ch4 CASE FOR CRITICAL ANALYSIS

Shui Fabrics

Ray Betzell, general manager for the past five years of a joint venture between Ohio-based Rocky River Industries and Shanghai Fabric Ltd., was feeling caught in the middle these days.

As he looked out over Shanghai's modern gleaming skyline from his corner office, Ray knew his Chinese deputy general manager, Chiu Wai, couldn't be more pleased with the way things were going. Ten years ago, Rocky River had launched Shui Fabrics, a 50-50 joint venture between the U.S. textile manufacturer and the Chinese company, to produce, dye, and coat fabric for sale to both Chinese and international sportswear manufacturers. After many obstacles, considerable red tape, and several money-losing years, the joint venture was fulfilling Chiu Wai's expectations—and those of the local government and party officials who were keeping careful tabs on the enterprise—much more quickly than he'd anticipated. By providing jobs to close to 3,000 people, Shui was making a real contribution to the local economy. Job creation was no small accomplishment in a country where outside experts estimated that the actual (as opposed to the official) unemployment rate routinely hovered at 20 percent.

From Chiu Wai's point of view, Shui was generating just the right level of profit—not too little and, just as importantly, not too much. With so many U.S.-Chinese joint ventures still operating in the red, Chiu Wai saw no reason Ray's American bosses shouldn't be more than satisfied with their 5 percent annual return on investment. But those earnings weren't going to land him in hot water with local authorities, many of whom still viewed profits made by Western companies on Chinese soil as just one more instance of exploitation in a long history of foreign attempts at domination.

If Chiu Wai had been eavesdropping on the conversation Ray had just had with Rocky River president Paul Danvers, the Chinese manager would have certainly been dismayed. Ray, who'd thoroughly enjoyed his time in China, was painfully aware of the quiet frustration in his boss's voice as it traveled over the phone lines from the other side of the world. To be sure, Paul conceded, Shui had cut Rocky River's labor costs, given the company access to the potentially huge Chinese market, and helped inoculate the firm against the uncertainty surrounding the periodic, often contentious U.S.–Chinese textile trade negotiations. Current U.S. tariffs and quotas could change at any time.

"But a 5 percent ROI is just pathetic," Paul complained. "And we've been stuck there for three years now. At this point, I'd expected to be looking at something more on the order of 20 percent." He pointed out that greater efficiency plus incorporating more sophisticated technology would allow Shui to reduce its workforce substantially and put it on the road to a more acceptable ROI. "I'm well aware of the fact that the Chinese work for a fraction of what we'd have to pay American workers, and I do appreciate the pressure the government is putting on you guys. But still, it doesn't make any sense for us to hire more workers than we would in a comparable U.S. plant."

After an uncomfortable silence, during which Ray tried and failed to picture broaching the subject of possible layoffs to his Chinese counterparts, he heard Paul ask the question he'd been dreading: "I'm beginning to think it's time to pull the plug on Shui. Is there any way you can see to turn this around, Ray, or should we start thinking about other options? Staying in China is a given, but there has to be a better way to do it."