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Causes and consequences of the lack of strategic foresight in the decisions of multinational enterprises to enter China

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Abstract

Strategic foresight, in the sense of 'understanding the future' [R.A. Slaughter. Futures studies as an intellectual and applied discipline. American Behavioral Scientist 42(3) (1998) 372–385; A.N. Whitehead. Modes of Thought. Free Press, New York, 1966], can play a significant role in the long term success, or failure, of business corporations. However, in understanding the development and management of strategic foresight within business enterprises, instances where lack of foresight was exhibited, can be equally instructive, especially when these business organizations are some of the world's largest multinational corporations and they are faced with a situation they had met before: new market entry.

By drawing on 42 in depth interviews, conducted by one of the authors with executives from Multinational Enterprises (MNEs) currently operating in China, this paper identifies the causes and consequences in the lack of foresight exhibited by many MNEs in their China-market entry strategies. In this way the foresight failure is distilled into two factors: Failure of understanding, and Failure of anticipation.

1. Introduction

The recent 'opening up' of China's markets to the West was first signaled by the 1972 visit of Nixon to China, and was intensified in the late 1970s and 1980s by the liberalization policies of Deng Xiaoping, temporarily interrupted by the Tianamen square massacre, then intensified with a vengeance in the 1990s. After 1992, foreign

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direct investment (FDI) in China, led by overseas Chinese investors, Western and Japanese Multinational Enterprises (MNEs) grew at a geometric rate. However, the investments of many Western MNEs have failed, thus far, to generate the expected financial performance. In Studwell's words, "China failed to make the kind of contribution to the bottom line that global corporations had predicted" [3: 18], and in many cases this failure was spectacular. Consider the following examples from our research.

A western manufacturer of a chocolate beverage drink invested heavily in manufacturing facilities in China, with the rationale that "even if a very small percent of this huge population consumes our product, we should expect a very high return on our investment." But, the Chinese do not like chocolate, and the capturing of this 'small' market share never happened. The result was that, currently, the manufacturer meets its annual sales quota with one month's production.

Another major western manufacturer of industrial products, after investing heavily in production facilities in China was caught in a destructive price competition with local, state-owned-enterprises (SOEs) that could provide similar products at below cost prices. The reason why these local manufacturers could consistently sell their products below cost was because they were constantly operating at a loss, financed by state owned banks, who would find it difficult to cut off this credit to SOEs. As a Chief Executive Officer (CEO) of a British consumer products company explained: "The local manufacturer, how do I put it nicely? They do not need to make a profit and they do not do it."

A major western manufacturing company entered China in a joint venture with a local manufacturer, only to experience the blocking of its expansion plans by its partner. The reason? The Chinese partner did not want to lose its share in the partnership and could not raise the funds required to maintain its share in an expanded venture. The foreign partner was thus unable to realize its China market aspirations.

The following example from Studwell [3] is also instructive: A western cement company was forced to invest in the latest environmental standards before it was allowed to produce and sell cement in the Chinese market, only to determine afterwards that most SOEs refused to buy its products, but preferred to purchase low quality cement from other local state owned enterprises operating under little or no environmental obligations.

Meanwhile the landscape of foreign investment in China fills with MNEs, which over-, under-, or plainly miscalculated all kind of salient structural, cultural, and competitive parameters. Of course, one might argue that when MNEs enter a new market they are bound to make mistakes and face unforeseen problems. But, it is the magnitude of these mistakes, which indicates a major lack of strategic foresight since the MNEs involved were highly experienced in entering new markets. Now, if a famous cardiologist fails to diagnose his/her own symptoms as a heart attack one might find this bizarre. But if fifty cardiologists fail to diagnose their own symptoms as heart attacks, then there must be some systemic reason explaining the improbability of such an event. Therefore, given the international experience and the number of MNEs that seriously miscalculated in entering the Chinese market, the matter indicates a systemic failure of strategic foresight.