

“CHINA IS THE WORLD’S LARGEST START-UP AND TURNAROUND.”

— James McGregor, author of *“One Billion Customers”*

FINALLY CHINA

Once taboo, grassroots entrepreneurship is spreading like a grassfire across the world’s most populous nation

by XIAO-PING CHEN, PhD

Westerners often think of the emerging Chinese economy in terms of its vast opportunity for foreign investment, cheap production and a burgeoning consumer market. But if you look inside its borders, you will find another story developing—that of a nation of entrepreneurship.

Every summer I visit China, I meet entrepreneurs who have been very successful running all kinds of businesses: shoes, electronics, automobiles, investments, biotechnology, semiconductors, Chinese medicine, furniture, shipping. You name it.

My home province, Zhejiang, is located on the east coast of China, with a population of 46 million and a land of 100,000 square kilometers—but scarce natural resources. Historically, the province is famous for its great philosophers, writers, thinkers and artists. Since China established its open door policy and began economic reforms in 1978, however, it has become the birthplace to millions of entrepreneurs.

Less than 30 years after the first entrepreneur registered her business license, today five million entrepreneurs from Zhejiang are doing all kinds of business all over China—and one million work internationally. The entrepreneurs from this one province generate approximately \$60 billion

each year for the Chinese economy. Many of them run the nation’s largest companies and rank among its richest citizens. Collectively, Zhejiang entrepreneurs have become the most influential business group in China.

The majority of entrepreneurs in this group, however, had no political, economic or educational background. They came from the lowest level of society, the poorest place in the country. They started with very small businesses, traveled to remote areas such as Tibet and Xin Jiang, left their families behind, endured extreme hardships. They took every chance and did whatever it took for their survival.

I still remember in 1986, when I visited a small town in Zhejiang, I saw that every home had become a factory—each housing at least one or two big machines making small parts of some Western product. Today, the products they created are consumed by people all over the world. For example, 80 percent of men’s neckties are made in Zhejiang, from private label to designer names like Hermes and Gucci. One town in my home province produces five million eyeglass frames every day, to be shipped all over the world. Zhejiang businesses are the number-one producers in the world of hundreds of everyday products—umbrellas, buttons, socks, cigarette lighters, shoes, car accessories.





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Casting off generations of oppression, these new Chinese entrepreneurs are ambitious, hungry for knowledge and technology, full of energy, and bear no resistance to change. They are creating low-cost, high-efficiency companies with a great sense of urgency. They are flexible, daring and resilient. If they fail in one venture, many come right back with another. For example, one successful entrepreneur made millions of dollars in his first few years in the silk business. When export policy changed and the market shrank, he declared bankruptcy and was left without even the money to buy an airplane ticket to go home. But he did not stop there. He borrowed money from his relatives and started again in the garden plant business. Now his company is one of the largest garden plant providers in China.

Another great story is of a locksmith whose life changed dramatically after retiring from a state-owned enterprise at the age of 59. One day he went to the market and noticed that locks were selling very quickly. It struck him that he could design and sell his own locks and make some money. He began with two models. Now he is the CEO of the second-largest lock maker in China, producing more than 200 models that are sold around the world.

Even though manufacturing products is still a salient characteristic of these entrepreneurs, more and more of them are aware of the importance of brand building. In fact, among China's most famous brands, over 200 are from Zhejiang—including "Wahaha" beverage, "Jili" automobile, "Bird" cell phone, "Shanshan" men's suit, "Fangtai" kitchenware, "Aukang" shoe, "Mengna" socks. These are

well-known brand names in China. Their founders are working to make these brands known to people outside of China, too, someday.

In the past ten years, more and more Chinese entrepreneurs have been starting high-tech ventures. In Hangzhou, the capital of Zhejiang Province, a high-tech special zone was established a few years ago to provide a home for 500 high-tech companies. Among them, two are probably best known by the outside world: Alibaba.com and UT Starcom. The founder of Alibaba, Jack Ma, was a middle school English teacher before he became involved in the B2B and C2C business world. Today, Alibaba is a strong competitor of eBay in China, and its Taobao site has 10 times more customers than eBay China. Its acquisition of Yahoo! China last year made it a strong player in the search business as well, competing with Google China and Baidu. UT Starcom, a company that makes telecommunication equipment for broadband and wireless connections, was founded by the US-educated Ying Wu. Its messaging phone, "Xiao Ling Tong" or "Smartone," once had the largest market share in China, adding 1.8 million new users every month from 2000 to 2004. UT Starcom was listed as one of the 20 most successful small companies in 2000 by *Forbes*, and one of the 100 most powerful IT companies around the globe in 2002 by *BusinessWeek*.

Why have the millions of companies founded by Zhejiang entrepreneurs grown so fast and strong? It doesn't hurt that the provincial government chooses to support, rather than suppress, entrepreneurial activities. And in a small land with too many people and too few resources, people have always had to be resourceful and inventive just to survive. Once China's open door policy began their liberation to free-market economics, their intelligence and motivation has allowed them to achieve anything.

This phenomenon, to some degree, is happening all over China. International investment may be crucial to China's historic economic transformation. But never overlook or underestimate the remarkable contribution of the home-grown Chinese entrepreneur who has risen from the ashes of communism. ■



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Adding Value to "One Billion Customers"

Hosts of homegrown entrepreneurs are not the only ones racing to capitalize on the China gold rush. Opportunistic companies from many outside nations are rushing in—with wildly varying results—to lower production costs, woo new customers or get a piece of the world's largest infrastructure project. Leslie Koo (BA 1977), chairman and CEO of the Taiwan Cement Corporation, has worked the latter strategy to perfection. Under his leadership, the largest cement manufacturing company in Taiwan is on course to become, by 2008, one of the three leading cement manufacturers in China—a nation that demands nearly as much cement as the rest of the world combined. After speaking on the subject at this year's annual dinner honoring the Business School's Edward V. Fritzky Chair in Leadership, Koo shared a few insights on successfully doing business in China.



Leslie Koo, chairman and CEO of Taiwan Cement Corporation.

UW Business: Many of us have learned valuable lessons from James McGregor's best-selling "One Billion Customers." What more can you tell us about the China market?

Leslie Koo: The China market is highly fragmented and marked by cutthroat competition. There is weak enforcement of intellectual property rights, and cash collection can be difficult. One of the greatest shortcomings of foreign companies is the failure to understand that world-class quality does not necessarily render a premium price. Also, it's important never to forget that your true competitors are the Chinese.

Entering the China market inevitably involves navigating local government bureaucracies. What have you learned about the way local government officials think?

First of all, successful introduction of foreign capital is good for their political careers, and they love having the endorsement of foreign senior business executives. Having said that, maximizing local economic interests is more important than any single company's interests. And local officials tend to be protective of Chinese industries and companies. Also, remember that you are never the only player in any market.

Have you identified any general weaknesses of Chinese competitors?

In the gold rush attitude, financing has been too easy to come by. As a result, many firms have focused on short-term rather than long-term interests. They also tend to focus on quick profits and lack a focus on quality, customer service and employee training.

What are your keys to success in China?

I have identified six factors to successful business ventures in China.

1. **Be an ultimate Chinese cost leader.** This means be humble, learn instead of preach, and benchmark your total cost of doing business against Chinese competitors.
2. **Be more than a Chinese player.** Focus on quality management and customer service. Be a responsible social citizen.
3. **Send your best team.** Lead your work force, train your people, develop human resources and finance controls, and consult with local professional services.
4. **Be prudent in your business practices.** Follow a realistic regional strategy, manage your cash collection, be honest and sincere, and follow the law.
5. **Manage government relationships to your interests.** Manage multi-layer government relationships, leverage senior-level visitations to cut through red tape, convince the government that you create a bigger "people's interest."
6. **Have an exit strategy.** Stick to a tangible business plan. Work with a contract when possible. And manage risk with an exit clause in the contract.