Baosteel Europe[1](http://jigsaw.vitalsource.com/books/9781305840805/epub/OEBPS/039_9781133964612_lores_p01_int_case14.xhtml#ref-ic14-fn1)

*How does a leading Chinese steelmaker manage its European headquarters in Germany?*

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**The Making of a Global Corporation**

The name “Baosteel” combines Baoshan, a district in Shanghai, China, and the English word “steel.” “Baosteel” stands for a Chinese company with global outreach. However, experts in Asia think that there is an additional twist at play, as is often the case with company names in this region. In Chinese, “bao” also signifies “valuable” or “precious,” and a literal translation of Baosteel may be “premium steel”—certainly something to which the company aspires.

Baosteel’s home market is staggering. On the demand side, the market reflects the sheer and insatiable needs of the largest and most successful emerging economy in the world. However, on the supply side, it is fragmented unlike any other market in the world. Currently, the Chinese steel market is divided by 260 steelmakers of various sizes, and some sources say this number could be greater than 1,000. While some of these firms are profitable, most are not. Thus, it is not surprising that the Chinese government is urging them to turn themselves into large steelmaking corporations following the lead of Baosteel.

Baosteel Group was founded in Shanghai in 1978 under the name of Baoshan Iron and Steel Complex. Skipping some of the historical details, it suffices to say that the current-day corporation is the result of a large merger between Shanghai Metallurgical Holding Group Corporation and Shanghai Meishan Group Co., Ltd., carried out in 1998 on the basis of a government decree. With continued growth, the most recent acquisition took place in April 2008, when Baosteel acquired the Bayi Steel Group in the province of Xinjiang.

Baosteel Group is a holding company consisting of five divisions: (1) financial, (2) steel trading, (3) equipment and spare parts engineering, (4) steel products, and (5) Shanghai headquarters office (administrative and service). The company produces and sells steel primarily to carmakers, shipbuilders, electronics and household appliances makers, oil drilling and pipeline companies, and construction companies. Baosteel has further diversified into areas such as financial services, trading, and logistics services. In sum, the company’s operational philosophy is to continue to “diversify trading functions and operation products” while “gradually expanding non-Baosteel trading business.”[2](http://jigsaw.vitalsource.com/books/9781305840805/epub/OEBPS/039_9781133964612_lores_p01_int_case14.xhtml#ref-ic14-fn2)

In comparison to international rivals, Baosteel displays a high degree of diversification. However, this is typical for many large Asian firms. Baosteel is a wholly owned state-owned enterprise (SOE). The largest business unit, Baoshan Iron and Steel Co., Ltd. (Baosteel Co., Ltd.), has been listed on the Shanghai Stock Exchange since 2000. Currently, 78% of the shares are held by Baosteel Group and thus ultimately by the Chinese government.

In recent years, the turnover of Baosteel has risen annually by 10%, from $19.5 billion in 2004 to $26.3 billion in 2007. During the same period, steel production has risen from 21.4 million to 28.6 million tons. Baosteel, which currently employs 122,780 workers, is China’s largest producer of steel. It has worked on prestigious and complex building projects such as the principal venue of the 2008 Summer Olympic Games (the national stadium nicknamed “Bird’s Nest” in Beijing), the headquarters of CCTV state television in Beijing, and the terminals of international airports in Beijing and Shanghai. In international terms, the company is also one of the largest corporations of its kind. Since 2006, Baosteel has been in fifth place in the global steelmaker category. In 2004, Baosteel was the first Chinese manufacturing company to be included in the *Fortune* 500 list at 372—by 2008, it had climbed to 259. Baosteel aims to become one of the three largest steel producers in the world as soon as possible and is well on its way to achieving this goal.

**Strategic Positioning and Global Activities**

Many experts believe that Baosteel’s goal is attainable. Its accomplishments, which the Western media traditionally would not have thought possible in the case of a Chinese SOE, speak for themselves. Over the course of the most recent merger, the workforce was cut 43% from 176,000 to 122,780. Baosteel believes that its future success is no longer going to be based on cheap labor, but instead on automated production. The main plant in Shanghai is considered to be one of the most modern and most efficient manufacturing sites for steel products in the *world*. At Baosteel, the new management focus is visible in many areas. For example, the “Six Sigma” quality management system was successfully introduced in 2005. Further, Baosteel engages in strategic planning and has an integrated management system designed to regulate and assign responsibilities, executive order powers, and communication channels between business entities.

Corporate social responsibility (CSR) has also become increasingly important in recent years. Baosteel is ahead of this social trend, embracing CSR and bankrolling numerous social projects as early as in 1990. For example, the establishment of Baosteel Education Fund is one of the most visible education awards nationwide. Its foundation has set up 38 Hope elementary schools[3](http://jigsaw.vitalsource.com/books/9781305840805/epub/OEBPS/039_9781133964612_lores_p01_int_case14.xhtml#ref-ic14-fn3) and provides support for sustainability and environmental projects. To further substantiate its dedication to CSR, Baosteel is the first Chinese company to publish annual sustainability reports, which have appeared since 2005. Moreover, in 2006, the management announced a new slogan and goal centered around CSR. The slogan, “Green Baosteel, our common home,” is aligned with its goal of turning Baosteel into the cleanest and most sustainable steelmaker in the world.

The preconditions for turning the company into a global player are in place. First, Baosteel, since its founding, has never been a typical Chinese SOE. Second, it dates back only to 1978, which coincides with the exact point at which the Chinese economic reforms got off the ground. Thus, unlike many SOEs, it was not burdened with the legacy of the Chinese communist past. Finally, it has been shaped by the cosmopolitan tradition of Shanghai, which is reflected in the longlasting relationships and numerous joint ventures that the Baosteel Group holds with other global players.

Baosteel is prepared to confront the future and recognizes the enormous challenges it will bring. Special market segments in China have, for some time, seen higher growth rates and much higher demand levels than in other emerging markets such as India and Russia. To some extent, they have even caught up with those of industrialized countries such as the United States. The latest OECD research suggests that this trend is visible in every segment of the Chinese steel market and is projected to become more pronounced. At the same time, exports continue to grow despite the gigantic demand in China. In 2004, Chinese steel exports exceeded imports for the first time in history.

Endeavoring to meet the high demand at home, more than 90% of Baosteel’s turnover is in China. Additionally, to enhance its negotiating position in the competition for scarcer natural resources, it is planning further mergers and acquisitions at home and abroad, both horizontally and vertically (upstream and downstream) across the value chain. The current consolidation of the Chinese steel market and open access to international markets are making this strategy of acquiring new plants and integrating important mining sites possible. For example, currently, Baosteel imports 80% of the iron ore it needs. However, as early as in 2001, the company took a 50% share in the Brazilian iron ore mine Água Limpa, and in 2003, it acquired shares in Hamersley Iron, an Australian subsidiary of Rio Tinto. These equity positions are examples of Baosteel’s vertical movement on the value chain. Moreover, loose partnerships and numerous meetings with other steel giants in Asia, such as Nippon Steel in Japan and Posco in Korea, nurture rumors that a merger may emerge.

Of decisive importance for the Baosteel Group’s strategic planning are not only the economic goals, but also the acquisition of international management experience. As such, internationalization efforts, such as those detailed in the remainder of the case with a focus on Baosteel Europe, are crucial.

**Setting Up a Subsidiary in Hamburg, Germany**

Baosteel has been conducting business in Germany for a long time, though its activities have changed significantly over the years. In the beginning, it was impossible to think about selling steel products; rather, its main task was to supply Chinese companies with vital replacement parts sourced in Germany for domestic production. This changed in 1993, when senior management decided to expand and founded Baosteel Europe GmbH with $6.64 million. Baosteel selected Germany for a very specific reason: the local courts provide European customers and suppliers with more legal protection than if business were to be conducted in Hong Kong or China. In other words, using the institution-based view, Baosteel considered the “rules of the game” regarding the legal infrastructure and enforcement across countries and made its location decision.

After deciding to locate in Germany, Baosteel also evaluated a number of German cities. Its decision to locate the business in the Hamburg metropolis was based on both economical motives (such as direct

access to shipping routes) and cultural aspects. For example, Ye Meng, the current President of Baosteel Europe, states, “Hamburg and China can look back on a long history of partnership. There really are quite a lot of Chinese companies and trading entities here. The parent of Baosteel Europe GmbH comes from Hamburg’s sister city, Shanghai, which is also a port city. Both from a cultural perspective and for geographical reasons Hamburg in our opinion provides us with favorable conditions for the development of our company.” Additionally, the workforce, technology, and infrastructure in Germany are known to be world class. Further, Meng believes that earning the trust of German clients and selling “Made in Germany” steel parts in China have benefited the company greatly.[4](http://jigsaw.vitalsource.com/books/9781305840805/epub/OEBPS/039_9781133964612_lores_p01_int_case14.xhtml#ref-ic14-fn4)

Indeed, Baosteel Europe’s business has been booming. In the past three years, turnover increased to $732 million. This means that Baosteel Europe is among the largest Chinese companies in Germany. While making a profit, Baosteel Europe is certainly not resting on its laurels. Not only is Baosteel Europe strategizing to increase its share of the global market, it is also seeking to expand in Germany and Europe with new products and innovations. As such, the Hamburg subsidiary is due for expansion with new specialists recruited. Under Meng, the structure of Baosteel Europe GmbH has changed considerably in the past few years. For example, in 2004, there were 30 Baosteel employees in Germany, and today there are 55—with additional employees in other offices throughout Europe, the Middle East, and Shanghai. The finance department and the Shanghai office are responsible for the internal organization of what happens in Hamburg. Looking after customers and suppliers is the task of each business area (i.e., steel trading, spare parts and equipment, and metal products). Recently, the new business department has been given the mandate of expanding into new business areas. In order to manage a variety of tasks, the company employs individuals from a number of countries. In Hamburg, Chinese expatriates work side by side with Germans. In other subsidiaries in Europe, employees from the various host countries are in the majority. Taken together, it is apparent that Baosteel is a transnational company with a global outlook.

**Business Areas of the Baosteel Subsidiary in Germany**

Procurement, which was of considerable importance at the start of Baosteel’s activities in Germany, continues to play an important role today. The transactions involved are complicated and interculturally demanding, requiring good coordination. The procurement process is set in motion by a firm in a given location—for example, a Chinese steelmaker in a province that needs spare parts obtainable only from Europe. This requirement is relayed to the Baosteel head office in Shanghai, which subsequently transmits an inquiry to Baosteel Europe. The inquiry is received by a Chinese or German employee in Hamburg, who then places an order with a local (German) supplier. After the spare parts arrive, another Chinese or German Baosteel employee arranges for them to be sent to China. Inquiry, order processing, and transport are dealt with in Chinese, German, and English, meaning that employees of both nations transact on many tasks together and must engage in an ongoing dialogue. Thus, at the Hamburg location, business success absolutely depends on Sino-German cooperation, which is based on years of experience and mutual understanding. A Chinese department head supervises four tandems, each consisting of a Chinese and a German employee, who know each other and work together in a coordinated manner.

Steel trading, however, has a fundamentally different procurement process, wherein ten Chinese co-workers— most of whom are engineers—work under the direction of the internationally experienced deputy managing director, Guo Zheng. The working language is Chinese, and in keeping with international business practices, English is used when communicating with the “outside” world. In steel trading, the German market plays a subordinate role. Sales orders are sent via Hamburg, where the contracts are concluded, to the whole of Europe and the rest of the world. The majority of customers value Baosteel’s quality, reliability, punctual delivery, and service. Although price is important in certain countries, Baosteel does not position itself in the lower price segment, preferring to have a price level akin to that of ThyssenKrupp and ArcelorMittal. In order to increase its market share in Europe, Baosteel is pinning its hopes on premium quality and customer orientation. The turnover volume, currently about 500,000 to 600,000 tons annually, is still a very small percentage of the total output.

The new business department is also managed by a Chinese expatriate with international experience. “New” refers both to new regions (such as the Middle East, Eastern Europe, and Africa) and to new activities (such as investments in sectors other than the steel industry). The current planning phase involves conducting feasibility studies (with the help of external expertise) and studying market entry methods.

**Corporate Culture and Work Atmosphere**

In recent years, Baosteel’s senior management has come to realize the importance of a common corporate culture—for both Chinese and foreign employees. In 2004, Baosteel implemented a program that stresses “good faith” and “synergy” as basic values and emphasizes the significance of culture as the basis of all economic action. It has been said that “Baosteel’s culture is the soul of management, while Baosteel’s management is the vehicle of culture.” The executives at Baosteel Europe emphasize words such as “integrity,” “teamwork,” and “loyalty,” and are thus transferring to all employees the essence and level of their cooperation with the head office in Shanghai. To stress the high opinion and importance of the local workforce, all German employees of Baosteel Europe were invited to stay in Shanghai for a week. There they were shown the organization of the head office, met their counterparts with whom they often telephoned or exchanged emails, and experienced Chinese hospitality—along with gratitude for their achievement and loyalty to the company. The German employees have also been included in the Chinese bonus system in order to encourage their participation in the success of the company.

At the biannual meeting involving all Baosteel Europe employees, management reports at length about the success and goals of the parent company and the Hamburg subsidiary, hoping to foster a community spirit. The German employees were also pleasantly surprised that the Chinese executives clearly try to respect German habits and customs by not expecting German employees to stay in the office until late in the evening, as is often the case with Chinese expatriates. Baosteel has come to understand and acknowledge that despite different work habits, in the end, the efficiency is the same.

The German employees are also particularly appreciative of the respect with which Chinese superiors treat their subordinates. The experience of working together on a daily basis means that German employees at Baosteel certainly do not share the typically negative picture of China that is often painted by the media. Instead, most have developed a far more positive picture of China.

Apart from the good atmosphere in the workplace, employees have additional motivations. Specifically, a large and expanding company is synonymous with safe jobs. This is especially true for Chinese companies, where protection against dismissal is based on the Chinese and Confucian belief that one has a duty to look after the well-being of others. The high one-off bonuses for special accomplishments confirm the appreciative attitude of the senior management. Therefore, employee turnover is quite low in comparison with other companies within this industry.

To advance within Baosteel, it is necessary to occupy a position of responsibility at the head office. As such, it is important for individuals to possess not only professional qualifications, but also have the ability to speak fluent Chinese. Thus, many German employees who do not speak Chinese find it extremely difficult to reach the senior management level at Baosteel Europe. Overall, while challenges remain, Baosteel has overcome many of the cultural differences by taking time to understand those differences and finding ways to embed both the German and Chinese cultures within its organizational culture.

**Human Resource Management (HRM)**

In China, Baosteel enjoys a good reputation for its excellent compensation and career opportunities. To maintain its reputation and recruit top talent, Baosteel implements a very thorough recruiting process.

Candidates for its comprehensive examination procedure are selected from a large number of applicants— all of whom are university graduates. Unlike most companies in East Asia, Baosteel rarely recruits candidates jumping ship from other employers or at job fairs. However, once candidates are selected, the successful applicants are introduced to and trained in Baosteel’s corporate culture, which is a customary practice in Chinese firms. If the candidate does well over the course of the year, the company may cover the cost of further education—for example, a one-year higher education program at home or abroad. After this, the individual is likely to be promoted within the company and employed as a senior executive, alternating between China and other countries. Interestingly, until recently it