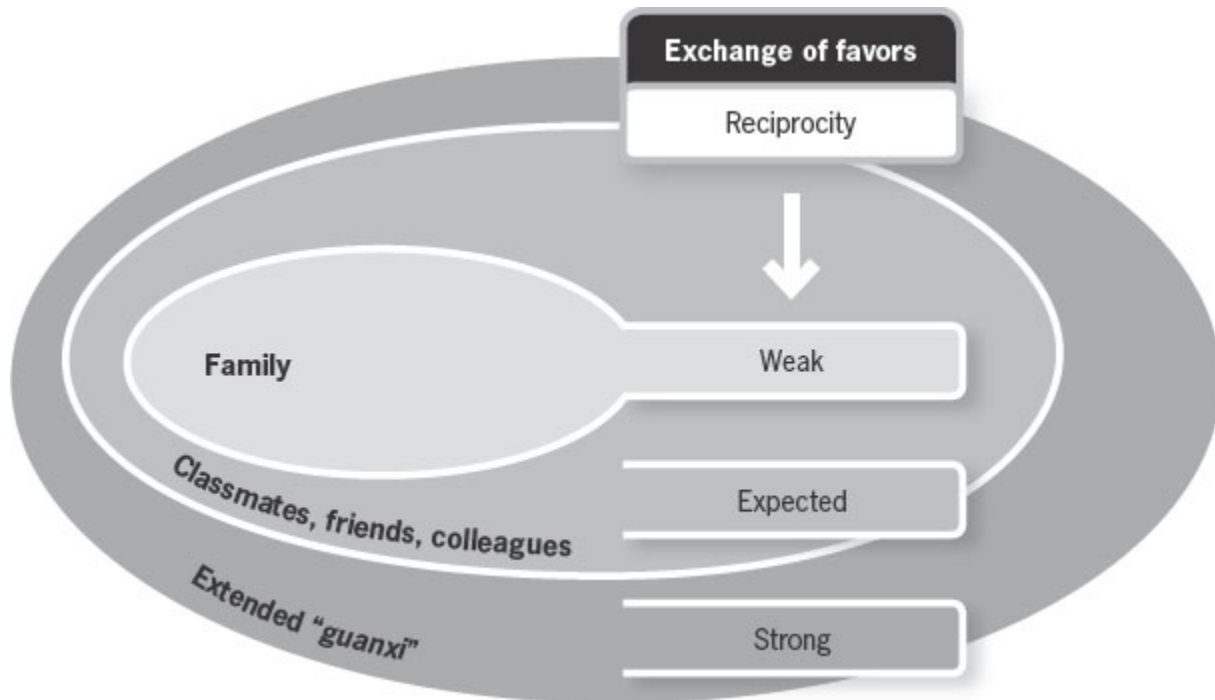


Note: adapted by the authors from the original model

Guanxi in our view has two very different sides: negative and positive. Negative *guanxi* is frequently linked to corruption, getting private benefit by using company or public resources. The positive *guanxi* is about facilitating business transactions and it is more equated to the idea of social skills by Goleman.

As the following model depicts, *guanxi* can be represented as a number of concentric rings. The core is formed by the family. Next comes friends, classmates, and workmates. The outer ring is formed by connections or, in other words, the *guanxi* of my *guanxi*. Outside of the system we find others, people with whom we interact but are not part of our *guanxi*.

EXHIBIT 1.2: The *Guanxi* Model



Guanxi is basically an exchange of favors and is maintained by reciprocity. At the family cycle reciprocity is not expected, although loyalty and trust are key elements for its maintenance. In the second ring - friends, classmates, and colleagues - reciprocity is stronger but not necessarily immediate. People do favors for each other and expect reciprocity in some unspecified time in the future. Finally, in the external ring - the *guanxi* coming from the first and second ring - reciprocity is expected and is usually immediate. The force that keeps the *guanxi* together is the threat of exclusion. When somebody uses or abuses the *guanxi* without due consideration to reciprocity, they will be excluded and it will be hard for them to have new business with any of its members.

It is clear that one needs to adapt to the local culture. The term in use that tries to capture this idea of adaptability is "global leader." However, in our opinion, this term does not capture the richness of the concept. It seems to imply that you have to develop a kind of rootless leadership style valid to any culture. However, to be a successful leader in China

one does not have to stop being who they are or abandon their cultural roots. We rather prefer the term "cosmopolitan leader," which implies a respect for your own roots and at the same time openness to other cultures. A cosmopolitan leader possesses a practical and sagacious understanding of human affairs. It is about adaptation, openness, and capacity to learn. It is about having an open mind, accepting that the way you look at things is not necessarily the only and correct one.

Cosmopolitan leaders try to understand cultural differences without prejudices. It is very easy to fall into cultural stereotypes when confronting a different culture: the Chinese are not loyal to anyone, they only care about money and status, they lack creativity, and the list can go on. This may be true in certain cases but it cannot be taken as a general description of all Chinese people. There are 1.3 billion plus inhabitants in China and we would be very surprised if every one of them fits into these types of descriptions. China is a mosaic of cultures but, even more, beyond the cultural identity that everyone possesses, each individual has a distinct personality.

Finally, we would like to introduce the concept of working styles. There are certainly cultural differences that affect the way people behave in the work place. However, it would be a simplification to consider culture as the only factor influencing behavior. We prefer to use the term working styles. It is the result of the interaction among national culture, organizational culture, and individual personality.

EXHIBIT 1.3: Working Styles



A foreign leader in China must be able to understand and work with different working styles. They must have highly developed emotional intelligence, which includes interest in others, listening, understanding, and accepting different viewpoints. They must also have clear ethical standards in personal and company matters, and be able to manage under a climate of uncertainty. On top of that, they must have proven professional savvy and knowledge of their organizations. Successful international leaders welcome diversity around them; they are driven by a sense of adventure and a desire to see and experience new things, and a sense of humor, so as not to take themselves too seriously.

The case study included in this chapter is a good illustration of different working styles and how they can negatively affect the good management of an organization. Eddie Turrentine, the new general manager (GM), is facing a critical situation in which the organization is divided into two camps: the Chinese and the Americans. The previous GM, a taiwanese, was selected by Emerson to lead the Suzhou operation. The advantage, as they saw it, was that Mr Wang Wei could serve as a bridge between the two cultures. Wang spoke Chinese, was educated in the United States, with an MBA from Harvard, and had worked for Emerson for some years. He certainly appeared to be the perfect candidate. After one year in the position, Mr Wang resigned and recommended Turrentine as his successor. Turrentine,

without previous international experience, had the daunting task of bringing together an organization that was breaking apart.

Following the case, you will find two commentaries: the first by Howard Ward, Professor of Management, CEIBS; the second by Guosheng Zhu, operation General Manager of BOC China. Both commentators focus on the importance of creating a culture of trust and understanding as well as the pivotal role of Turrentine as the leader of this change.

CASE STUDY EMERSON ELECTRIC (SUZHOU) CO., LTD⁴

Eddie Turrentine was very surprised when his GM invited him to be his successor in March 2000. Turrentine was at that time the Procurement and Material Manager of Emerson Electric (Suzhou) Co., Ltd, a subsidiary of US conglomerate Emerson (its products are sold under the brand name Copeland, a major Emerson division). The GM, a Taiwanese named Wang Wei, told Turrentine that he would offer his resignation the following day and was planning to recommend him to be the new GM. Turrentine remembered Wang saying:

I have been thinking about this for several weeks and made my decision. I want to propose you to be my successor. You have the necessary experience and knowledge to run this operation. You are the right person to keep this organization together.

These words were totally unexpected for Turrentine:

I had never planned to be the GM. I remember how surprised I was when he told me this. At the beginning, I was a little bit hesitant to accept. I had never been a GM before. Mr Wang Wei, the Taiwanese GM, was a very honest man. He told me that he truly believed I could do

a better job than he did and that he was going to support me. I finally accepted when I was officially offered the position.

Turrentine knew he was facing a difficult challenge. There were many issues to tackle in this organization, especially those regarding people. As Turrentine said:

So, there I was, the new GM. To tell you the truth, it was difficult to decide where to start with my new job.

Copeland Corporation

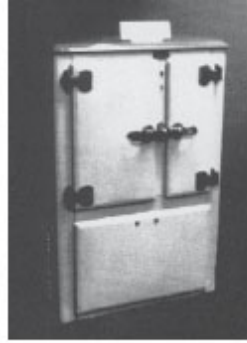
Edmund Copeland founded the company in the United States in the early 1920s. Copeland patented and produced the world's first electric refrigerators and helped make them a household fixture in America. After participating in various other markets, including war materials during the 1940s, Copeland Corp. moved in the second half of the century to concentrate exclusively on its core competence; that is, the manufacture of air conditioning and refrigeration compressors. At the time of writing, copeland employed over 10,000 people in more than 20 facilities worldwide, achieved annual sales of more than US\$2 billion, and was one of the world's largest manufacturers of HVAC compressors (see [CS Exhibit 1.1](#)). Throughout the early 1980s Copeland enjoyed its status as the world's No. 1 compressor supplier in HVAC markets, although it was serving customers primarily with 20- to 30-year-old technology, reciprocating (piston-driven) compressors. However, at that same time, the industry was on the brink of making a shift to more efficient and reliable scroll (orbiting) compression units. Copeland already possessed a significant developmental advantage in this new arena and also owned a number of patents in relation to the new technology, but lacked the capital base that would be required for the expansion needed to sufficiently penetrate

even the US unitary (new home) market. Additionally, existing factories were not attractive candidates for conversion to this latest innovation in the industry, so it was not difficult to concede that these facilities would continue to serve the declining reciprocating compressor demand until their eventual phase out. The company had the potential to become the market leader, but it was in need of strong corporate support and funding to stimulate growth (see [CS Exhibit 1.2](#)).

CS EXHIBIT 1.1: Copeland's Worldwide Operations



CS EXHIBIT 1.2:: Copel and History



Edmund Copeland:
Copeland Products, Inc.



Ohio (1937)



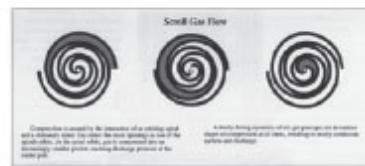
The 1970s



The 1950s and 1960s



The war years (1941)



Emerson Electric
and the scroll

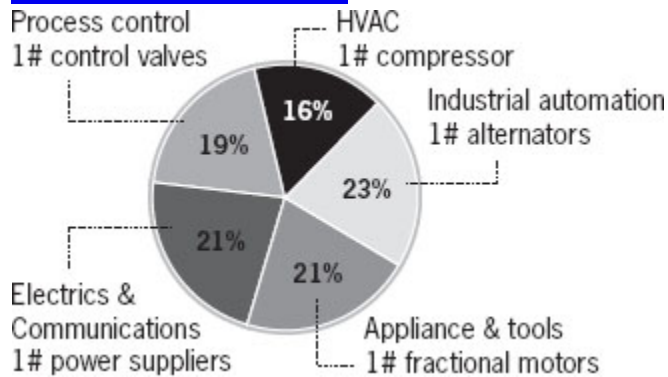
- 1986 Emerson purchased Copeland
- 1987 Scroll was launched

Acquisition by Emerson Electric

In 1985 Emerson Electric, a US corporation with more than 75 divisions, purchased Copeland Corp. from individual ownership. The integration into this huge corporation provided Copeland with the necessary financial backing to expand its horizons globally. Emerson is regularly ranked in America's Fortune 100 and is usually listed approximately

250th-350th among the world's largest corporations, with US\$15.5 billion in sales in 2000 (see [CS Exhibits 1.3](#) and [1.4](#)). As the new largest division in Emerson, Copeland garnered the lion's share of the corporate capital investment budget and aggressively constructed scroll-manufacturing facilities around North America.

CS EXHIBIT 1.3: Emerson's Market Share



CS EXHIBIT 1.4: EMERSON'S GLOBAL PERFORMANCE