



# BRANDING CHINA

## Vodafone Presents



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# The Future of China's SOEs

**An Interview with Li Rongrong, Chairman,  
State-owned Assets Supervision and Administration Commission of the State Council (SASAC), People's Republic of China**

**EDITORS' NOTE** After graduating from Tianjin University with a bachelor's degree in electrochemical engineering, Li Rongrong served successively as worker, workshop chief, deputy director, and director of a factory. He was appointed Vice Chairman of Wuxi Municipal Economic Commission, Jiangsu Province, and proceeded to hold the posts of Director of Wuxi Municipal Light Industry Bureau, Chairman of Wuxi Municipal Planning Commission, and Vice Chairman of Jiangsu Planning and Economic Commission. In February 2001, he was appointed Chairman and Party Secretary of the State Economic and Trade Commission (SETC). In addition to his responsibilities as Chairman of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), Li Rongrong is Party Secretary of SASAC's Communist Party of China (CPC) Committee and a member of the 16th CPC Central Committee.



Li Rongrong

**INSTITUTION BRIEF** Authorized by the State Council in March 2003, in accordance with the Company Law of the People's Republic of China and other administrative regulations, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) guides and pushes forward the reform and restructuring of state-owned enterprises (SOEs); appoints and removes top executives of enterprises, and evaluates their performances through legal procedures, either granting rewards or inflicting punishment based on their performances; and directs and supervises the management work of local state-owned assets according to law.

**In the interview that was published in our April 2006 issue, you mentioned that one of the functions of SASAC is transforming SOEs into joint-stock companies, and reforming their corporate governance. If that is an internal adjustment, can we see you actively promoting overseas IPOs as an external adjustment?**

Yes, we support overseas IPOs, and we hope SOEs will learn about advanced corporate governance from foreign companies through overseas IPOs, in order to accelerate their transformation process. This is a solution that combines the East and the West.

Overseas IPOs is one approach, which is similar to Western medicine. The most essential thing is to push the internal transformation of enterprises, which is similar to the methodology of traditional Chinese medicine. I personally advocate traditional Chinese medicine, because it focuses on healing your internal system and getting rid of the illness completely.

Another essential factor about overseas IPOs is that Chinese enterprises will be able to find out their weaknesses quicker through them and

improve themselves faster. Comparatively, international markets are more mature and more organized than ours. We can easily find out our shortcomings by comparing our rules to theirs. At present, there is still some distance between the domestic market and international markets. That's why we require SOEs to go public overseas first and then domestically.

A further essential objective is that we support SOEs in cultivating their international markets, in order to help them position themselves internationally. Once an enterprise enters the international capital markets, it will be evaluated in line with international standards. If we only stayed in the domestic market, our evaluation would always be according to domestic standards, which might make us think we had done an excellent job because we topped the market. However, there's still a long way to go before we match the top-ranked enterprises and leading companies of the world.

**CNOOC's Unocal bid stirred up the international community. How has SASAC helped SOEs to increase their competence, and what have you gained through the CNOOC case that has made the path to globalization easier?**

The first thing I want to say is that the U.S. should try to understand us. The so-called globalized economy is like a big machine that is branded "world," not just "America." Every nation shares responsibility for ensuring the machine runs well. Being a part of the competition in this big machine is very important for China. The big machine will run faster and better when China is installed as a component, and will work much better than it used to. To allow that to happen, the machine should accept our participation in the open competition. If we are found to be not as capable as other parts, we will draw back, to improve and gain a better position.

Since competition has broadened our vision, we encourage SOEs to compare themselves with the top companies in their industrial sectors, finding out their weaknesses, then improving themselves. CNOOC, Sinopec, and PetroChina are growing especially fast. The objective of China's globalization is to help the world's economy constantly grow with the same stability and high speed as China's economy is growing. American enterprises are welcome in China, to push our economy to grow. The U.S. is held accountable for the world's economy. Isn't it better for the U.S. to have a trustworthy and responsible partner who is willing to help it co-shoulder responsibility for the world's economy?

**What do you think of the privatization of SOEs, and what opportunities do foreign companies have in this process?**

I think every country needs a process for driving the market economy. I don't think 100 percent state-owned investment is the best way. From the point of view of driving the nation's economy, it'll be even better if we can use 5 percent of state-owned capital to bring along the other 95 percent of investment.

Unfortunately, we haven't been able to achieve that as of yet. That's why, in many sectors, we still adopt absolute state holding. But I believe the percentage will be lowered as we improve our ability to drive the market economy, and that will create opportunities for foreign enterprises. Everybody is welcome to come. I hope foreign capital will also go into our group enterprises, and not only into their subsidiaries. These giant enterprises in China also need to adopt the joint-stock system, to avoid 100 percent state ownership. We welcome foreign capital. It will encourage the development of SOEs and give strategic investors a good return.

**As for SASAC, what kinds of plans do you have to help SOEs with their innovation and branding?**

SASAC attaches great importance to innovation and the protection of intellectual property rights [IPRs]. It'll harm the large and medium-sized SOEs' enthusiasm for innovation if their IPRs are not protected. We should protect intellectual property rights with legislation, in order to encourage innovation in our enterprises. That's another focus for SASAC.

Central SOEs have also been escalating their efforts in innovation. These last few years, as profits have increased gradually, we have required them to invest more into research,

development, and innovation.

We plan to store products and technology for five to eight years, for future use, instead of three to five years, as it is now. A small boat can be righted easily if it is overturned. Our large enterprises, however, are like aircraft carriers. They cannot sink, otherwise they would never come up to the surface again. Being equipped with an advanced navigating system is essential to their voyage, which means having a long-term vision. Without that, we might unexpectedly strike a reef. Many SOEs' leaders understand that well.

BaoSteel, Qingdao Haier, and Sichuan Changhong have invested a lot in independent research, development, and innovation since 1997. We have issued public announcements about the top 10 innovators among the central SOEs annually since 2005, in order to encourage SOEs to do a better job in this respect. Sinopec has applied for 1,000 patents every year and about 800 of them have been authorized. But there is still a gap between it and its international counterparts in the same industry.

As for autonomous brands, I think it is a process. In the past, because our manufacturing technology did not meet international standards, no one cared for Chinese brands. Now you see "Made in China" everywhere.

**Given the job rotation system, what has SASAC done to ensure the central SOE executives devote themselves to their jobs?**

Let me give you an example of an overseas company whose concept I appreciated. Let's say a manager is doing his job well, and the company wants to put him on the board of executives. What they'll do first is send him abroad to set up a branch factory. Why do they do this? Because he's well known for his production, equipment, and staff management, as a manufacturing department manager, yet lacks organizational and management abilities. This will be much improved by his establishing a new factory overseas. After his experience and ability is enhanced, they'll call him back and entrust him with greater responsibility. Then he will do his job with skill and ease.

I think this kind of job rotation system is also applicable in China. SASAC shoulders the huge responsibility of nominating more than 1,500 leaders for our enterprises. How do we effectively select and appoint the leaders of enterprises? I think the most efficient way is to put together a group of candidates for current leadership positions. It's like the national athletics team and their substitute team. With the substitutes sitting in the back, the players on the ground will feel the pressure to do better. If you don't perform well, you'll be replaced immediately. I said this before: "Replacement will be made according to a person's performance." Our job is to judge if he's performing well enough, and then replace him if necessary.

In this way, the leaders will work harder every day under the pressure of "being replaced," and their passion for managing the enterprise better will be increased. In addition, we have started recruiting senior executives on a global scale, and a group of talented people have been assembled. To be internationalized, China's SOEs need to learn how to allocate their resources internationally and optimize their resources gradually.

**What do you look for when recruiting executive managers?**

Patience is the first characteristic. I think a person can't be a good leader without patience. There are higher positions and lower ones in an enterprise, and payment reflects this. You need to be prepared to bear the brunt of employees' anger if you want to lead. You need to listen to dissatisfaction and complaints, and turn them into motivation and enthusiasm.

I think patience is necessary not only in Chinese companies, but also in international companies, because the process of any reform takes a long time and requires endurance. As our current market economy system is not complete yet, our enterprises have to seek help and gain understanding on many issues. Patience is particularly necessary during this period of time.

Also, you need to adjust your expectations about payment. If you want to be a senior executive in an SOE, set yourself at a reasonable salary level. You won't feel all right if you set it too high. It's not easy to deal with the fact that both your supervisors and subordinates count on you to be paid according to your performance. We have found in the past that some people fail to fill the gap between their performance and the payment they ask for.

**How do you assess an enterprise and its leaders? Which criteria do you use?**

We have two kinds of indexes: a basic index and an assorted index. The basic index consists of the common requirements the investors have for the enterprises they've invested in. In our annual assessment, we focus on the profit the enterprise makes as return on investment; profit is a must. As for the office-term assessment, we focus on the rate that the assets' value is maintained or has increased.

Reflecting the differences among industries, regions, and foundations, the assorted index includes cost indexes, security indexes, indexes of protection for employees and the environment, indexes of research and development of new technologies, etc. Issues that pertain to these aspects are evaluated by the board of directors. This information will be passed over to the board of directors of every enterprise, who will make a more specific assessment index to meet their own needs.

**As Chairman of SASAC, do you have any special concerns?**

The reform of SOEs should match the process of the whole nation's reform. We made great efforts in integrating the ideas of SOE leaders from different enterprises, and encouraging them to accept our concepts of reform with continuous growth. Coming into the late period of transition after entering the World Trade Organization, not much time is left for us to complete the reform of the modern enterprise system by 2010, as the nation requires. From that point of view, we have to make the best use of every minute to move forward.

**You are now in charge of state-owned assets worth RMB 12.2 trillion. From very humble beginnings, what are some of your career milestones?**

I made RMB 44 each month while working in a factory after graduating from college. Now, I'm in charge of assets worth RMB 12.2 trillion. I was promoted every two years throughout my

career. No matter what kind of position I am in, I always hold by the principle that nothing is about me. I don't care about fame or personal gains or losses. My career is the most valuable thing I have pursued in my life, and it is my career that has brought me the most joy. Everything is minor compared to that.

I've done many different jobs and I have loved them all. When working in the factory, I was often moved to positions I was not familiar with. Every job was a good opportunity for me to learn not only new technology but also how to communicate with different people and understand them better.

I am a very responsible person. I'll try every method I can to gain more responsibility. I learned cost control and output optimization while being the workshop Director. Then I started working for the government which provided me with an opportunity to learn about economic trends on a macro level. As I understand it, technicians in enterprises think vertically. They develop new products and new technologies, and their pattern of thinking extends vertically. While working for the government, you have to train yourself to think in a horizontal way, which means you have to think about the influences before every decision is made. What kind of influence will it have? What will be positive and what negative? The more comprehensively you think, the better your work will be organized.


As for personal growth, I think my experience with enterprises has built a vital foundation for me, while schooling nourished me with good influences. Tianjin University encourages rigorous and solid attitudes towards seeking truth from facts, so does SASAC. Everything should be as open and transparent as possible. Before doing anything, we should first accomplish the legislative preparation. As long as everything is open, you'll gain support and understanding.

**If you take off all the titles you have, can you tell us who Li Rongrong is?**

I am a person who practices responsibility. What I want to emphasize is that when I was leading a small group in an enterprise, I kept myself accountable for my group members. When I became the head of a factory, I was held accountable for all of my factory members. Being a leader is like being the parent of a big family, where you have responsibility for all of your family members. Therefore, I often tell leaders in enterprises to secure their workers as they do their families.

Your responsibility is not only to pay people, but also to make yourself accountable for them, as you are accountable for your own family. Right now, the title on my business card is Chairman of SASAC, and I'm responsible for it accordingly.

**It is amazing what a perfect fit your name is to who you really are. First Rong in Chinese means glory and credibility; second Rong in Chinese means creation through integration. If a person's name could hint one's fate, your name foretells your unique path of life: that you and the SOEs led by you should achieve true glory through creative integration of the best the world has to offer. So it is fitting that you would not complain about the burden on your shoulders.**

Not once have I ever complained about it, and I never will. 



# A Partner of Choice for China

An Interview with Paul Donovan, Chief Executive Officer,  
Eastern Europe, Middle East, Asia Pacific and Affiliates, Vodafone Group Plc

**EDITORS' NOTE** *With more than 15 years' experience in the telecommunications and IT industries, Paul Donovan was appointed to his current position in 2006. That same year, he also joined the board of China Mobile. Donovan previously served as Managing Director for Vodafone UK Commercial; as CEO of Vodafone Ireland; and as Regional Chief Executive, also for Vodafone. Before joining Vodafone in 1999, he held a variety of sales and marketing positions at Mars Group and served as Marketing Director of Coca-Cola and Schweppes beverages. Donovan holds a B.A. in Scandinavian Studies and an M.B.A.*



Paul Donovan

**COMPANY BRIEF** *Based in Newbury, United Kingdom, Vodafone Group Plc ([www.vodafone.com](http://www.vodafone.com)) is the world's second-largest wireless phone services provider (by subscribers), offering a wide range of voice and data communications. The company has equity interests in leading mobile operators in 25 countries – including China, Germany, India, Italy, Spain, the U.K., and the U.S. – and on June 30, 2007, the Group had 232 million customers, calculated on a proportionate basis in accordance with the company's percentage interest in these ventures.*

**When did Vodafone first enter China, and how has your business developed since then?**

Vodafone entered China in 2000. To date, we have invested around \$3.25 billion in China Mobile, resulting in Vodafone holding a 3.27 percent interest in the company's shares. We have another \$35 million invested in China Mobile's subsidiary ASPire, equating to a stake of around 10 percent in this business. Vodafone and China Mobile signed a strategic alliance agreement in February 2001, the intention of which was to open up broad cooperation in areas of roaming, network operations, marketing, branding, intellectual property, standards, R&D, and people exchange.

**What is China's role in Vodafone's evolving global strategy and what is Vodafone's vision in China?**

Vodafone strives to be a partner of choice for China. We want to be a contributor to China's social and economic growth and a partner in the process of economic and social transformation

in China. Whenever I go to China I'm always amazed at the sheer pace of progress and development. Last summer, I spent a week traveling around China. I landed at Shanghai airport and within three hours I'd been on the world's fastest train, checked in to the world's tallest hotel, and been across the world's longest road bridge.

As a global player, Vodafone can be a key partner as China continues its dramatic process of development. For example, the Chinese market still has a long way to go in terms of growing mobile penetration to match the levels seen in western markets. It's a great privilege for Vodafone to have China Mobile as our partner in China. We are absolutely certain that we have a great investment and one which continues to deliver value for our shareholders.

**Vodafone is committed to China and offers strategic resources to its Chinese partners. On the topic of "going forth", what thoughts have you shared with the Chinese government?**

Vodafone enjoys a good relationship with the Chinese government and there is a readiness to share expertise. Let me mention a few specific examples: we have shared our experience on corporate governance and performance management with SASAC; we have shared our experiences on telecom universal service, mobile number portability, and aspects of telecommunications law with the Ministry of Information Industry (MII) and the State Council Informatization Office (SCITO); and we have shared our vision on 3G and how 3G has evolved globally with MII and the National Development and Reform Commission (NDRC).

As far as "going forth" is concerned, our experience is that this is something that cannot happen overnight and needs to be taken in measured steps. First, you have to locate the right asset at the right price. In the telecom industry this has been quite difficult recently because of the high valuations placed on telecom assets worldwide. Then it is about having the right business processes to be able to expand effectively. Our own experience has shown us that you need to have the right mix of local and international management in your business, and you have to have a deep understanding of the cultural and operating practices of the market in which you are operating. Thus, a measured

approach in terms of "going forth" is likely to be most successful.

As an outsider, but one with a good understanding of what is going on in China, I would say we are at the beginning of a very significant period of Chinese overseas investment.

**What do you think are the challenges and opportunities for Chinese SOEs "going forth" into the global market?**

For any business, the first thing is to make sure your products and services are really relevant. Second, Vodafone found that working in partnership with an existing local company is often an important component of success. Therefore, SOEs learning to work with other businesses in joint ventures is likely to be important. Third, people going to work in the international business arena need to have a curiosity and interest in the people of those countries and they need to be willing to "walk a mile in another person's shoes."

Just having access to capital does not actually guarantee success. So to achieve success abroad, you must choose the right markets, ensure your product fit is right, select the right local partners, and have excellent people that can manage internationally. These are the key components necessary for successful expansion beyond the borders of China.

**Vodafone grew from a small company in the mid '80s into a truly global leader in mobile communications. What do you think has contributed to Vodafone's rapid growth?**

Vodafone has always been one of the most forward-thinking mobile businesses in the world. It started only 20 years ago as a U.K.-only organization and, initially, made a number of small, preliminary international investments in the '90s. It was really in the late '90s and the year 2000 – when Vodafone merged with AirTouch in the U.S. and acquired the Mannesmann Group – that Vodafone transformed itself into a truly international player. Since then, Vodafone has controlled large numbers of mobile companies around the world, and used its global and regional scale to leverage the considerable growth opportunities arising from the huge increase in mobile penetration.

Vodafone expanded internationally at the right time, coinciding with the development of the mobile market in Europe. We continue to examine selective acquisitions, but now our emphasis is more on increasing our footprint

in emerging markets. We recently invested over \$11 billion to take a controlling interest in Hutchison Essar, now known as Vodafone Essar, the number two operator in India. The year before that, we acquired Telsim, the second largest mobile operator in Turkey.

India, China, and other large-population emerging markets are critical for the next wave of development of the mobile industry. In Europe, mobile penetration in some markets is already beyond 100 percent; in China it is around 40 percent; and in India it is less than 20 percent. So the next billion people that will come into the mobile world, and have their lives enriched by mobile communications, will not be in the U.S. or Europe.

**During the process of Vodafone's global expansion, how did you build up your global corporate culture locally?**

The first thing is to have a clear vision globally, which is about being the world's leading mobile communications company and helping our customers to make the most of their time.

This is embodied in our brand essence, and this characterizes all of our businesses worldwide. The Vodafone brand essence is red, rock solid, and restless. Red represents our passion for customers and the spirit that drives us. Rock Solid is about making sure we are dependable, empathetic, and trustworthy, and finally that we keep our promises. Restless is about always challenging ourselves to improve. This brand essence is the glue that ensures the global consistency of our brand.

Then we have local management to make sure the company is as close to local customers' needs as possible. You need to have global values – which are born from working together in a big organization – and you must tailor this to local cultures to win the hearts and minds of customers wherever they live and work.

**What do you think are the key ingredients of successful global brand building?**

Successful global brands have very strong rational benefits but also very strong emotional benefits. These need to be communicated in a highly consistent manner, but also in a way that is related to the way consumers feel about themselves and the way they live their lives.

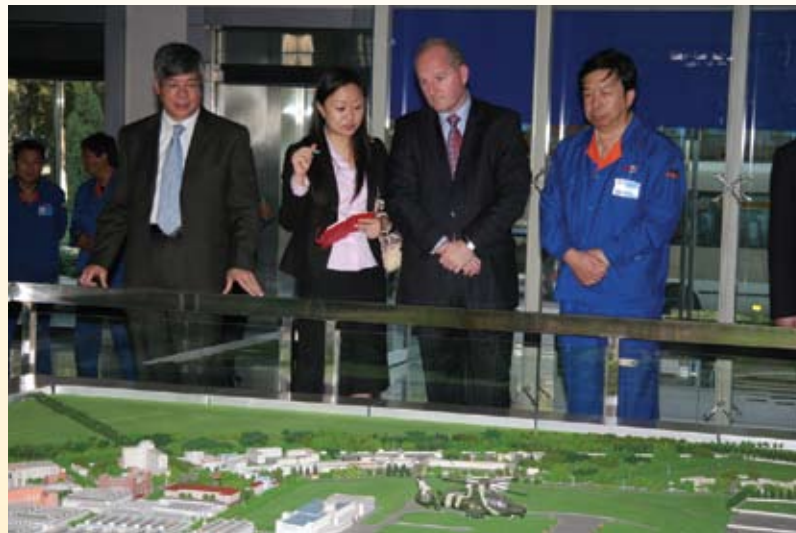
In Western Europe, there is a quite clear set of customer needs, and the positioning does not change very much. But if you think of companies operating in China, consumers in Shanghai, for instance, are more sophisticated than customers in rural villages. Thus companies need to make sure the global brand appeals to both sets of customers and that they understand what benefits the product will bring to them.

**What is your general impression of The Chinese leaders you have met?**

Over the past two years, I have met a wide variety of people from many different institutions and businesses, including Ministers, representatives from provincial government, and Chinese business leaders. Almost everybody I meet is characterized by a clarity of mission, which is fundamentally driven by a desire for growth and a keenness to learn from others in

order to speed up the pace of development. At the same time, they are very aware that what they are doing should be closely aligned with the broader needs of the society.

I was particularly impressed when visiting a Harbin factory which produces airplanes and which started an automotive business several years ago. It now produces 400,000 automobiles and 650,000 automotive engines a year. I was lucky enough to be given a car just off the production line to drive around their test track. It felt just like driving a Ford or a Toyota. The key point of the anecdote is that the company had achieved so much in an incredibly short period of time. This speed of making things happen within the framework of the requirements of society is the thing that has impressed me most when comparing China to other countries around the world.



*Visit to Harbin Aircraft Industry Group, Harbin, China, September 2006*

**How would you evaluate the stage of development that China or Chinese SOEs are in?**

I have the great privilege of serving on the board of China Mobile. The partnership between our two companies can and should be seen as a partnership of equals. China Mobile has more than 300 million customers in China and is a highly sophisticated and operationally excellent company. The basis on which we work together is truly based on sharing best practices with each other. For example, the majority of China Mobile's new additions are coming from rural China where customers have very different needs than people in developed regions. Vodafone also has many markets where we need to further penetrate the rural areas so we can learn from China Mobile's experience. Equally, we have a lot of expertise in 3G products and services and we can share this with China Mobile.

**How would you compare China with other emerging markets, such as India?**

People make quite a lot of the comparisons between China and India. There are undoubtedly some similarities, such as that both markets enjoy high GDP growth; both markets recognize the need to transform their infrastructure in order to further their society's objectives; and both countries still have large numbers of relatively poor people in rural areas.

In terms of telecommunications, the Chinese market is two to three years ahead of India. A big difference between China and India

is that China has taken a more systematic, organized, and committed approach to the creation of infrastructure to provide the platform for economic expansion. India's commitment to infrastructure has been less organized, but it is now rapidly developing.

**To those who find China a tough place to do business, what will help them turn their China challenge into a China opportunity?**

From my experience, I have five observations for companies considering investing in China. The first is to be 100 percent clear about your business objectives in China. The second is to be patient, since things may not happen at the pace or in the way you expect. The third is to be determined. The roadblocks to your progress can be overcome and sometimes, it is surprising how quickly it can happen. The fourth is about relationships, which is to recognize that to do business in China it is not about just doing business with customers. It's a requirement to understand the whole Chinese system including government, regulation, and other commercial considerations. In China, a 360 degree relationship with stakeholders in business is much more important than in Europe. The fifth point is that while this is a very large, attractive, and quickly developing market, you need to have commitment and the correct long-term mental attitude to China in order to succeed.

**How have your experiences of working in different countries changed you as a person?**

I have responsibility for such a broad geographical portfolio of businesses across four continents that it is important to recognize how different the different parts of the world are. With this in mind, there is a need to tailor your strategy tightly to individual markets to capture local growth opportunities whilst at the same time seeking to add value from being a global business. I have also become much more aware of the impact that an investment can have in transforming society, particularly societies that are at early stages of economic development.

Another observation I would make is that 20 years ago western business practices were seen as being world leading. However, more recently, new business models and approaches are emerging from other parts of the world, and particularly from Africa, India, and other parts of Asia, including China.

The final point is that the more you travel around the world and see different places, the more you appreciate that there is still so much to learn.

**Your Chinese name means "commitment" and "culture", which could perhaps be interpreted as you leading your team to show your commitment to China aligned with a culturally sensible global strategy. How would you describe your own personal brand?**

That's a difficult question, but I would like to think of myself as a leader who is focused and achievement oriented, and who understands how to work with people across cultural boundaries. 