

CHINA-CANADA LEAN SWINE PROJECT — CHANGING LOCAL HABITS

Tom Gleave prepared this case under the supervision of Professor Joe DiStefano solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Ivey Management Services prohibits any form of reproduction, storage or transmittal without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Ivey Management Services, c/o Richard Ivey School of Business, The University of Western Ontario, London, Ontario, Canada, N6A 3K7; phone (519) 661-3208; fax (519) 661-3882; e-mail cases@ivey.uwo.ca.

Copyright © 1999, Ivey Management Services

Version: (A) 2010-01-14

In November 1995, David Wang, enterprise development specialist with Agriteam Canada, was trying to determine how he could infuse positive and sustainable change at the Xiangzhou Feedmill in Hebei, China. The Feedmill was associated with one of three sites previously selected as test bases for the China-Canada Lean Swine Project (the Project), a cooperative development effort initiated by, and ultimately accountable to, the Chinese and Canadian governments. Wang, a native Chinese who had recently returned “home” after spending several years in Canada, was responsible for enterprise development at the three Project sites. In the short time he had been with Agriteam Canada, he had acquainted himself with the managers and operations at the sites and, subsequently, determined that his most urgent priority lay with the Xiangzhou Feedmill, particularly its approach to sales and market development. After analyzing the situation more closely, Wang had concluded that many of the difficulties he faced were due to attitudes and behaviors that had become entrenched during China’s legacy of state planning. In summarizing the challenge before him, he stated:

It is clear that one of the most important things we need to do is to educate the Feedmill’s management and staff about the Project’s objectives, to have them ‘buy in’ to these objectives, and to seek ways to achieve these objectives. This will require these people to undergo a profound re-conceptualization of their roles and responsibilities in the workplace. I can sense what will be especially problematic is that they now must ensure that profitability targets are achieved. This is a major departure from the mindset that has existed in so many of China’s state enterprises, including the Xiangzhou Feedmill.

CHINA’S ECONOMIC REFORMS AND THE SWINE INDUSTRY

In 1978, China introduced the first in a series of sweeping reforms designed to increase the country’s overall development by transforming the country’s centrally planned economy into one that was responsive to market forces. Previously, China’s state sector was governed by central planners who issued specific quotas for goods which enterprises were obligated to produce, regardless of whether or not supply equalled

demand. This left many state-owned enterprises (SOE) insolvent and having to continually ask for bank loans in order to keep the operations open. In what became a fundamental shift in China's economic model, the ruling Communist Party began the reform process by allowing farmers to sell their excess production on the open market provided that their specific quota obligations had been met. The success of these reforms encouraged the government to expand the process to most other sectors in the economy. The result was that, from 1980 to 1995, China experienced an average annual economic growth rate of about 10 per cent. Despite this unprecedented growth, it still faced the daunting challenge of having to feed 20 per cent of the world's population with only seven per cent of the arable land. Therefore, the efficient use of land and feed grains (for livestock production) became a national priority. Accordingly, the Chinese government began to seek viable methods for achieving higher feed conversion ratios (FCR) within its livestock industries, including the swine industry.¹ Increased efficiency in the swine industry was especially critical since China was already the world's largest producer and consumer of pork.

Pork production in China came from three main sources — backyard farmers, specialized pig households (SPH) and commercial farms. Backyard farmers were mostly subsistence farmers who typically raised fewer than five pigs per year, yet collectively produced over 75 per cent of all swine in China. Backyard farm production was slow since most pigs were given “green” (vegetable matter) diets instead of more expensive and efficient commercial feeds. This meant that these pigs required 10 to 12 months of feeding before they reached their average market weight of 100 kilograms, thus yielding a FCR of 5.0. In contrast, China's SPH and commercial farms had comparatively more disposable income and were, therefore, much more active in using different breeding techniques and feeding programs in the development of their swine. As a consequence, they were able to get their swine to market much more quickly than the backyard farmers. SPH were mainly family-owned businesses that raised over 20 head per year. The use of cross-breeding and commercial feeds allowed SPH to raise their pigs in an average of six to eight months, in turn yielding a FCR of about 4.5. Commercial farms were the most sophisticated players in the industry and enjoyed the benefits of scale economies. Therefore, they were able to make significant investments in genetic breeding techniques and nutritional development programs, as well as food quality and animal disease control measures. The result was that these farms were able to raise their pigs in an average of six to seven months and achieve an average FCR of 3.5.

One of the most notable characteristics of traditional Chinese pigs was the high level of fat content present at the time of slaughter. The lean meat yielded from most Chinese pigs was typically 45 to 50 per cent of the body weight, while most North American and European breeds provided a 60 to 65 per cent lean meat yield. In the late 1980s, the Chinese government began to recognize that the swine industry's FCRs were inefficient, and therefore, it began to solicit international support for the establishment of lean swine industry in China. On the domestic side, the Ministry of Agriculture encouraged the industry's development by offering subsidies to designated counties and farms that produced leaner swine based on fat content targets and improved herd genetics. By 1995, a lean swine industry had been established in many parts of China with the support of various foreign interests, although the level of industry development was still small in comparison to traditional swine farming. Lean swine accounted for about 15 per cent of all swine produced in China, most of which were raised by commercial farms in the south for consumption in China's major cities and for export to Hong Kong.

¹ Feed conversion efficiency ratios were common productivity measures used in the livestock industry. The ratio was calculated by dividing the total quantity of feed that an animal consumes in its life by the weight of the animal at the time of slaughter. Therefore, if a pig consumed five kilograms of feed for every kilogram of body weight, its feed conversion ratio (FCR) would be 5.

AGRITEAM CANADA AND THE CHINA-CANADA LEAN SWINE PROJECT

Agriteam Canada (Agriteam) was a profit-oriented, international development consulting company based in Calgary, Alberta. It delivered a range of services to international financial institutions, governments and private sector projects throughout the developing world. The company was usually involved in all phases of a project's life cycle, including preparation, appraisal, implementation, monitoring and evaluation. Agriteam prided itself on consistently being able to achieve its primary objective, namely the delivery of sustainable benefits to project constituents while recognizing the need to accommodate local customs and conditions.

In 1993, Agriteam won a contract issued by the Canadian International Development Agency (CIDA) to help manage the China-Canada Lean Swine Project, a bilateral initiative co-sponsored by the Chinese and Canadian governments. The objective of the Project was to help China further develop its lean swine industry by transferring and disseminating Canadian knowledge about lean swine genetics, as well as requisite technologies and feeding programs, to China. In addition, the Project was expected to demonstrate that viable swine breeding farms and their associated feedmill operations could make the transition from being SOEs reliant on public-sector funding to competitive, self-sustaining businesses.

The principal Canadian players involved in the Project were CIDA and Agriteam. CIDA was responsible for managing almost 90 per cent of Canada's overseas development assistance programs. To this end, CIDA contracted with Agriteam to help manage the Project. The main Chinese organizations involved were the Ministry of Foreign Trade and Economic Cooperation, the Ministry of Agriculture, and the Animal Husbandry Bureaus in the three respective municipalities and/or counties where the Project's test bases were established.

The first phase of the Project began with the Chinese and Canadian partners working together to select three swine farms (among China's 24 nationally designated commercial swine breeding centres) as test bases for the Project.² It was at these farms that so-called "nucleus" herds of Canadian Landrace and Yorkshire swine were eventually established. Each Animal Husbandry Bureau then opened a Project Site Office (PSO) which was used to coordinate activities among the local farming and feedmill operations, the Ministry of Agriculture and Agriteam. Once the PSOs were established, six key people from each test site were provided with one year of intensive English training before being sent to Canada where they were trained in specific areas of responsibility. Agriteam believed that, after spending several months in Canada, the Chinese staff would be technically prepared to handle the demands of their positions and that their English would be sufficient to communicate with their Canadian counterparts.

In late 1994, Dr. Brian Bedard, a Canadian veterinarian, established Agriteam's Project Management Office in Beijing. Its primary functions were to coordinate the Canadian activities among the three Project sites, as well as provide centralized support to four long-term technical advisors (LTTAs) who were hired by Agriteam over the ensuing months. Each LTTA assumed a specific technical area of responsibility for all three Project sites, and all were stationed in the field. In May 1995, David Wang was hired as Agriteam's LTTA in charge of economics and enterprise development. His mandate included market development and planning, sales program design and training, as well as information gathering and dissemination. His credentials included two graduate degrees from the University of Saskatchewan (located in the heart of Canada's prairie farming region) — an M.Sc. in agricultural science, and an MBA. After signing on with Agriteam, Wang chose to be posted at the Xiangzhou Site because it was near his

² The three farms were "Neijiang" in China's Southwest province of Sichuan, "Jinhua" in the eastern province of Zhejiang and "Xiangzhou" in Hebei, the province surrounding Beijing. See Exhibit 1 - Project Organization Chart.

wife's hometown. The other LTTA stationed at the Xiangzhou Site was Dr. Mary Pierce. Dr. Pierce brought over 20 years of Canadian veterinarian experience to the Project. Her main area of responsibility was in overseeing pig production, including monitoring the nucleus swine herd's health and controlling the spread of disease.

Agriteam's two other LTTAs were Dr. Mark Davis, a Canadian swine nutritionist, and Heather Watkins, a Canadian swine production specialist. Davis was responsible for developing appropriate nutrition and dietary health programs that would ensure that the three nucleus herds (and their progeny) developed normally and healthily. Watkins was responsible for developing production management programs at the three breeding farms. Davis also served as Agriteam's Site Manager at the Neijiang Project Site, while Watkins also served as the Site Manager at Jinhua. Each of the LTTAs received an expatriate compensation package that included a salary equivalent to what they could expect in Canada, an overseas housing allowance, and four weeks annual vacation. In characterizing the working relationship among the four LTTAs and Dr. Bedard, David Wang offered the following remarks:

Despite the vast distances that often separate us, we still have a very team-oriented spirit. We willingly and openly discuss our ideas with each other, particularly on issues that are very problematic. Even though our discussions often take place on the phone, I still believe that everyone is very accessible. If we do run into a problem which requires one or more of us to travel, there is usually no difficulty or debate. The reception we get at the Project sites is generally warm and friendly, although the Chinese are still a little bit cautious about us. We are still considered 'outsiders,' but are seen as credible technical experts in our respective fields.

One of the reasons why we work so well together is because we implicitly trust each others' opinions and decisions. Part of this comes from having vastly different job responsibilities and vastly different skills. And because we spend at least two weeks every quarter travelling to each other's sites, we have had the opportunity to get to know each other quite well, both personally and professionally. This obviously provides us with a high level of comfort in dealing with each other. This also lends itself well to group decision making. To be sure, even though we each have specific responsibilities, we willingly and openly encourage the input of all Project team members on many issues. After all, the ideas from five or six people are certainly better than one.

In September 1995, "nucleus" herds of the Canadian pig breeds were established at the farming operations of each test site. The partners were expected to work together to ensure that the herds became scientifically sound in terms of genetic pedigree, climatic adjustment and disease control. After these factors were verified, the progeny of the herds could then be sold to other breeders. Once each site could demonstrate that it had established smooth-running pig production and feedmill operations, as well as a strong potential for independent profitability, Phase Two of the Project could begin. This phase would involve replicating the three "model" operations at other commercial farms and feedmills throughout China, as well as attempting to influence Chinese agriculture policy at the national level.

THE YUTIAN PROJECT SITE

The Xiangzhou Project Site was located in Xiangzhou County, one of China's prime agricultural growing regions.³ The Site's facilities were owned by the Xiangzhou County Animal Husbandry Bureau (XAHB), which reported to the Ministry of Agriculture. The main facilities included in the Project were a newly constructed pig breeding farm, which came equipped with a veterinarian laboratory, and a renovated feedmill. The breeding farm (the Farm) was located 25 kilometres outside of the town of Xiangzhou (population 70,000) and about 200 kilometres from both Beijing and Tianjin, two of the country's largest cities. After it became part of the Project, the Farm switched its focus to breeding Canadian Yorkshire and Landrace pigs. The Feedmill, which was located five kilometres from town, originally operated three businesses under one umbrella company — a feed production facility which produced mainly swine and poultry feeds, a chicken farm, and a plastics recycling plant. In 1995, management moved to focus solely on animal feed production.

To ensure that Xiangzhou's nucleus herd was raised in proper conditions, the Ministry of Agriculture funded the building of several new barns prior to the pigs' arrival. The Ministry also recognized the need to fund a major renovation of the Feedmill for two main reasons. First, in order to ensure maximum production efficiencies, the Canadian pigs required specific feeds that had yet to be produced in China. Therefore, by renovating the Feedmill, the Xiangzhou Project Site would become self-sufficient. In addition, it would also be able to directly supply local farmers who decided to raise the Canadian lean swine breeds. Second, China's Feedmill industry had become very competitive in recent years with the nation's annual livestock feed production growing from two million tonnes in 1980 to 50 million tonnes in 1995. During this period, many producers had made major improvements in their production systems, in turn permitting the manufacture of more diversified and scientifically sound feeds. Thus, the renovation was considered necessary in order for the Feedmill to be competitive in an increasingly market-driven economy. After the renovation was complete, the Feedmill's capacity grew from 6,000 to 10,000 tonnes of feeds per year. Since only 360 tonnes of feed per year were needed to raise the Farm's Canadian swine, most of the excess capacity was expected to be used to produce various other swine and poultry feeds, which could then be sold on the open market. The 1995 production level was running at about 2,400 tonnes per year, 60 per cent of which was chicken feed and the remainder pig feed. The Feedmill received an average price of 2,000 Rmb. per tonne for its pig feeds and 1,800 Rmb. per tonne for its chicken feeds. The average net profit margin for both types was five per cent of the selling price. Breakeven sales volume was estimated to be 3,000 tonnes per year assuming the current sales mix. Wang believed that "with the right people, systems and support, the Feedmill could easily sell all of its capacity in the local market." Wang's reasoning was that there was only one other local feedmill which was inherently inferior to the Xiangzhou Feedmill, and that most of the local demand, including 20,000 tonnes of pig feed alone, was supplied by operations as far away as Beijing. Given the XAHB had a strong presence in the county, Wang believed that the Feedmill had the potential of garnering over 50 per cent local market share.

In addition to the renovations made at the pig farm and the Feedmill, existing space at the XAHB office was converted into a classroom in order to serve as a management training centre. The classroom came equipped with an overhead projector, television and VCR, and was suitable for facilitating both management and customer education seminars.

³ Xiangzhou county was about 1,500 square kilometres (30 km x 50 km) in area and was home to about 650,000 residents, most of whom lived on an estimated 150,000 farming households. About 60 per cent of these households were backyard pig farms, with 30 per cent dedicated to backyard chicken farming. The remaining 10 per cent belonged to larger volume pig (i.e., SPHs) and chicken farmers.

The Feedmill operation was divided into four departments: production, sales and marketing, accounting and quality control. The person in charge of the long-term planning and overall financial responsibility was Mr. Zhang, a director with the XAHB. Mr. Zhang began his 35-year career with the XAHB as a clerk. In keeping with the common practice of many Chinese government institutions, he had advanced through the management ranks at the XAHB largely because of his years of service at the Bureau. He was due to retire in three years at the age of 55.

Reporting directly to Mr. Zhang was Mr. Liu, the Feedmill's manager and resident animal nutritionist. He came to the XAHB in 1985 after graduating from Hebei Agricultural University with a highly regarded animal science degree. The first several years of his career were spent at the local office of the XAHB where he was engaged in what David Wang described as "daily administration — meaning pushing a lot of paper." In 1989, he was transferred to the Feedmill where he assumed the quality control manager's position, as well as the title of deputy manager. Since he was considered a key figure in the operation, Liu was sent to Canada where he worked in a feedmill for five months in order to learn about Canadian animal nutrition techniques. He returned to Xiangzhou in November 1994 to assume responsibility for the nutritional quality of the Feedmill's products. Two months later, he was promoted to general manager by Mr. Zhang, after the previous general manager retired. Therefore, in addition to his nutrition management duties, which included the supervision of one laboratory assistant, Liu became responsible for day-to-day operating and financial management issues. In describing his feelings about his promotion, he stated:

I just wanted to cry . . . I didn't want the job at all because I knew we would not be able to meet our monthly payroll obligations. We had 3,000 Rmb. in cash-on-hand, an outstanding bank loan of 800,000 Rmb. and all three operations were consistently losing money, including a 300,000 Rmb. loss at the animal feed production plant over the past year. The thing that really bothered me was I knew the workers would expect their salaries on time, even if the plants were idle and they were not working. This is what is meant by the term 'iron rice bowl' — the State is expected to look after its workers, in good times and bad.

Reporting directly to Liu was Mr. Chen, the Feedmill's deputy manager who was in charge of enterprise development. He was responsible for establishing and developing a network of sales dealers, ensuring that farmers and dealers received timely delivery of orders and managing outstanding accounts receivable. He was also expected to gather relevant information that could be used in the development of the Feedmill's marketing programs. Chen was a university-educated economist who, like Liu, had also begun his career with the XAHB as a clerk in 1987. He was later transferred to the Feedmill after it was selected as a Project test site, where he assumed supervisory responsibility for two sales representatives. The representatives were each assigned specific sales territory that were approximately equal in terms of geographic size and the number of resident farmers. Soon after he was transferred to the Feedmill, Chen was sent to Canada (along with Liu), where he was trained in sales and marketing by Canadian feedmill sales representatives. During this time, he also studied English.

The production manager, Mr. Ding, was responsible for scheduling and supervising production, ensuring that the equipment was performing properly and storing raw materials and finished products. The 45-year-old ex-soldier had no agriculture industry experience before coming to the Feedmill two years previously, after he retired from the army. The Feedmill's accounting department consisted of one accountant and a cashier. The two individuals, who reported directly to the XAHB accounting department, were responsible for handling daily cash transactions and bookkeeping.

In March 1995, Mr. Liu decided that focused management at the Feedmill was necessary, if it was going to become operationally self-sufficient. He, therefore, began to restructure Xiangzhou's operations. To this end, he found an external party who agreed to lease the chicken farm for a "rent" of 7,000 Rmb. per year. He also closed down the plastics plant and transferred the affected employees to the Feedmill. Given the financial situation, he was unable to raise any more funds from the bank. Therefore, he issued an edict to all employees stating that, if they wanted to continue working, they would each need to loan the Feedmill 2,000 Rmb., for which interest would be paid at the end of the year. All but one of the 30 employees complied within the three-day deadline decreed by Liu. The one employee who was unable to raise the 2,000 Rmb. was so distraught over the prospect of losing his job that he threatened Liu that he would continue coming to Liu's house in search of food and shelter. This led Liu to ask Mr. Zhang to transfer the employee to another XAHB operation. This also gave Liu the opportunity persuade Zhang to approve a 100,000 Rmb. loan from the XAHB to the Feedmill based on the commitment demonstrated by the remaining employees.

With 160,000 Rmb. in available working capital, Mr. Liu believed that he was now in a position where he could make the necessary changes to ensure that the Feedmill produced high quality-low cost feeds. Some of the first measures he took were designed to rectify the quality control issues that had plagued the operation in the past. As the resident animal nutritionist, Liu was intimately aware that the Feedmill lacked a properly equipped and functioning quality control laboratory. This, coupled with the fact that the Feedmill often could not afford to buy high-quality ingredients for its production, had resulted in serious quality control issues. For example, it was widely believed, although never formally proven, that the Feedmill's poor quality feeds had contributed to the deaths of many chickens raised by several local farmers. The Canadian partners acknowledged the gravity of the situation and agreed to fully fund the construction of a new quality control feed analysis laboratory, as well as provide extensive training to Liu and his junior staff. This meant that Liu could expend the bulk of working capital on other items, such as a basic management information system and high quality ingredients. All of the efforts were designed at regaining the confidence of the local farmers.

DAVID'S OBSERVATIONS

David Wang's first mandate with Agriteam was to familiarize himself with the three Project sites. After spending several months surveying the sites and their surrounding market conditions, he concluded that the Xiangzhou Feedmill required the most attention. His assessment was based on his belief that the manager's attitudes and behaviors were resistant to the objectives of the Project. In particular, Wang was concerned that Xiangzhou's managers were impeding the development of a business that was capable of independently succeeding in an increasingly market-driven economy. These problems were manifested in the management's attitudes towards sales and market development. In trying to determine how to proceed, Wang drafted profiles of the three key managers responsible for the Feedmill's overall performance and market development. He based these profiles on personal observations and discussions he had with the three managers, as well as discussions he had had with other employees. These profiles were as follows:

Mr. Zhang (director — XAHB) typifies the senior level managers found in many State enterprises throughout China. He has worked for the same institution his whole life, and this employer has taken care of all of his basic needs. From the time he was hired as a clerk almost 35 years ago, the Bureau has provided him and his family with housing, medical care services and basic education. As his years of service grew, he was increasingly able to use his 'guanxi' (close personal relationships) to help him obtain

positions of greater responsibility. I think this is one of the main reasons why he treats all of the Farm and Feedmill employees as if they are members of his extended family.

In terms of his willingness to endorse the Project's efforts, Mr. Zhang has been very stubborn. His basic rationale is that 'the Canadian pig is good, but it should adapt to China's climate and the Chinese way of living.' I think that this is just an excuse to avoid making any further effort in improving the efficiency of the Farm or the Feedmill. What we have been trying to do is to get people to change their management styles and systems to become more market-oriented. But Mr. Zhang believes that 'if the Canadians want something done, they should do it or pay for it.' This is so typical of the thinking in China's government institutions — nobody wants to take responsibility for anything and everybody wants to rely on others for money and ideas. Needless to say, trying to effect change through Mr. Zhang is going to be very difficult.

Mr. Liu is an interesting study. He has a very solid education and good technical exposure, but is lacking sufficient management experience. The thing that I find most troubling is that, even though he is only in his early 30s and he has been to Canada, he still has some of the old state enterprise mentality. As a consequence, he is often conservative and resistant to new ideas. He seems unwilling to take responsibility for any legitimate management decisions that need to be made. In fact, when it comes to decision making, he sees only risk and no reward. However, he does try to demonstrate leadership to others when they are not doing their jobs. For example, there are times when trucks come in that require unloading, but none of the workers is willing to help out or they are off sleeping somewhere. This prompts Mr. Liu to unload the trucks himself, even though he is the most senior manager on-site. I think he runs into this problem because many of the workers have been lulled into a false sense of security about their future. They think that the 'Gongchandong' (Communist Party) will look after them, even if the Feedmill continues to operate at a chronic deficit. What they fail to realize is that the government is showing signs that it will not be able to support inefficient enterprises forever, and it is only a matter of time before many state workers will need to look after themselves.

Mr. Chen's approach to enterprise development has given me real cause for concern. Despite his training in Canada, he has not created any sales or marketing systems at all. Instead, he continues to run the sales department like a shipping department. This is because he believes it is okay for him and the two sales representatives to sit around and wait for farmers to come to them for sales. The only time they seem to go out is at the end of each month to collect any outstanding receivables. This is clearly unlike the training Chen received in Canada, where the feedmill sales people spend most of their time calling on dealers and farmers. I have urged Chen and the two sales reps not to waste time and to go out and sell, but they simply respond by saying 'you have been away a long time — you don't know China anymore.' What they say is true in the sense that a lot has changed in China since I first left. But many of the changes are more in line with Western style economics, so I do not feel that I am at a serious disadvantage. Something tells me that this is just an excuse to cover up some strained relations between Chen and Liu. I really don't know what is going on, but I detect some definite tension between the two, and I do not feel that it is my position to be intruding into their personal relationship. The difficulty is that their relationship is affecting business performance.

Another reason why sales levels are unacceptable could be related to the sales team's compensation package. As is typical in most state enterprises, the salespeople have no incentive to go out and sell. Regardless of whether they sell or not, each person is paid 300 Rmb. per month, and they each receive free housing, medical services and education for themselves and their families. Even Mr. Chen is paid only a little more than the two others, and he is given no incentive to see them perform. Salespeople are entitled to a travel allowance of 4 Rmb. for each day that they go out in the field, but they are expected to use their own motorcycles, so the stipend often does not cover the cost.

POSSIBLE SOLUTIONS

In exploring his various options for achieving a more market-driven approach to sales and marketing, David Wang identified four possible solutions:

1. encourage Mr. Liu and Mr. Chen to undertake further management training;
2. urge Mr. Liu to change the sales department's compensation systems;
3. have both managers visit other successful feedmill facilities in southeastern China;
4. encourage Mr. Zhang to consider re-assigning Mr. Liu or Mr. Chen.

Management Training

In considering the management training option, Wang realized that Beijing Agriculture University periodically held two-week seminars related to feedmill management. The curriculum involved technical elements related to production, nutrition and quality control systems, as well as general ideas about selling livestock feeds in China, and cost 1,400 Rmb. per person. By undergoing a comprehensive training program together, instead of separate specialized training regimes (like in Canada), Wang was hoping that both managers would gain a better appreciation of each other's responsibilities and mutual interests. Although Wang was convinced that the training in Canada was very solid from a technical point of view, he was concerned that it lacked some sensitivity towards certain Chinese realities. For example, in China a much greater emphasis was placed upon relationship building, to the point where business associates often needed to spend several months getting to know each other before they formalized any business partnership. This custom had a clear impact on customer development, particularly with local grain dealers. In addition, the ability to service accounts and ensure timely delivery of feeds was much more chaotic in China due to the country's general state of underdevelopment. For instance, much like the sales staff at other feedmills, Xiangzhou's sales representatives (and Mr. Chen) were expected to use either their own pedal bicycles or rural public buses to visit farmers and feed dealers within their territories.⁴ In the event that orders were placed with the representatives, it usually took two to three days before they were filled because the Feedmill only had one delivery truck.

Wang did have some reservations about the program in Beijing. First, he was concerned that with both Liu and Chen gone for about two weeks, nobody would be left who could adequately management the operation. Although Mr. Ding (production manager) would still be in town, his health had become increasingly problematic to the point where he was often unable to come to work. In addition, given Ding's limited feedmill management experience, Wang was also concerned that Ding did not have the basic skills required to manage the operation, particularly if any pressing issue should arise. Second, Wang was also

⁴ The sales staff were permitted to use the Feedmill's only motorcycle, unless it was already reserved for other purposes.

concerned that the sales and marketing training in Beijing might not be very creative in its approach, because of its reliance on marketing and sales theory instead of practical hands-on training. His concern was that this might prevent the managers from thinking about different ways in which they could generate greater sales.

Change The Compensation System

In discussing the possibility of changing the compensation system of the sales department to one that was more incentive-based, Wang found Liu to be quite receptive. In fact, Liu proposed that Chen and the two sales representatives receive 70 per cent of their current salary as their monthly base salary, and that up to 30 per cent more of their current salary would be based on confirmed sales orders. Under this scenario, Liu suggested that each sales representative would receive 5 Rmb. for every tonne of feed sold. Therefore, if a sales representative sold 18 tonnes of feed in one month, he would receive compensation equivalent to his previous salary based upon a 210 Rmb. starting salary, plus a “bonus” of 90 Rmb. Liu also proposed that a penalty, in the form of a salary deduction, be levied on any sales representative who did not show up for work more than three days per month. However, he was unsure what level of penalty would be suitable.

The major concern that Wang had with Liu’s proposal was that it did not provide the employees with enough incentive to sell more than 18 tonnes of feed each month, since these people were already accustomed to a lifestyle based on a salary of about 300 Rmb. per month. Furthermore, if all four sales people each sold 18 tonnes per month, it would only amount to 864 tonnes per year, far below the 3,000 tonnes needed to breakeven. Therefore, in response, Wang proposed that the entire sales department move to a system which would see their base salary become 50 per cent of their current monthly wage, along with an unlimited bonus based on 15 to 20 Rmb. for each tonne sold. Wang felt that this was tenable because the current average profit margin was 90 Rmb. and 100 Rmb. respectively, for each tonne of chicken and pig feed sold. He also suggested that Liu and Chen work together to hire more salespeople so that greater coverage of the surrounding markets could be achieved, and to consider buying new motorcycles, which could be purchased for about 7,500 Rmb. In rationalizing his proposal, Wang suggested that “the salespeople need greater incentive to get out of the office. At the same time, we could broaden our scope beyond Xiangzhou to other neighboring counties.” The proposal that Wang laid forth was met with a great deal of resistance by both Liu and Chen which, Wang speculated, was “because it was too risky and too expensive for them.” This led him to wonder if there was a compromise solution that would satisfy the managers’ concerns, as well as ensure that sales would grow sufficiently to see the Feedmill become profitable within the next 12 to 18 months.

Study Tour of Other Facilities

Another option that Wang was considering was asking the Feedmill’s managers to accompany him on a tour of several feedmill and farming operations in the southeast province of Zhejiang for a period of 10 days to two weeks. In providing a rationale for this option, Wang stated:

Zhejiang is another world compared to Xiangzhou. The environment there is much more entrepreneurial and aggressive, and it does not take much convincing for people to want to develop markets. I think this is because the southeast has traditionally been one of the more entrepreneurial regions in China. The feedmills that I have seen in Zhejiang are nothing special in terms of physical resources — what separates them from us is management attitudes. I met one 26-year-old who is running a state-owned feedmill with

facilities that are inferior to our own — but he made two million Rmb. last year — and he is confined by the same state restrictions as Xiangzhou. If our managers could witness how these other Chinese are succeeding under similar conditions, I think that they may be inspired to learn more about new management systems and approaches.

Wang acknowledged that a trip to Zhejiang was not without its risks. This was largely because of the wide cultural, language and historical differences between the regions. These differences had led to widely held, but little discussed, suspicions and mistrust between the Chinese who lived near Beijing and those who lived in the south and southeast of China. These suspicions translated into the northern Chinese often feeling that their southern compatriots placed too high a value on making money, while the southerners often felt that northerners lacked energy and were not very creative.

Another concern that Wang had was the cost — part of which the XAHB would have to bear. Even if Wang drove the managers to the region in an Agriteam van, the total cost for modest accommodations and meals, as well as entertainment expenses and gifts for the hosts, would be at least 5,000 Rmb. Given the financial predicament of the Feedmill, Liu might have a hard time justifying such intangible expenses.

Lobby to Re-assign Liu or Chen

The final option that Wang was considering was whether or not he should approach Mr. Zhang to have Mr. Liu or Mr. Chen re-assigned internally, or possibly transferred to another XAHB operation. Wang felt that several arguments could be made for and against the re-assignment of either manager; however, he also expected to meet some strong resistance from Zhang, particularly if what he recommended meant that the XAHB would need to absorb greater financial costs.

In the case of Liu, Wang felt that it would be in the Feedmill's best interest to have Liu dedicated solely to nutrition management and quality control instead of having to also assume the general manager's responsibilities. Given that Liu had received specialized training in Canada, and given that the Feedmill still suffered from quality control problems, Wang believed that this would be a "natural fit." Wang realized that Liu had not felt comfortable about his recent promotion to general manager, and therefore a re-assignment might make him feel more comfortable. Furthermore, such a re-assignment might also ease the tension between Liu and Chen since there would no longer be a direct reporting relationship between the two men. On the other hand, Wang also recognized that "face" was very important in Chinese society, and that any move which appeared to be a demotion would likely be viewed as a "loss of face" for Liu. Another factor was that within the XAHB there was no obvious successor to Liu who had both feedmill management experience and sufficient English language skills to be able to effectively work with the Agriteam's unilingual LTTAs.

In the case of Mr. Chen, Wang felt that a demotion to sales representative, or transfer to another XAHB facility, might serve as a "wake up call" that the Project's participants were serious about sales and market development. In examining a possible demotion, Wang still needed to be wary of the "face" issue. He also recognized that such a move would not put Chen and Liu on an equal level in terms of managerial responsibility, which was possibly the root of the tension between the two men. What made the re-assignment or transfer more compelling, however, was that Wang had identified a Mr. Xu as a possible successor to Chen as the manager of enterprise development. Mr. Xu was currently working in the XAHB's Project Site Office helping to coordinate the Project's activities, as well as acting as the Site's interpreter. He had previously been sent to Canada at the same time as Liu and Chen. His studies there were largely focused on English proficiency, although he did have some general exposure to swine farming

and feedmill management. Over the past several months, Wang had established a good rapport with Xu and he was comfortable that Xu understood and embraced the Project's objectives. The question that remained, however, was how the other employees would respond, particularly the other sales representatives, to a change that was brought about by Wang. He knew that he was still widely perceived to be an "outsider" at Xiangzhou.

DECIDING WHAT TO DO

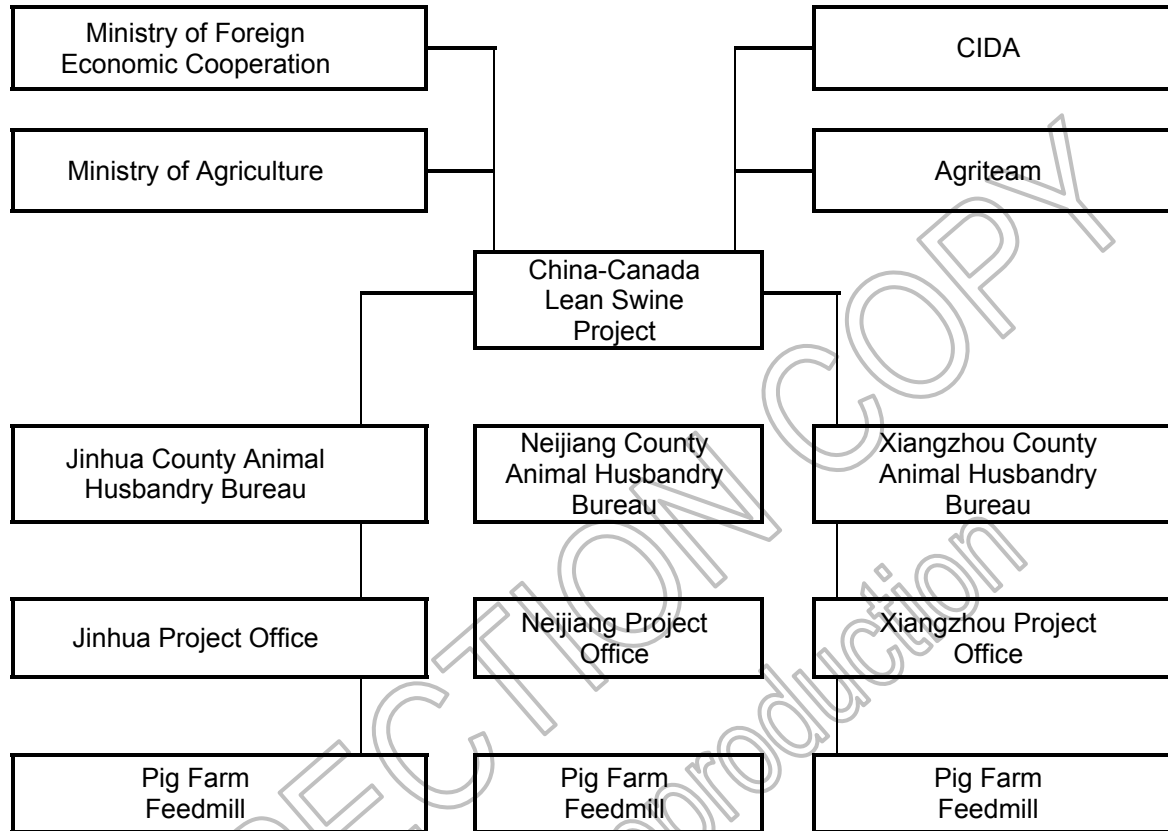
In trying to create a more market-driven approach to sales and marketing at the Xiangzhou Feedmill, David Wang identified four possible solutions he believed would be effective — although he was still unsure about which option would have the most positive impact. At the same time, he realized that other options existed that he still had not thought about and, for this reason, he was open to any reasonable suggestions. Regardless of how he proceeded, Wang knew that he needed to be very clear about what actions he was recommending and why, if he was to have any hope of making the Xiangzhou Feedmill a Project success story.

The Richard Ivey School of Business gratefully acknowledges the generous support of The Richard and Jean Ivey Fund in the development of this case as part of the RICHARD AND JEAN IVEY FUND ASIAN CASE SERIES.

INSPECTION COPY
Not For Reproduction

Exhibit 1

CHINA-CANADA LEAN SWINE PROJECT ORGANIZATION CHART



INSPECTOR GENERAL
Not For Reproduction