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Corporation with Eight Strategic Business Units

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Appendix C – Business Profile: Larger Scale Manufacturing

Corporation with Eight Strategic Business Units



Background

History

'CORP' began in late 1980 with US\$250,000 and the purpose of giving financial support to a ministry in China. This initial business model was unsuccessful and finally sold in 1989 to a USA holding company focused on high-tech manufacturing investments in China. In 1990, the Managing Director (MD) refocused the company on factory consulting, management investment, and since 1991, CORP has helped to start over 40 factories and has invested in about half of those. With a history of managing world-class factories in China, CORP has an unparalleled network of vendors, manufacturers and sales teams.

Business focus

CORP provides manufacturing, consulting services, and value added engineering. Their eight strategic business units in China include industries in electronic manufacturing, Food and Drug Administration (FDA) approved medical devices, Radio Frequency (RF) products and a recently sold electroplating chemical unit. The corporate business model is to find Multinational Enterprises (MNEs) (mostly USA) that are interested in Foreign Direct Investment (FDI) in China. CORP takes a minority position with approximately 30% ownership, but with shared operational control over operations. The MD of the CORP controls the selection of the General Managers (GM) for each Strategic Business Unit (SBU). The 70% MNE owner often provides the customers or sales force, while the CORP contributes the expertise in China. Another objective of CORP is to catalyze spiritual activities, such as Bible studies and house churches.

Faith background

The Managing Director, a USA businessman, has lived in China for many years. He has been involved in many start-ups, and, along with his wife, has a heart for business as mission. The MD's approach to business is influenced by his beliefs and faith. His objective and purpose is to have a financially sustainable business and provide a context to introduce Christ to all the workers and other stakeholders connected with the firm. The main BAM purpose is to begin Bible studies and house churches in these factory locations.

The MD operates the company on Biblical principles—its Values are taken from the ten commandments—in all dealings with the employees and the relationships with other stakeholders in the community. The operations are closed on Sundays for a day of rest. The factory workers are provided cafeteria lunch and work for average hourly pay and normal hours, as per Chinese regulations.

Professional Background

The MD has extensive business training and experience both in the USA and China. He is an entrepreneur with many successful and a few unsuccessful business launches. He is not a professionally trained minister, but has a desire to see China reached for Christ. The discipleship-oriented activities within the business are led by other individuals or organizations, but in partnership with CORP, so that the MD and his business team can focus on successfully operating the company.

Strategy and Vision

Purpose

The purpose of CORP is to have multiple successful and profitable operations, to establish a community of Christ followers near the factory, and to provide a positive work environment with excellent training programs.

Values

The guiding Values for CORP are:

1. Teamwork and Collaboration
 - Provide ongoing coaching and supportive feedback.
 - Create a fun atmosphere.
 - Focus on the positive.
 - Keep people that don't hold top-performers down.
2. Integrity and Truth-Telling
 - A lie's implications cannot be controlled.
 - Use mistakes as constructive learning opportunities.
 - Teach how to treat people with dignity and respect when mistakes are made.
3. No Negative Politics or Cliques
 - Listen without prejudging, presume innocence.
 - Teach how to confront privately initially.

- If private confrontation not successful, then go to next level with only one additional staff involved.
 - Gossip is *not* allowed.
4. Individual Accountability and Company Ownership
- Take individual ownership for your actions.
 - Company time for Company business.
 - Company property is Company property.
 - No tolerance for false invoices or kickbacks².
5. Your moral life affects your work
- Gain trust by exhibiting trust in all areas of your life.
 - Be integral in your values in all areas of your life.
 - Drive learning throughout the organization.
 - Continuous learning is a life-long process.

Employee anti-corruption guidelines:

CORP requires its employees to follow a four-step process whenever there is a possibility of bribery, corruption or kickbacks. Each step must be followed in the order they are presented here. If there is a negative answer to any of the four basic questions, then the proposed action should not be done. These guidelines are taught to all employees at least annually at all CORP-related companies.

1. *Does the proposed action **NOT** violate the U.S. Federal Corrupt Practices Act?*

- The 1976 Federal Corrupt Practices Act (FCPA) has **no** territorial limits. It prohibits any U.S.-based company from giving gifts to government-related officials when the gift is given in direct anticipation of getting a contract or significant business. Violation is a criminal act.
- CORP policy is that any gift over US\$50 to any person (not just a government-related official) connected to a potential new business contract must be approved by both the MD and the CORP legal department.

2. *Does the proposed action create **ANY** feelings of discomfort?*

- Whenever a CORP employee is approached with what may be possible bribe or kickback, it must be brought to the attention of his or her supervisor.
- After discussing the situation, if either one has an uncomfortable feeling about it, the proposed action **cannot** be followed through.
- These discussions must be documented for future reference.

3. *Is the proposed action transparent to all directly related parties?*

- Corruption, bribes or kick-backs all require secrecy. Therefore, an easy way to tell a legal from an illegal act is to ask, "Is something being hidden here from the other parties?"
- The employee must make sure that all affected parties are aware of the action.

² A kickback is a form of negotiated bribery in which a commission is paid to the bribe-taker as an exchange for services rendered.

4. Does the proposed action reflect the “Golden Rule”, i.e. do unto others as you want them to do to you?

- Employees are encouraged to do “reverse role play” and to put themselves in other people’s shoes (buyer instead of seller, etc.), then examine whether they have any negative feelings.
- Employees are also encouraged to put themselves in the position of other parties that might be affected.

Business goals and objectives

The Strategic Business Units (SBU) goals and objectives are formalized in writing and tracked monthly. The goal is to become the number one or two company in a particular geographical and industry niche.

The specific business objectives were:

- To grow sales double digit per year.
- To have at least 10% profit.
- To have top quality.
- To be number 1 or 2 in niche market.
- To innovate and produce new products or services.
- To have top trained work force.

The specific BAM objectives were:

- To proclaim Christ and convert Chinese in the factory.
- To begin factory Bible studies and eventually a house church.
- To provide excellent training.
- To live and exemplify Christ in the local community.

Business operation

The corporate organization and legal structure is shown in Figure 1.

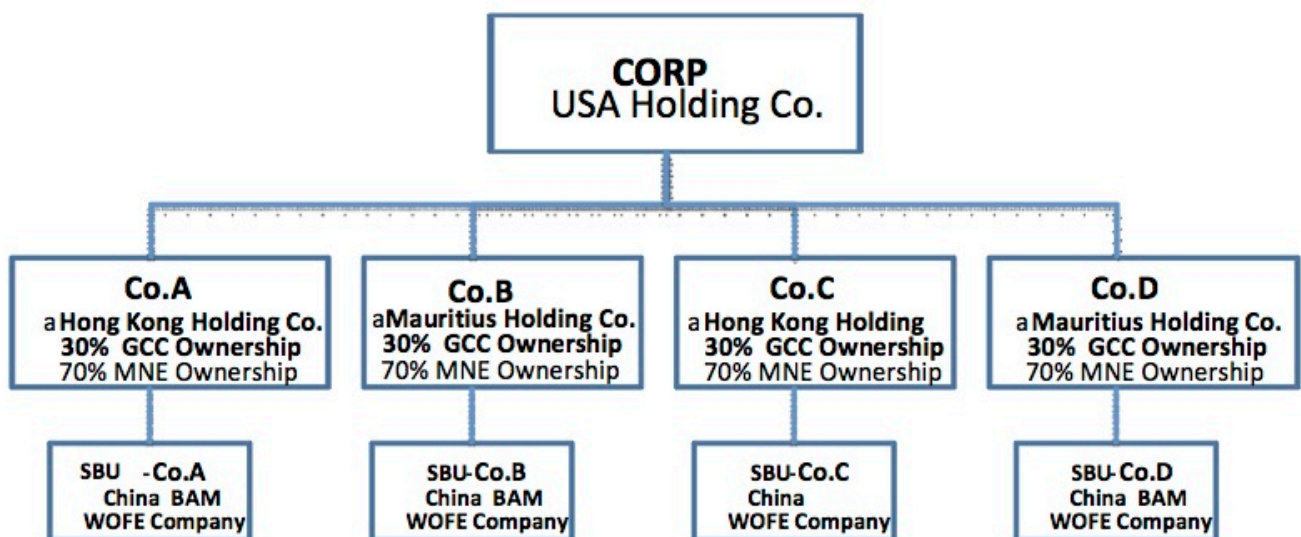


Figure 1. Organizational structure of CORP

A western Multinational Enterprise (MNE) approaches CORP for assistance in establishing a presence in China. CORP forms a Holding Company in Hong Kong or Mauritius that is jointly owned (30% CORP and 70% Foreign MNE). The Holding Company opens a Wholly Owned Foreign Enterprise (WOFE) in China that is managed by both the MNE and CORP. The BAM initiatives are then carried out in China at the WOFE factory or office. The business model is business to business commerce with the factory in China supplying both China and Asian customers.

Start-up capital varies for these alliances, but is generally between US\$1-5 million. Often there are additional tranches required for factory expansion or purchase of capital equipment that can amount to US\$1-10 million more. These firms are normally profitable in the first year of operations because of the established reputation and customers of the western MNE. Many of these companies are later sold at profit for the owners and eventually lose their BAM identity. CORP takes the profits and buys or builds new businesses in other Chinese cities for continued BAM effectiveness.

Employees are either migrant or local Chinese workers that are paid hourly. In some factories the workers are more skilled or educated because of the nature of the work. Management is normally Western in education and experience. Most General Managers (GMs) are Kingdom workers, but not all. However, in all cases the SBUs have several Kingdom workers on the top management team. The management team is paid a salary and bonuses based on target achievement. The business and factory operations have never used charitable donations or volunteer work. The BAM programs at the SBUs are either subsidized with a small stipend from operations or are 100 percent volunteer efforts by individuals from para-Christian organizations (not mission agencies).

The financial model was designed around these basic profit allocations: 10% profit to mainland Chinese factory and 90% profit to the jointly owned Hong Kong or Mauritius Holding Company. Therefore the 90% profit was then split between the 70% and 30% ownership. CORP chooses industries and products or services where it can be either number one or two in their market niche in China. CORP provides shared services in strategic management, tax structure and compliance, management policies, IT infrastructure and other services. The holding company has a very strong value statement and code of ethics which are taught and followed at all eight of the SBUs.

The economic downturn of 2008 had a minimal effect on the operations of the SBUs in this corporation. The employment contract laws in China have increased costs and changed the conditions of hiring, firing, and letting go or calling back but have not had a detrimental effect on operations. Intellectual property—such as patents, trademarks and copyrights—is protected under both the Chinese and USA laws.

BAM Experiences

There have been many successful joint ownerships with western MNEs utilizing their technology and capital to gain market share in China. Most of the SBUs were moderately or highly successful because of the strong leadership of the MD. Mission initiatives were

most successful with a partnership with an independent person or agency that helped lead and execute them.

Some failures were the result of poor GM management choices or a dynamic technological environment that was highly competitive. Even in the failures, there were spiritual successes with new converts, Bible studies and house churches established.

Lessons learned

Some key *business* findings were:

- GMs must go through a 6 month training program.
- Achieving number 1 or 2 in a market niche is critical to success.
- Continuous quality improvement is important.
- Product development and innovation is important.
- The USA economic downturn had some impact.
- Alliances and networks of committed companies and people is crucial to successful start-up of the company.
- It is important to review formal business plans and goals periodically.
- Customers should be domestic and regional exports.

The key *mission* findings are:

- Have a BAM Strategy Coordinator on the management team whose duties are to set goals and lead the mission initiatives (Bible studies, discipleship, house churches) that is separate from daily business operations.
- Accountability to a church, mission organization or group is critical to continued spiritual success of the BAM company and the BAM practitioner.
- Top Management Team must have at least one or two Kingdom professionals and multi-cultural experience.
- A BAM plan with goals and objectives, and with periodic feedback is key to achieving success in multiple bottom-line firms.
- Business ethics training should be done several times per year for all employees.
- All wages and compensation should come from the business and not outside donations or agencies—except for the BAM Strategy Coordinator.

Success factors

Success is defined by the business stakeholders as a profitable and thus sustainable enterprise which provides products and services for the Chinese or Asian market.

The BAM success is defined as active Bible studies, house church growth, worker conversions, discipleship of Chinese believers, and community acknowledgment of the value of the BAM company.

One of the highlights of CORP was the growth and success of the multiple SBU operations. Over 2,000 factory employees were positively impacted by the work

conditions, employment practices, and more importantly conversions to Christ, new Bible studies, and house churches. CORP has had millions in revenues and profit for the owners to continue growth and open new businesses in new cities in China.

Recommendations

Future BAM start-ups in China should consider joint ownership with other established companies for technology, capital, sales and distribution channels. The General Manager position is important to successful operations, requiring business education, prior experience (10 years), cross-cultural adaptability, and a 6 month training program. Business in China has become increasingly complex, requiring larger start-up capital or a parent company that can provide necessary shared services, for example, payroll, tax, strategy, policy, IT infrastructure and management best practices.

Conclusion

BAM enterprises are businesses that must financially succeed to be sustainable and effective for the kingdom. Failures do occur, but the lessons learned and the BAM impact is often greater than the failure. An MNE with a Chinese market, technical knowledge and capital funds are keys to a successful business relationship with this BAM Corporation. The business model is to leverage a technology company who is given 70% ownership and the BAM Corporation that runs daily operations and keeps control culturally and organizationally. BAM companies are dual purposed which make them vulnerable to trade-offs that may compromise their financial stability. Therefore it is critical to give BAM leadership responsibilities to a person or organization that is independent of the business operations. The management team participates with the BAM initiatives but does not have responsibility for them. The successful BAM entrepreneur needs to have a strong and experienced business team. BAM is successful at establishing companies that are examples of integrity, fair employment and working practices. They contribute to the local economy and conduct their business ethically.

Research: Information taken directly from Rundle and Steffen “Great Commission Companies” – Chapter 10: The Pioneering Strategic Alliance. Additional material researched by Daniel Sterkenburg, Associate Professor of Business, Cedarville University in an interview with Company founder and Managing Director.