

1. Introduction

The booming Chinese economy develops from a dream to reality these days. Frames for business enabled by the Chinese government are accelerating. And it becomes necessary for all companies to adopt the new speed to survive. China³ opens up. An increasing number of enterprises decided to advance towards the far-eastern business world and to grasp arising opportunities as market segments of all branches not yet have been fully developed and exploited⁴. The last five years show average growth rates of 8% - China is the only market worldwide to offer such astonishing figures with an even more promising future.

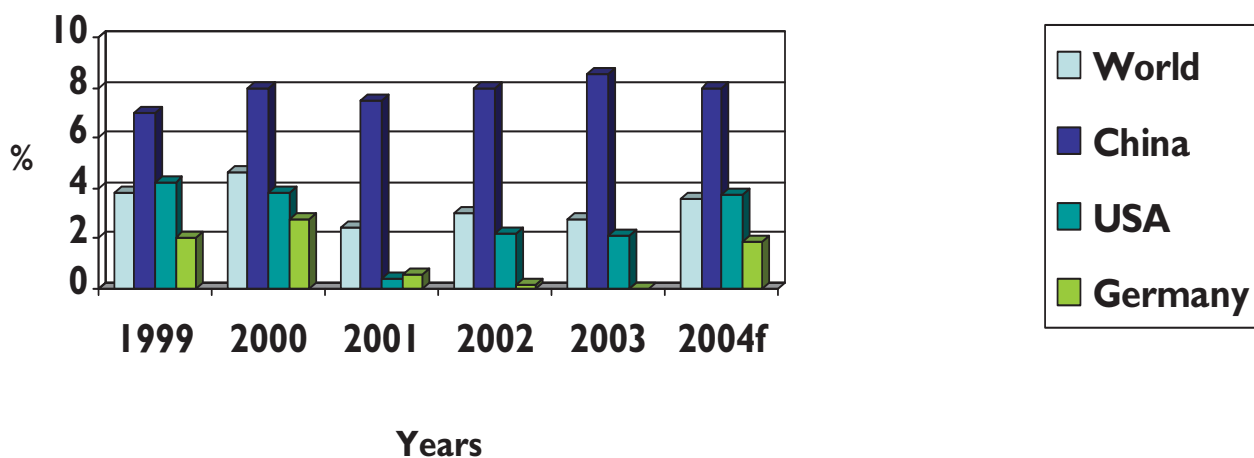


Figure 1 Growing economy of China within the last five years⁵

³ China in the context of this dissertation will cover the mainland, without the Special Administration Regions (SAR) Hong Kong and Macao, when addressing the People’s Republic of China (PRC throughout the dissertation.)

⁴ (Hirn, Wolfgang, 12/2003), Page 66-75, “Auf ins gelobte Land” in Manager Magazin

⁵ (Kisro + Kisro, 2004) Figure 1, f = forecasted



The figure 1 created by IMF, Consensus, Goldman Sachs shows impressive, how China's economy grew continuously within the last five years, although all other regions worldwide encountered partly tremendous problems with smaller or almost non-existing economy extension. For 2004, data has been forecasted.

China is both gently and carefully opening the gates to its business world for foreigners, becoming the manufacturing centre of the world⁶. Within the next years the enormous growing is expected to go on for whole China⁷, on its way “...to become the third largest economy in the world by 2020...”⁸.

The development began in the coastal regions and coast cities like Guangzhou, Shanghai, Tianjin, and Xiamen for instance and is processing towards the west territories as it can be seen in the following map.

⁶(Murphy, 2004), according to Joerg Wuttke, chairman of the German Chamber of Commerce in China in Murphy, David „No Walls Divide China From the EU“ in *The Wall Street Journal Europe*, 05.02.2004, p.A14

⁷ (China Daily, 2004) http://www1.chinadaily.com.cn/en/doc/2003-11/08/content_279846.htm (10.01.2004)

⁸ (People Daily, 2004) http://english.peopledaily.com.cn/200212/08/eng20021208_108119.shtml (10.01.2004)



Figure 2 Map of China

As a consequence thereof, new arising companies and firms that enter the country see a business paradise in a smother economical environment due to WTO accession – but not without encountering unknown and unexpected difficulties⁹.

⁹ (China Contact, 2004), In the article problems are mentioned like product piracy, deliberated delays in patent declarations, excessive requirements for foreign sales companies, double certifications, forced technology transfer from foreign to Chinese companies, excessive requirements of capital transfer or annual turnover or technical qualification or number of employees for foreign companies. Furthermore, references of Chinese



Western enterprises with access to the Chinese market see the need for more capacities, improvement and acceleration of procedures and services to serve the actual and future customers adequately and in accordance to their developed and sophisticated understanding of their business¹⁰. The Asian market is increasingly discovered and exploited. In China, the reputation of foreign companies or Chinese companies with foreign investors is as high as their prices are in comparison to local enterprises. This has to be justified with implemented international standards and state-of-the-art equipment and service. At the same time there is an arising and increasing pressure on foreign firms acting in China to keep international customers or acquire new ones.

China is a brand-new market for most western companies. They encounter a completely different business situation with issues becoming essential, which they wouldn't have thought of in their known environment. One of the most astonishing facts might be the very different behaviour. The Chinese government initiated seminars for Chinese citizen, who are dealing with western partners or are about to travel to western countries to learn western codes of conducts to improve the Chinese image abroad. Only a few most important issues can be mentioned here more detailed.

The government of China supports and pushes the country's development with **day-to-day new decisions** to equalize China's economical-political infrastructure to the western

partners or international acting parent company need to be accepted by the Chinese government in future.
http://www.china-contact.cc/index.php/chc/chc_akt/1859 (10.01.2004)

¹⁰(AHK China, 2003), *The German Chamber of Commerce presents its survey results from summer 2003. Foreign (mainly German) companies are concerned about lacking transparency of decisions, uncertainties concerning the Chinese sets of rules, access to information, unsatisfactory translation into action in order to fulfil the WTO regulations, although improvements can already be observed since 2001 and China's WTO accession.* <http://www.ahk-china.org/china-wto/WTO-Studie-August-2003-Summary.htm> (10.01.2004)



world and to make China more competitive. Unfortunately, decisions are as fast changed as made. This does not allow transparency of decisions or information¹¹. In addition, certainty of laws for companies is low and even lower for those foreign companies, which are either fully foreign-owned or formed as a Joint Venture of a foreign owned firm with a Chinese partner.

Also the **bank system** underlies circumstantial procedures and does not offer a big range of known banking products like standing orders for instance. Some of them might be legally possible now like leasing, but cannot be found in reality so far. Additionally, banks are in trouble as they are facing fishy credits, they had to allow in former years¹². An overheating of the economy resulting from credit placing in the last two years might reduce the expected economic growth to 8%¹³ and might also force the government to intervene with strict political-economic and monetary limitations.¹⁴ Several American senators recently called these interferences “manipulation” of the Chinese currency to get trade advantages on the American market. Fear of giant Chinese factory halls can clearly be observed and has to be taken into account¹⁵

¹¹ (Perkins/Shaw, 2002), *This is in so far spectacular as information about individual industries is seldom available or if available, reliability is lacking. Also see Perkins, A. and Shaw, S. “An opening door in China?” (2002) study, the McKinsey Quarterly, study*

¹² (Joachims, 2003), *These credits were enforced by the government in Beijing to finance and support ailing state own companies (SOC), Joachims, D. “Der große Sprung”, in CAPITAL, issue 25/2003*

¹³ http://www1.chinadaily.com.cn/en/doc/2003-11/06/content_278919.htm (10.01.2004)

¹⁴ (Morgan Stanley Co., 2003), *The German BFAI cites in accordance with a Morgan Stanley study and is convinced about a slow down of Chinese economy due to not solved structural difficulties in the banking sector and thus a resulting restrictive policy of the Chinese Government* <http://www.ahk-china.org/highlights/bfai-steigende-risiken-november2003.htm> (10.01.2004)

¹⁵ (Vougioukas, Janis (2003), “Der Drache wird zum Goldesel” in *Gentlemen’s World*, issue no. 11, 2003, page 134



Health policy in general is becoming a big matter of concern, if the latest news about chicken diseases or SARS is taken into account. But also China's AIDS policy is not only becoming an international issue of concern, which cannot be ignored or solved internally. It already heavily affects the business situation in many parts of the country. Migration into cities like Guangzhou is one reason for this increasing problem and with it climbing figures of HIV infected persons. According to the United Nations, about 0.1 per cent or 1.3 million of the Chinese adults are contracted with the disease. One assumes that in 2010 about 10 million of the Chinese population will be affected. With a similar development as in South Africa¹⁶, companies might be in trouble with medical care, a rising number of staff away sick and high fluctuation rates. Li Dan, who tried to start a survey about AIDS, was arrested: according to the Chinese police, information about AIDS is still a state secret¹⁷.

The complicated **network of personal relationships**¹⁸, which has a more important business role than providing quality of products, form an enormous force that should better not be underestimated. A lack of trust in all areas of life supports circumstantial and uneconomical behaviour¹⁹.

Companies that are newly entering the Chinese market also have to be aware of the **historical impact**. The influences of thousands of years of self contained politics and of the Culture Revolution are as well still present on China. These effects seem to make China's

¹⁶ (WiWo, 2003), *South Africa had an infection rate of 1% in 1990 with an increase up to 25% by 2003 due to increased infection and possibly also more detailed and the landscape covering surveys.*

¹⁷ (WiWo, 2003), *See "Wirtschaftswoche", 04.12.2003, issue no.50, page 51-53*

¹⁸ *According to own experiences during expatriate life in China, the European understanding of friendship does not exist for Chinese people. What is understood as a friend in Europe can only be found inside the Chinese family. Other relationships have the purpose to support the several business activities.*

¹⁹ (WiWo, 2003), *For Western companies not understandable Chinese uneconomical strategies abroad are equal to local ones: they are judged to be unfocused, audacious and short-sighted, but successful; in Schumacher, Harald "Auf dem Küchentisch" in Wirtschaftswoche, issue no.50, 04.12.2003, page 58*



situation worldwide unique. Their consequences are astonishingly obvious and present, and strongly influence today's daily business life.

1.1. *Topic Presentation*

Chinas growth and openness' trend create great opportunities. However, there is a major need for setting infrastructure to harvest these opportunities while taking into consideration the specific difficulties created by the unique characteristics of Chinese business environment. Guangzhou HOYER Bulk Transport Co., LTD was chosen to be presented in a case study approach.

Guangzhou HOYER, a German-Chinese Joint Venture, decided to improve its business procedures by building-up and adapting a TQM System. Part of it is the implementation of an adequate ERP²⁰ System.

- ▶ **Structure for Future development of HOYER:** It is the over-all aim of the future TQM System of HOYER that is also described in DIN EN ISO 8402 “...*Development of a management method, which places quality and the long-term satisfaction of the customers and the benefits of the organisation's members in the middle.*” HOYER derived several aims for the company from it. There is the **long-term customer satisfaction** by quality in the middle of all procedures or **identification and development of integrated and standardised business processes** for instance. All

²⁰ *Explanation follows*



actions undertaken towards and to fulfil these aims will show consequences for the whole company - and for all business units in accordance to an integral view.

► The **redirection of a consistent company organisation and structure** was initiated within the TQM project for HOYER China in 2002/03. While developing and implementing the QM system, the company found out about present and future growing difficulties without an appropriate IT system. An ongoing growth and the QM implementation, HOYER would soon have reached a point in development, where a new system would be essential to keep up control and to actively influence the company's business processes and furthermore its business situation. The successful introduction of an ERP system as soon as possible is, thus, an important factor of success and forms an important force to ensure competitive ability in future.

► It is regarded as absolutely necessary to **evaluate new and fitting software for the company** and to design an implementation plan. With the help of the dissertation's outcome, the time for decision which software should be chosen, will be shortened and implementation will quickly be initiated.

► **Finding adequate software:** Special requirements of the necessary languages have to be taken into account. Western software might not be well fitting for the Chinese market in general because of requests of the Chinese government and several local provinces. Additionally, the undeveloped market situation in China offers only little chances for a software research. Adequate local support according at least to a minimum of western standards is not available. There are no publications dealing with software comparison or other related to the Chinese market. A proper decision of the



board will therefore only be possible with a thesis like the one planned for the dissertation on hand.

1.2. An ERP System

What is an ERPS and facts about its development

An Enterprise Resource Planning System (ERPS) is originally an enhancement of known manufacturing resource planning systems. The roots of the today's ERPS are the 1960's inventory tools, based on the early predecessors of the actual IT and traditional organisational concepts. In the 1970's, these inventory tools were developed to MRP-systems (Material Requirement Processing-systems). The MRP-systems were extended several years later to systems for manufacturing resource planning with floor and distribution management activities. Parallel with the developments of the MRP systems special applications for engineering, finance, pay-rolls, project managements and other business processes were created. The capability of the hardware, which was available in the 1960's, is nearly not comparable with the today's IT. One could say that there is a factor of 1,000 concerning the abilities and cost of HW-components like disc capacity, prices, and physical requirements. The development of a PC in the beginning 1980's and the consequently "pushing into market" of the new technique by IBM, Intel, Microsoft and other companies were the quantum leap in the whole information technique – HW as well as SW. The actual Client-Server environments were impossible without this. In addition, the



operating systems, file management systems, and database systems experienced a rapid evolution as well.

And there is the internet. Its roots were in the academic area as well as in the military environment. Special communication needs had to be fulfilled. And from the middle of the 1980's, it suddenly developed into a commonly used information technique. Today, a professional office without access to the internet from every workplace is unimaginable.

In the beginning of the 1990's, all of the named examples in the technological environment came together and formed the technical basis for the ERP-systems known today.

They combine the MRP-system with all the other business applications into one integrated application system with standardized interfaces to communicate with other applications in both directions. Processing today is done real-time.

ERPS now supports a broad set of activities by multi-module application software. Nowadays, the expression ERP system is a synonym for integrated standardized software²¹. Normally, the ERPS is integrated with or just uses a relational database system and shall provide a seamless integration across the enterprise, in which system visibility and consistency is required.

According to studies²² about 70% of Fortune 1000 firms installed or will soon implement ERPS, which forms one of the major investments in IT. The market is expected

²¹(ERP, 2004), (Mertens, P., 2001) in “Lexikon der Wirtschaftsinformatik” Berlin: Springer, p.183;
<http://www.erp.cc/erpinfo.htm> (15.01.2004)

²² (ACS University, 2004), <http://www.acsu.buffalo.edu> (14.01.2004)



to grow from \$ 15 billion now to \$ 50 billion over the next five years, which is an annual growth rate of 37%²³.

Advantages and Disadvantages

Hidden cost, missing results and the complexity of implementation have recently been criticized as disadvantages of ERP systems. But also balancing factors like potential cost savings and strategic benefits have been discussed recently. Furthermore, cost reductions and savings in procurement, inventory, transportation, promotion administration or manufacturing/sales/productivity improvement are also likely to result from a new software introduction as general expense reduction.

A further advantage of an ERPS is the possibility of customization. It is based on a reliable file structure and provides functionality to interact with other elements in the process. Additionally, it provides tools for ad hoc queries.

Only little academic research has yet been made to discover the most important reasons for enterprises to implement or reject the implementation of an ERP system²⁴.

²³(ACS University, 2004), <http://www.acsu.buffalo.edu> (14.01.2004)

²⁴(Banker et al., 2000) “Determinants of ERP Adaption: An empirical analysis”, School of Management, University of Texas at Dallas