Measuring Business Excellence

Emerald Article: Spanish business investment in China from the perspective of the consulting firm Garrigues

Lucia Clara Banchieri, Fernando Campa-Planas, Rosalia Cascón, Maria Belen Guercio, Ana Beatriz Hernández-Lara, Maria Victoria Sánchez-Rebull

Spanish business investment in China from the perspective of the consulting firm Garrigues

Lucia Clara Banchieri, Fernando Campa-Planas, Rosalia Cascón, Maria Belen Guercio, Ana Beatriz Hernández-Lara and Maria Victoria Sánchez-Rebull

Lucia Clara Banchieri, Fernando Campa-Planas, Rosalia Cascón, Maria Belen Guercio, Ana Beatriz Hernández-Lara and Maria Victoria Sánchez-Rebull are based in the Department of Business Management, Universitat Rovira i Virgili, Reus, Spain.

Summary

Purpose – *This article aims to analyse the reasons for Spanish companies to invest in China and the factors that influence the success or failure of the venture during the implementation process.*

Design/methodology/approach – *This paper is based on an interview held with the two partners of the Garrigues office in Shanghai, Francisco Soler and Manuel Torres. Francisco Soler was responsible for opening and subsequently managing the office from 2005 through to August 2011, when he handed over the reins to Manuel Torres.*

Findings – *The main reason for investing in China is its market. It is worth mentioning here that there has been a paradigm shift whereby China has gone from being the "world's factory" to the "world's market", not just because of its size but also because of the dizzying speed at which it continues to grow. To minimise the risks of investing in China, the interviewees pointed out the crucial importance of the company committing a significant amount of all kinds of resources to the venture. They also maintain that the investing company should ensure that the people responsible for the project are fully committed to the company and completely familiar with its operations and corporate culture.*

Originality/value – *The value of this study lies in contrasting the practical viewpoint of Garrigues legal consulting firm with the existing literature on the topics discussed in the interview: the reasons why companies invest in China, and the factors that lead to their success or failure.*

Keywords *Foreign direct investments, Success and failure factors of internationalization, Motivation for internationalization, Chinese market, Spanish companies, Corporate culture, International investments, Organizational culture, China*

Paper type *Research paper*

Introduction

The aim of this article is to analyse the reasons behind Spanish companies' decisions to invest in China and the main factors that influence their success or failure. An in-depth interview was held with the two Spanish partners of the Garrigues firm in China. The interviewees estimated that they have advised between 80 and 100 companies on direct investment in China, which represents around 25 per cent of the Spanish companies that have invested in this country.

The article is structured as follows: first, there is a brief description of the legal consulting firm, Garrigues. This is followed by the main findings of the interview, structured as follows: the reasons for Spanish companies to invest in China and the factors influencing the success or failure of the venture. Finally, the conclusions drawn from the interview are presented.

The Garrigues legal firm

Garrigues dates back to 1941, when brothers Joaquín and Antonio Garrigues founded J&A Garrigues. One of the most important milestones in the firm's history came in 1997 when it merged with Arthur Andersen, becoming the leading legal company in continental Europe in

DOI 10.1108/13683041211230302 VOL. 16 NO. 2 2012, pp. 35-40, © Emerald Group Publishing Limited, ISSN 1368-3047

terms of both employees and turnover and the top Spanish practice with international scope. Subsequently, following Arthur Andersen's involvement in the Enron affaire, Garrigues & Andersen disassociated itself from Arthur Andersen's international network and adopted its current name of Garrigues.

The firm currently has 29 offices in Spain and Portugal, as well as its own offices all over the world, including Brussels, Casablanca, London, New York, Tangiers, Warsaw and Shanghai, from which it provides a broad range of tax and legal advisory services at an international level.

The most recent available figures for Garrigues, for the year 2010, show a turnover of 352.8 million euros and a workforce of 2,037 employees.

The interview upon which this article is based was held with the two partners of the Garrigues office in Shanghai, Francisco Soler and Manuel Torres, on 5 July 2011. Francisco Soler was responsible for opening and subsequently managing this office, having moved to Shanghai in 2005, providing technical advice for Spanish companies interested in investing in China as well as the general administration and management of the office itself. In August 2011 he handed over the reins to Manuel Torres, the next managing partner of the Garrigues office in Shanghai.

Motivations for business investment in China

There are some significant limitations in the literature when it comes to analysing the advantages of China as a destination for direct investments from other countries; most notably, it is impossible to draw clear generic conclusions. There are various reasons for this: firstly, because of the variety of arguments put forward by the large number of papers which in recent years have tried to explain the phenomenon of China's economic boom and its appeal as an investment destination, taking advantage of the impetus of globalization. And secondly, due to the very divergent characteristics of the countries that choose to invest in China, ranging from neighbouring countries that are just starting to experience their own economic boom (Lin, 2010) to more distant countries in other continents that have reached a more mature stage of development.

However, there does seem to be a consensus when it comes to acknowledging the changes that China has experienced at both an economic and social level, which can help us to understand why there is such a variety of factors that explain this market's appeal to foreign investors. This confirms that China is going from being regarded as the ''world's factory'' to the ''world's market'', as described by the interviewees.

This paradigm shift in China can also be seen in the literature. Initially, the choice to invest in China was based essentially on production costs (Boisot and Meyer, 2008). The importance of this cost factor was also highlighted by the interviewees, as we can see in the following quote:

> For some years now there has been a very clear change in the direction of foreign investment in China. A few years ago, the main reason for foreign companies to set up in China was to get cheaper production costs, and in fact most of the companies that came to China did so to set up a factory and produce exactly the same things they were producing in Spain, and then export them to Spain or other markets, in other words . . . they were just substituting their production in Spain by production in China. Over the last few years this has tended to become less common. . .yes, there are still some examples of this, but they are fewer and fewer [. . .] it is the exception rather than the rule [. . .]. Manufacturing companies with a very intensive labour component used to relocate for cost reasons, but now they are going to other countries rather than China [. . .]. In fact, in China there is also something of a delocalization process going on [. . .]. The manufacturers of products with low added value, essentially textiles, furniture, shoes, etc., which used to be manufactured in China, are now going to Vietnam, Bangladesh . . . because China is starting to become too expensive for producing low-quality textiles [. . .], in China they are closing down textile factories to move them to other countries.

The reasons behind this change in trend, which they mentioned throughout the interview, were as follows:

> Firstly, because costs in China are going up very quickly; in three or four years labour costs have almost doubled, and the price of land has also risen by a huge amount. Secondly, because China

> as a country is becoming richer and richer, with a burgeoning middle class that is enjoying ever-increasing purchasing power.

These arguments reveal the paradigm shift in the reasons that used to drive investors to establish a business in China. Indeed, the most recent literature has started including other factors that explain the appeal of the Chinese market, such as the quantity and quality of infrastructures, particularly in relation to transport (Wang and Guo, 2011; Chen and Yeh, 2011), production efficiency and quality (Chen and Yeh, 2011), the level and capacity of technological development (Fan, 2011; Chen and Yeh, 2011), and investment incentives promoted by Chinese legislation (Lin, 2010). Among all these reasons, however, the ones that have attracted the most attention relate to market size (Chen and Yeh, 2011) and the economic growth of the Chinese Gross Domestic Product in the last few years compared to the growth of other regions and countries (Wang and Guo, 2011).

The importance of these factors was highlighted by the interviewees, as we can see in the following extract from the interview:

> Foreign companies that move to China mainly go to sell in the Chinese market. In other words, when they go there now it's not to manufacture for foreign markets, but to manufacture for the Chinese market, and many of them go to sell. If we look at the major Spanish companies with a presence in China today, Zara is in China to sell to the Chinese people, not to manufacture products to bring to Spain; Mango is in China to sell to the Chinese customers; the automotive companies, big Spanish firms like Gestamp, the Antolín Group, and so on, which probably have around seven plants in China, have set up factories to sell their products to automobile plants manufacturing in China; in other words, they are not sending their output to Spain or the United States, but selling it in China. And if you think about Banco Santander, or other service companies, they are in China to offer their services to the Chinese market. It is increasingly the case that foreign companies are investing in China to sell to Chinese consumers, not in search of cheaper production costs.
>
> China has always been cheaper than Spain, of course, and other European countries, [. . .] but to an increasingly lesser degree [. . .] . . . a change is taking place which obviously is not going to happen overnight, but it is happening fast.

The interviewees also underlined the importance of finding an attractive foreign market to boost the sale of products and services in view of the current economic crisis affecting Spain and other markets:

> And even more so in the current situation, when the Spanish market is non-existent. Some companies have lost a huge volume of sales in Spain, and in Europe, and though [. . .] things are getting better in other European countries, I'm afraid we can't say the same for Spain, unfortunately. Eventually this forces companies to seek alternative markets and as of today the most important market, the market that is showing the biggest growth in the world in any sector, is China. I'm not saying it's the biggest market in the world, but it is the fastest growing market [. . .]. That's why there is no doubt that what is driving investment in China is the search for new markets.

Factors for the failure of Spanish companies in China

According to the interviewees, one of the most common reasons for the failure of Spanish companies trying to set up in China is the lack of the resources needed to see the project through, emphasising not only human and economic resources but also intangible factors such as time, a sense of responsibility and commitment to the venture.

As the extract given below shows, it is difficult to determine precisely the factors that would lead to the successful outcome of a Spanish business venture in China. However, their diagnosis is conclusive with regard to the factors that allow the failure of this kind of project to be predicted:

> Companies need to devote money, time and people . . . and some companies either can't or won't. What I mean is: there are companies that either don't have the human resources or can't provide the financial resources to see the project through [. . .] But in China if you don't devote enough people and money to the project, it's very hard for it to be successful.

Commitment, a sense of responsibility and spending time on analysing the viability of investing in China are given as the key requirements to avoid failure. The decision to invest should not, therefore, be a knee-jerk reaction to the crisis in national markets or a headlong flight in search of new markets; this decision should be backed up by careful analysis and advance planning on the suitability of the new market, as mentioned below by one of the interviewees:

> We're witnessing how a lot of people, as a result of this overwhelming need to seek out new markets, are getting involved in processes that will very probably fail unless they allocate the necessary resources to them [. . .]. As a general rule, the reason they fail [. . .] is because they don't do proper market research on the company, or the brand . . . they just rush headlong into things.

This sense of responsibility and commitment in the lead-up to the venture should translate into the provision of the appropriate economic and human resources, as explained below:

> If you want to go to China and do it well, you need to send a group of people to China on a permanent basis to oversee the project; you also need to monitor it from Spain, so you need to allocate staff in Spain for this purpose [. . .]. You need to make a financial investment, which will be relatively large. [. . .] What some Spanish companies do is just send one person, or they don't even send anyone but contract someone, a Chinese person they've met at a trade fair, to whom they explain a couple of things about how the company works, and they think by doing this they'll be able to control it, but this very rarely works out well.

Factors that lead to the success of Spanish companies in China

As mentioned earlier, when we asked the partners of Garrigues in Shanghai about the factors that lead to the success of Spanish companies in China, they were unable to identify them clearly, although they were able to describe the things that companies need to avoid:

> I can't say what the key factors for succeeding in China are, and if I did I'd almost certainly be doing something else! What I would mention are the things that companies need to avoid if they are to succeed in China [. . .]. What you can't do is go to China without having done a thorough analysis, without a proper business plan, without knowing what it is you're looking for in China. And secondly, though we've already mentioned this, you can't go to China thinking, like they did a few years ago, I'll just go over there and set up a little manufacturing plant and employ a local person, etc., and I'll send out my machinery and start manufacturing in China. Nowadays, the level of commitment you need in China is the same or even higher than in Spain; I mean, the technology in China is now the same or better than in Spain, the quality demands of Chinese consumers are in many cases the same as those of Spanish consumers [. . .]. You need to go to China with 100 per cent commitment; any less than that and it's almost certain to turn out badly. And that commitment relates to the people you need to send, the investment you need to make, and the involvement of your management and staff back in Spain.

Another of the most important factors drawn from the interview, because of its influence on the success of Spanish investments in China, relates to the key people involved in the internationalization process; in other words, the people who will head up the process of establishing the Spanish company in China. According to the interviewees, consideration needs to be given to that person's experience in the company as this is directly related to their knowledge of the company's operations and corporate culture. This is described in the following extract:

> Usually, the best option – because they are familiar with the corporate culture, they understand how things are done in the parent company, etc – is to choose someone from the parent company in Spain and send them to live in China. This is the person who should head up the project. You can also recruit a foreigner in China to do it, or a Chinese executive, but as a general rule it doesn't work as well. It's not a matter of whether the person is Chinese or not, it's more to do with knowledge of the corporate culture, of how things are done in the parent company, because at the end of the day if things are working reasonably well in the parent company, what you need to do is transfer that structure as closely as possible to China. And this will always be done more effectively by someone who understands how the parent company functions than by someone who is not familiar with it. Most companies choose one, two or even five people, however many are necessary from their company in Spain, and send them to China for three or four years, or however long is necessary, to set up the project, to make sure it's running properly, and once

> they've done that . . . they either come home and hand over to a local person, or they send someone else out from Spain to replace them; this depends entirely on the company's philosophy.

These views from the Garrigues partners are very interesting as they contrast with the existing literature on the criteria for the optimum recruitment of expatriates when they are required to head up an international mission of the kind described in this chapter. While the interviewees emphasised the importance of knowledge of corporate culture and experience within the organization as key aspects for the success of their international mission, there are numerous studies that highlight other factors instead, such as certain personality traits (Lund and Degen, 2010; Ones and Viswesvaran, 1999; Mol *et al.*, 2005; Guthrie *et al.*, 2003), demographic characteristics such as age, gender or marital status (Selmer, 2001), characteristics of the job position (Caligiuri *et al.*, 2009), or prior knowledge of the culture of the host country (Franke and Nicholson, 2002; Feng and Pearson, 1999), as being key criteria to guarantee the success of the expatriation.

With regard to this last aspect, the interviewees believe that knowledge of Chinese culture is not a priority when it comes to selecting the person responsible for heading up the project in China:

> Normally someone with experience, not necessarily with previous knowledge of China or the foreign market, but they do need to have a good knowledge of the company and how it operates. I believe this is definitely more important than being knowledgeable about China . . . if they are familiar with the company and also know about China, even better [. . .]

With regard to the influence that collaboration with a partner in the host country may have on the success of the investment, the interviewees added the following comments:

> I wouldn't say you should avoid getting involved with a partner, because there are all sorts, but I do believe that before getting into China with a Chinese partner you need to conduct a very thorough analysis of what that partner is going to bring on board, and what risks might be involved in having a Chinese partner [. . .]. This analysis really needs to go into a lot of detail.

In support of all these arguments, they use the example of Garrigues itself:

> The success of Garrigues was because we analysed the market, we looked at the regulatory aspects, at what the firm could do there, whether we needed to be there in support of our clients, and we took the decision not to send a second or third ranking manager but to send a top-level executive, giving him the necessary authority and powers, and he was there for about five or six years [. . .]. It's evident that at one point we had nothing and now we have an office [. . .] with 25 staff. Why? Because the steps the company took and the resources it provided were the right ones.

Finally, in answer to the question about how their perceive the level of success of Spanish business investments in China, the interviewees explained that although they do not have exact data, the investments of their own clients in China were progressing well and that they are more and more committed to this market, which can be regarded as a clear indicator of the success of their investments. This is the main conclusion that can be drawn from the following extract from the interview:

> I haven't got the exact figures, but from what has been published [. . .], over 70 per cent of the companies say they are making profits, [. . .] that's what the surveys say . . . what we're seeing is that many of our clients in China, who we provide a regular consultancy service for, [. . .] are embarking on new projects, so we can assume that things are going well and that their business is profitable. For instance, they might have one factory and are expanding with a second one, or they have a project and are investing in another one, this is quite a regular occurrence [. . .]. They tell you that at the moment they are not growing in Spain, and there is very little growth in the United States, but they are growing a great deal in China, so we can gather from this that they are making a profit here.

Conclusions

At present, the main reason for investing in China is the huge and growing importance of its market. While China has been recognised for years as the ''world's factory'', today it is starting to represent the ''world's market'', not just because of its vast size but also because of the dizzying speed of its growth rate.

When it comes to the reasons for the success or failure of Spanish investments in China, although the interviewees could not precisely identify or enumerate the factors that lead to success, they were able to point out certain key factors that should be taken into consideration to prevent the investment from failing. First, the interviewees asserted that any company that intends to develop a project in China should be ready to devote a large amount of resources of every kind: physical, financial, human, etc. The interviewees also put an emphasis on the importance of the level of commitment of the person responsible for heading up the project in China, and highlighted the fact that this person should be extremely knowledgeable about the company and its corporate culture. The discrepancy between the interviewees' views and the existing literature on the management of expatriate companies with regard to the characteristics of the people who should lead a project of this type suggests that the aspects raised by the interviewees should be given further consideration in future research in order to explore whether this is really as important as the interviewees suggest, based on their own experience.

References

Boisot, M. and Meyer, M.W. (2008), ''Which way through the open door? Reflections on the internationalization of Chinese firms'', *Management and Organization Review*, Vol. 4 No. 3, pp. 349-65.

Caligiuri, P., Tarique, I. and Jacobs, R. (2009), ''Selection for international assignments'', *Human Resource Management Review*, Vol. 19 No. 3, pp. 251-62.

Chen, C.I. and Yeh, C.H. (2011), ''Re-examining location antecedents and pace of foreign direct investment: evidence from Taiwanese investments in China'', *Journal of Business Research*in press.

Fan, P. (2011), ''Innovation capacity and economic development: China and India'', *Economic Change and Restructuring*, Vol. 44 Nos 1-2, pp. 49-73.

Feng, F. and Pearson, T.E. (1999), ''Hotel expatriate managers in China: selection criteria, important skills and knowledge, repatriation concerns and causes of failure'', *International Journal of Hospitality Management*, Vol. 18 No. 3, pp. 309-21.

Franke, J. and Nicholson, N. (2002), ''Who shall we send? Cultural and other influences on the rating of selection criteria for expatriates assignments'', *International Journal of Cross Cultural Management*, Vol. 2 No. 1, pp. 21-36.

Guthrie, J.P., Ash, R.A. and Stevens, C.D. (2003), ''Are women 'better' than men? Personality differences and expatriate selection'', *Journal of Managerial Psychology*, Vol. 18 No. 3, pp. 229-43.

Lin, F.J. (2010), ''The determinants of foreign direct investment in China: the case of Taiwanese firms in the IT industry'', *Journal of Business Research*, Vol. 63 No. 5, pp. 479-85.

Lund, D.W. and Degen, R.J. (2010), ''Selecting candidates and managing expatriate assignments in China'', *Global Business and Organizational Excellence*, Vol. 30 No. 1, pp. 60-72.

Mol, S.T., Born, M.P., Willemsen, M.E. and Van Der Molen, H.T. (2005), ''Predicting expatriate job performance for selection purposes: a quantitative review'', *Journal of Cross-Cultural Psychology*, Vol. 36 No. 5, pp. 590-620.

Ones, D.S. and Viswesvaran, C. (1999), ''Relative importance of personality dimensions for expatriate selection: a policy capturing study'', *Human Performance*, Vol. 12 Nos 3-4, pp. 275-94.

Selmer, J. (2001), ''Expatriate selection: back to basics?'', *International Journal of Human Resource Management*, Vol. 12 No. 8, pp. 1219-33.

Wang, H. and Guo, K. (2011), ''An empirical study on factors influencing foreign direct investment to China'', paper presented at 8th International Conference on Service System and Service Management (ICSSSM), Tiajin, 25-27 June, available at: http://ieeexplore.ieee.org/stamp/stamp.jsp?tp = &arnumber = 5959451&isnumber = 5959288 (accessed 25 September 2011).

Corresponding author

Fernando Campa-Planas can be contacted at: fernando.campa@urv.cat

---