

MMC China

It had been a very bad morning for John Ross, the general manager of MMC's Chinese joint venture. He had just gotten 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," Smith said, "particularly given your record of achievement; you need to fix this John! 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." John Ross had a very 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 MMC, Ross felt that his job was on the line.

MMC was a U.S.-based multinational electronics enterprise with sales of \$2 billion and operations in more than 10 countries. MMC China specialized in the mass production of printed circuit boards for companies in the cell phone and computer industries. MMC was a joint venture with Shanghai Electronic Corporation, a former state-owned enterprise that held 49 percent of the joint-venture equity (MMC held the rest). While MMC 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 MMC China for the past four years. He had arrived at MMC China after a very successful career at MMC, 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 headquarters within a few years. Ross had known that he was taking on a challenge with MMC China, but nothing prepared him for what he found there. The joint venture was a mess. Operations were horribly inefficient. Despite low wages, productivity was being killed by poor product quality, lax inventory controls, and high employee turnover. The venture probably employed too many people, but MMC'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, MMC 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 three months before requesting a transfer home for personal reasons. Apparently, his spouse hated China. The other had stayed for a year, but he had interacted so poorly with the local Chinese employees that he had to be sent back to the United States. Ross wished that MMC'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 training; 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 to MMC'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 MMC factories in the United States, Mexico, and Brazil and had seen what was possible. They had returned home fired up to improve operations at MMC China. Within a year they had introduced a Six Sigma quality control program and improved the flow of inventory through MMC'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 post-assembly quality tests. Productivity had improved as a result, and after three tough years, MMC China had finally turned a profit.

Apparently, this was not good enough for corporate headquarters. Ross knew that improving performance further would be tough. The market in China was very competitive. MMC was vying with many other enterprises to produce printed circuit boards for large multinational customers that 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 MMC's costs. Also, Ross was limited in his ability to cut the workforce by the demands of his Chinese joint-venture partner. Ross had tried to explain all 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."

Sources: This is a disguised case history based on interviews undertaken by the author.