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Refocusing the Lens: Singapore's Private Enterprises in China

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ABSTRACT

In recent years, financial and political instabilities have cooled economic growth in many regions. Even in this context, however, areas of strong growth remain; none, arguably, more prominent than ever-developing and increasingly affluent China, which is today a vastly different environment than even several years ago. More than ever, a wealth of opportunity subsists in this ancient land – and businesses must be able to adapt and seize these opportunities. Thus we turn towards Singapore private enterprise in China, to study once more the efficacy of the city-state's internationalization strategies in the context of the private enterprises which must eventually sustain such efforts, and examine if they are indeed prepared to rise with the dragon.

INTRODUCTION

The city-state of Singapore is to this day yet one of the most affluent and developed nations in its region, belying its tiny land area and accompanying lack of natural resources; an achievement made possible in many ways by an early recognition of the need to leverage global resources for economic growth. Its well-documented stratagem of expanding its foreign direct investments (FDIs) as a means to stimulate economic development (Huff, 1995; Murray and Pereira, 1995) and strengthen the city-state's 'external economy' saw the island progress through a number of distinct phases of overseas investment initiatives. Initial ventures in North America and Western Europe, attempting to expedite access to new technology and markets, proved largely unprofitable (Sitathan, 2002). A shift towards regionalization, with a refocus on opportunities within Asia, particularly in China, Indonesia and Vietnam (Tan, 1995; Okposin, 1999), through the vehicle of state-sponsored industrial townships, were to achieve much more positive, although yet somewhat mixed, results – and, as alluded to by some of our older research, also provided a number of invaluable lessons as to the degree to which Singapore-styled business practices and systems were exportable to foreign cultures (Yeoh et al, 2006; How & Yeoh, 2007). With these lessons in mind, the city-state expanded its aims once more from regionalization to internationalization, with its eyes set on the cryptic Middle East region – at the time possessing a flourishing property development market, fed by a new wave of local investment and international interest. With experiences from China, Indonesia, and Vietnam in mind, Singapore's gambits in this region were to reflect a less dominant role from government institutions, and instead a greater emphasis on the company, perhaps also to stimulate private enterprises into more self-sustainable position. Elements, however, of the familiar strategies of managing strategic co-operations and engaging with private or semi-private enterprises – strategies that admittedly, to date, have had at least some observed success – were to be easily observable; and though ostensibly different, many initial entries into the region were through methods all too similar to those observable from the era of regionalization.

How successful these continued efforts in exporting Singapore-styled practices might have been under normal circumstances is unclear – while our research certainly pointed towards all-too-familiar undercurrents of tension and disconnection over such business practices, these did not appear, at first, to be sufficiently major as to be immediate problems. What is certain, however, is that these differences were exacerbated manyfold in the wake of the worldwide financial crisis that saw a rapid contraction (for good reason) of the property market in the region, most notably in Dubai, one of the areas hardest hit by the crisis, and one of the major centres of Singapore's internationalization efforts. Attending complications were to be further magnified by political instabilities in nearby areas. Today, Singapore involvement in the region, while still significant, has of necessity evolved to be simultaneously more cautious, as well as more flexible towards the interests of local stakeholders, cultures, and business practices.

Interestingly, however, our recent research points towards Singapore's government-linked companies in the Middle East having made a smoother transition – and, indeed, having been more adaptable in general – than the city-state's private enterprises, contrary to common expectation (How & Yeoh, 2013). Given the importance of the fully private enterprise in the long-term sustainability of any internationalization effort, and Singapore's obvious recognition of this importance, this observation is a cause for some concern. As such, then, it is a natural progression to observe the state of Singapore's private enterprises in a similarly changing business environment – that of ever-resilient China, which to this day appears only to go from strength to strength. No longer merely a source of domestic opportunity, new and growing Chinese affluence now fuels (perhaps even overly so) various sectors of neighbouring economies; and that the face of business in China has changed markedly due to this selfsame affluence should go without saying. If and to what extent Singapore private enterprise is adapting to these changes, then, is a topic of extreme relevance to the city-state, and to its further efforts at internationalization.

To provide context to this paper, the theoretical considerations are set out in the next section. This is followed by an analysis of empirical data from in-depth interviews conducted with several Singapore private companies across a variety of industries and demographics operating in China. The final section places these observations in the context of the current day, and extrapolates from there the state of Singapore private enterprise in China, and the implications thereof for Singapore's global internationalization efforts.

THEORETICAL CONSIDERATIONS

In principle, for most enterprises, the internationalization process is embarked upon with circumspection, involving risk minimization and strategic planning (UNIDO, 2006). During internationalization, some duties and tasks are centrally performed to reap integration benefits, while others are performed locally to adapt to local needs (McGee, Thomas & Wilson, 2010). An enterprise may opt to employ differing levels of integration and adaptation in its foreign operations, depending on the enterprise's priorities and expense tolerance; from our previous research, for example, many Singapore companies in the Middle East appear to have initially defaulted to a strategy of high integration and low local adaptation.

Enterprises venture into markets that are more familiar and less risky, and commit minimal resources, to first gain experience before foraying deeper into relatively riskier business environment. Enterprises, depending on the conditions of the foreign countries and their level of resource commitment, employ different internationalization stratagems – which includes exporting, licensing, franchising, management contracts, turnkey operations, joint ventures as well as full ownership. Likewise, a stages model demonstrates that an enterprise’s level of commitment in its internationalization stratagem is contingent on its stage of expansion. At the onset, the enterprise often seeks to reduce its risk; hence, it is not surprising that initially the enterprise mostly just exports its core competencies (or its existing products) into new geographic markets (Delios, Beamish and Lu, 2010).

In time, however, as the enterprise garners experience, and as circumstances in said new geographic markets change and consequently both new opportunities and threats emerge, it must reasonably follow that the enterprise should re-evaluate its priorities, and adjust its strategies and level of commitment, and thus progress onto a further stage of expansion into these new markets – while continuing in the same vein is a valid option, it is also one which generally does not represent full exploitation of available opportunities. It is at this stage, possibly, at which Singapore private enterprise does not yet fully exercise the options at its disposal, which we will examine in the case studies which follow.

CASE STUDIES

Company A – Property Development (Commercial)

One of Singapore's more venerable companies, Company A has a long and storied history as one of the city-state's major department store chains. Growing competition locally in the early 1990s led the company to hasten diversification efforts into various other sectors, and today Company A is more majorly represented by its property development and investment arm than by its original retail business, with said property arm contributing well over 90% of the company's profit margin in recent years. These early diversification efforts, in fact, induced Company A's first forays into China in 1994 – a relatively very much earlier entry than most, and one which would consequently imply all the ramifications of being, to all intents and purposes, a first mover, both in the positive and the negative; especially given the company's relative lack of appropriation of available Singapore governmental support, being neither by industry or location under the auspices of the Singapore-styled industrial township in Suzhou, at the time the focus of the city-state's regionalization programme.

In other ways, however, Company A's entry into China was fairly typical for a Singaporean company – the company's first ventures were accomplished through a joint venture with a major local developer in Shanghai with ties to the municipal government, an all-too-familiar, albeit effective, strategy; one replicated right down to the majority of both management and technical expertise being provided by the Singapore partner. Building on its experience with the retail industry, Company A's initial development in Shanghai was to be a large-scale retail mall, from which the company would derive rental revenues and establish itself as a significant player in China retail space development. The company, however, chose not to import their heretofore core retail business into China – initially because of a difference in affluence and demographic, with the company's target middle- to high-income groups not yet present in sufficient numbers. To the current day Company A's presence in China lies entirely in the retail property development industry, with major malls in the main cities of Beijing, Shanghai, and Guangzhou, and similar properties on a smaller scale across a number of developing Chinese cities – a result that certainly appears to speak well for the company's performance in its new frontier.

A more contextual study, however, reveals a not-insignificant number of hints towards endemic behaviours not unusual among Singapore private enterprises. A comparison with similar companies – in this case Singapore government-linked companies in the same industry – finds that the government-linked companies expanded more daringly into the China market, with the most similar such company having penetrated some 40 cities by 2008 as compared to Company A's rather more rarefied presence. While a difference in resources and experience is surely a factor, for such a gap to open over 20 years is undoubtedly a sign of a rather more cautious and restrained approach – one which, considered in the abovementioned theoretical context of changing circumstances over time, might be less than optimal for the full exploitation of available opportunity. Signs, too, exist as to an insufficient degree of adaptation to differences in tastes and expectations across even the major cities in China – one of Company A's more major properties in Beijing underwent major renovations as recently in 2009 to adjust better to local needs, having been too similar to one of its Shanghai properties. This is obviously a vital concern for the company, as it expands gradually into China's developing cities – with, one might note, retail malls that show a markedly lower degree of differentiation than those in the three major cities. Too, despite the changing face and rather markedly increased affluence of the Chinese populace in general, Company A shows no signs of importing its as yet continuing retail business into China – understandable, perhaps, given the vastly larger profits from the property industry, yet still curious given the company's expansion of its retail business into other, less affluent countries, and the obvious synergies between its ownership of retail malls and its retail business – especially given the opportunity its current expansion into China's developing cities would seem to offer for such retail business.

Company B – Manufacturing and Retail (Health Products)

A major producer and retailer in Singapore of a wide variety of health products under a stable of different labels, Company B also possesses a significant international presence, with operations across Asia, Africa, Europe, and the Middle East – a resume that suggests a wealth of experience in dealing with varying cultural and corporate norms. As a developer and manufacturer of many of its own products, Company B's methods of international expansion arguably require a greater range of considerations than some companies, needing to juggle research and development with practical manufacturing concerns and promotion needs – a fact which makes the company's wide international expansion all the more impressive, and suggests a rather more voracious appetite for risk and expansion than most of its peers.

Company B's entry into China was in 1994, preceding, in fact, the company's public listing in Singapore – and somewhat atypically of Singapore companies, perhaps owing to its status at the time as a private company, entered in a contractual joint venture rather than attempting to reduce risk through seeking an influential local partner, and in fact would have preferred to utilize a fully-owned subsidiary, as in most of their international operations – and did indeed switch to such full ownership when such became possible, regardless of losing previous incentives. Nonetheless, Company B's initial approach was not without endemic Singapore caution, testing the waters with a single outlet in Beijing. Following outstanding sales numbers from this and subsequent forays into Shanghai, however, Company B discarded its previous approach and embarked on an impressively aggressive expansion strategy, fueled perhaps by new funding from the company's public listing, and as of the end of 2009 was represented by a multitude of outlets across over 50 cities in China. In a similar vein, the minutiae of Company B's operations reveal no reservations towards adaptation towards new paradigms; coherent marketing strategies include a deliberate rarefaction of outlets into higher-end department stores in order to appeal to a higher income group, as opposed to a more general marketing strategy adopted in Singapore and elsewhere, and a purposeful lack of installment plans, in accordance to observations as to the preferences and quixotic tendencies of well-to-do Chinese. Adaptive vigour, too, shows through in the company's response to bootleg products; shortening its research & development cycle in China so as to maintain the technological edge, and offering trade-in deals for not just its own older products, but also bootleg and rival products, at a reduced value.

This is, of course, not to say that Company B does not display some of the more typical habits of Singapore companies in general, and Singapore private enterprise in particular. Even with its rapid pace of expansion, its management staff remains largely comprised of non-locals, the majority being, unsurprisingly, Singaporean – which, like examples of the same in other Singapore companies, are a potential cause for long-term issues, such as integration with local staff, problems with management succession, and availability of importable managerial staff, as suggested by our previous research (q.v.) with regards to the degree of exportability of Singapore-styled business practices. Similarly, quality control staff in China are heavily Singaporean, and furthermore all exports from China are first shipped to Singapore for additional quality control testing, which, while engendering greater quality assurance, also generates additional logistical costs. Some greater degree of skill and relationship building with local employees, perhaps, might be on the cards for Company B.

Company C: Retail (Consumer Goods)

A relatively more recent addition to Singapore's stable of private enterprises, Company C is engaged in the design and retail of luxury goods and accessories, most notably shoes and bags. Incorporated in 1996, the company now sports a presence in well over 20 countries in various regions across Southeast Asia, the Middle East, and, of course, China, and has also attracted international attention and investment in recent years. Company C, it seems, appears rather more internationally-minded than might be expected, an observation further supported by the company's appropriation and promotion of various international campaigns in its marketing efforts, and its embracing of the online store paradigm – perhaps evidence to the company's adaptability, given that its international expansion began only in 2004.

Company C's expansion into China, however, was to occur only in 2009, long after the affluence of the average Chinese citizen had begun to climb meteorically, and when the industry had long been established in the country. The actual entry, by this time, was a simple affair – legislation had long shifted to more business-friendly configurations, and Company C already had manufacturing and distribution centres located in China. The most notable characteristic of Company C's initial entry, in fact, was its small scale, in only the single city of Shanghai – a choice made, apparently, due to both an unsurprising measure of caution, and to the need to sufficiently establish the brand name locally before embarking on a larger scale of expansion. Similarly to Company B, however, the company's rate of expansion since its initial foray has been rapid and fierce – today some 45 stores bear the company's brand name across a large number of cities, a development enabled somewhat by the company's already heavily China-based operational structure, with design, research & development, quality control, procurement, manufacturing, and distribution all already occurring to a great degree in China. So well does the company appear to be performing in China, in fact, that the question arises as to why the company chose not to tackle this verdant market earlier.

Nor, in fact, is this the only question to arise. Anecdotal evidence ascribes an initial reluctance to engage in Company C's usual franchising strategies in the company's initial entries in Shanghai, ostensibly due to quality control concerns and to reduce chances of replication by competitors – a precaution understandable, perhaps, due to the need to establish the brand at the time, but nonetheless rather curious given the proportion of the company's value chain already located in China at the time. The company's current preponderance of storefronts suggests that these reservations have been long allayed, but their existence in the first place may suggest some degree of the familiar risk-averse Singapore mindset creeping in. As well, despite the multinational composition – most significantly Singaporean, Malaysian, and Chinese – of most of the company's value-producing sectors, the company's management remains highly centralized in Singapore-based managers and executives. While no internal pressures are as yet in evidence, this is no guarantee that such may not be an issue in the future; certainly, as our previous research suggests, there have been more than a few Singapore firms who can attest to the same.

INSIGHTS, ISSUES, AND CHALLENGES

Our examining of the state of Singapore's private enterprise in China appears, on the whole, to paint a rather heartening picture; with both a generally positive record and plentiful opportunities for further expansion, albeit opportunities not always fully exploited, as might arguably be the case for Company A. Overweening risk aversion, lack of flexibility, and insufficient local adaptation do not, in fact, appear to be on the report cards of Singapore private enterprise in China, albeit not totally absent, in Company B and especially Company A's cases. Advantages of Singapore companies identified in our previous papers are reinforced by these results, with Companies B and C illustrating the technological and technical edge of Singapore companies through the stated importance of their robust research & development and design cycles, and with Company A reinforcing the strength of the reputations of tested Singapore companies. These private enterprises, in fact, appear to retain these advantages while sidestepping somewhat symptoms of disconnects with local stakeholders alluded to in our previous China-based study; owing, perhaps, to the leanings of Company B and C towards eschewing government involvement and the perhaps overused joint venture tactic, and in Company A's case perhaps by simply not attempting to make too much of the connection – the company itself does not appear to identify the connections of its local partners as particularly relevant past the initial entry. While certainly none of the three companies ignore the eponymous *guanxi* aspect of business in China – all three state the need to establish cordial relations and sometimes even outright refer to expenses incurred via entertaining business associates – neither do they seem to ascribe particular importance to them. Perhaps there is something to keeping it largely professional after all.

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It is perhaps not particularly a cause for amazement, however, that the one glaring commonality that all three case study companies share as far as possible causes for concern lie, once more, in personnel issues – in this case, the heavy preponderance of Singaporeans, Singapore-based or otherwise, in central management and decision making authority, which has, in the past, contributed to personnel tensions and insufficient dexterity in understanding and dealing with local conditions in other Singapore companies. In a way, this is perhaps also a positive sign, being arguably an even more micro-scale aspect of endemic weaknesses in relationship management among Singapore companies often alluded to in our previous papers; but may just as easily be warning signs of a familiar and as yet nascent problem, that simply has not developed as far as in other Singapore companies, perhaps due to greater staffing fluidity in more private enterprise-based industries. Interestingly, however, none of the three companies – not even Company A, arguably the most similar to its government-linked peers in industry and in strategy – identified any issues with retention of personnel, which may be evidence towards a more positive interpretation of the former point, suggesting as it does some degree of staff loyalty and cohesiveness. It should be noted, however, that signs do persist as to insufficient understanding of local conditions (in Company A's case) and of reservations on the Singaporean side towards individual operational aspects in China (in the case of Companies B and C). It might be, so to speak, far too soon to make a judgment either way; yet perhaps by the time such a judgment might be easily made, it might be, for practical purposes, far too late.

CONCLUSION

Our previous research into Singapore's regionalization efforts in China has centered mainly upon the socio-political dimension, and on the selfsame socio-political nuances that radiate from, and on the business derived thereof, within the borders of the host environments. With this paper, we revisit these themes in the context of the private enterprises which must eventually be the driving force to advance any regionalization or internalization initiative, and aim to provide a unique useful perspective of business in China for nations, goverment-linked companies, and private enterprises alike. From this paper, indeed, we observe that for the immediate future, at least, while China's rate of hyper-development shows few signs of abating significantly, and as the general affluence of the Chinese populace in general and the metropolitan populace in particular continues to rise, that there remains a wealth of opportunity for the daring company to seize – but that the pace of development is such that this hypothetical company would, in all likelihood, be required to expand at a similarly crushing pace (and therefore to commit the necessary resources) in order to not be, to misuse a metaphor, lost in the flood. Our previous study of Singapore companies in China alluded to resource constraints suffered by some Singapore companies, as they spread their resources across various high-development regions, such as China and the Middle East – a more concentrated approach, as some of the companies in this study have arguably taken, might be a more practical solution for the company with more limited resources.

How far this state of affairs will continue, however, is an open question. The face of China – its business environments, demographics, and financial influence on the countries around it – have changed remarkably in less than a decade, and will continue to do so as the country attempts to further improve and expand its economy. Perhaps the metaphor of a flood is not so misused, then – that the China economy is one in which one must navigate both swiftly and carefully, and always with one's head above the water, the better with which to anticipate the next turn and wave.

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