

Satisfying the Needs of People and Society



Lu Guanqiu

EDITORS' NOTE *Lu Guanqiu founded Wanxiang Group as an auto parts manufacturer and has since diversified into sectors such as solar power development and real estate. Lu started Wanxiang in 1969 with \$500 in capital.*

COMPANY BRIEF *Headquartered in Hangzhou, Zhejiang province, China, Wanxiang Group Corporation (wanxiang.com) is a Chinese multinational automotive components manufacturing company and is the largest China-based automotive components company measured by revenues. The company employs more than 40,000 people. Lu's son-in-law, Ping Ni, heads Wanxiang's Chicago-based U.S. operations and, in 2013, it bought bankrupt A123, a maker of lithium batteries for electric vehicles. In China, Wanxiang Group announced plans in June 2014 to set up a grid energy-storage business with Japan's NEC.*

Many people say that one of the greatest miracles under China's reform and opening-up policy over the past few decades is letting grassroots population, such as farmers, grow into world-class entrepreneurs. Some media consider you as an important witness, representative, or even creator of this miracle. Do you agree with people calling the phenomenon a "miracle"? If so, then how do you explain the reasons for it?

Our country made a few detours after 1949 when land became farmers' only income source since they were completely tied to it. Later on, the government realized that China would only be worse off if things continued that way and that satisfying people's basic human needs (e.g. food, clothing, housing etc.) should be absolutely prioritized. Therefore, the policy changed towards an idea of incentivizing people, especially those in rural areas, who were especially

An Interview with Lu Guanqiu, Founder and Chairman of the Board, Wanxiang Group Corporation

marginalized and vulnerable, to enable them to make a living with alternative choices. The change was later widely recognized as the reform and opening-up policy. Back then, under extremely harsh circumstances, I had no choice but to strive to survive and develop Wanxiang.

The change in macroeconomic environment might be the most significant factor contributing to Wanxiang's success today. In other words, a more diverse and competitive marketplace allowed more private companies to prosper. However, we still witnessed a number of entrepreneurs who didn't make it in the end. What do you think could be the driving forces for Wanxiang's enduring and robust development?

No one knows the future. I can't say that Wanxiang will carry on the current momentum for certain; all I know is that we are still on the journey. Many factors affect operating outcomes, such as capability, decision-making, and the social environment. The key is the third one, environment.

First of all, Wanxiang got an early start. I started my own business in 1962, and changed seven locations within six years because of private ownership. Worse still, the country was devastated by three years of natural disasters. During that time, I lived in the city as an apprentice but got laid off. Fortunately, I was able to learn some core skills and was determined to begin my own practices back in my hometown.

The second factor was my determination and persistence. I can still recall several of my colleagues who quit their jobs when frustrated by various obstacles or interpersonal conflicts. For me, I never thought of giving up, not once, because I believe that I have to do the work to benefit myself, instead of looking at it as doing it for someone else. Each time we have new employee training sessions, I always tell them the same thing – work hard for yourself, not for me. Likewise, as an entrepreneur, if your company didn't end up doing as well as you expected, identify your own problems before blaming policy, the industry, or your competitors.

That said, I don't think I'm in possession of any special secrets. The universal principle is to set a goal, then to work diligently and patiently towards it. For instance, the greatest difficulty for China's economy now is the industrial structure. Our products can't meet the

market demand, both in terms of quality and price. Current policies have been put in place to encourage adjustment and innovation, but it is not easy at all. We need the same time and talent it took for the Germans and Japanese to achieve their worldwide renowned quality today. Absurdly high profit margins and speed are not in line with economic rules and cycles. There's absolutely no way of surviving without obeying those preestablished laws.

One of Wanxiang's fundamental values is to manufacture products that satisfy the needs of people and society. The better the quality of our product, the more competitive our company is going to be. Therefore, we constantly update our quality standards and adjust our machinery to work in a more efficient, environmentally-friendly manner.

You mentioned that reconfiguring industrial structure has been the "new normal." What do you see as the trends impacting China's economy? How will those trends influence the development of Chinese private enterprises?

As for the trends of our economy, I believe the first thing is to fortify laws and regulations. Every business must operate in accordance with laws and regulations. The second is the need to find ways to motivate and excite people to be creative. Wanxiang has more than 40,000 employees; to operate well, we need to find ways to let our employees take ownership of their work. Meanwhile, we need to rely on the state to provide favorable policies for private enterprises and to mobilize people's enthusiasm towards building a better community.

Our country has entered a crucial and more challenging period of reform in which more complicated images will unfold. We shall continue to bring in advanced technology, management, and other good practices from other countries because we are still far behind. How so? It is definitely not because our people are intelligently inferior; the key is that foreigners follow the rules and can be meticulous about implementation. Populous and complex, China indeed needs further reform and opening up as well as improvements in the legislative system. As the second largest economy worldwide, we've written a success story only in terms of the aggregated numbers. More efforts should be put in our economy's quality, net worth, and income per capita etc. Therefore, we must be humble.

Only through courageous reform can we clear out the obstructions and let private enterprises develop in a more unfettered way while also protecting the environment.

I recently interviewed a number of leaders of Chinese State Owned Enterprises (SOEs) and most of them agreed that the next step of China's reform is to encourage mixed ownership, i.e. incorporating private elements into SOEs in order to enhance their competitiveness. Is Wanxiang interested in merging into one of the colossal SOEs?

We have already been working with SAIC Motor Corporation, with 51 percent of the holdings. Change is always difficult, but I always believe there is a way out, no matter what. We are still actively reaching out with top-tier auto manufacturers such as General Motors, Ford, and BMW to try to discover more opportunities to cooperate.

Some say that, among all Chinese private entrepreneurs, you are the first one who had a vision for the global market since your product, Wanxiang U-Joint, was particularly made for foreign clients. Is that so?

I'm afraid I probably can't put it that way. In the early stages of China's reform and opening up period, some main areas of production were dominated by SOEs and we were not allowed to enter. Quite naturally, we had to turn to the international market. Once we really went global, the state realized that it was something they also welcomed, so we were very lucky to receive subsidies and policy support from the government. For example, the State Department gave us 5 million RMB in 1985, which was an incredibly large amount at that time. This really motivated us to make it on the worldwide stage.

Second, we had the right person in our general manager Pin Ni. He started working at Wanxiang after he graduated from college and, during that time, he developed a good understanding of the company. He then went to America to study. Later, we desperately needed someone to run our international division, so he rejoined the team. He worked unbelievably hard and did an incredible job.



How would you evaluate the success of Wanxiang's global market strategy?

What I feel most proud of is the fact that we are well received and respected by local governments wherever we invest, such as Germany, the U.S., and Singapore. Another element of pride is the recognition from our partners, some of whom we have maintained a cooperative relation with for more than 20 years. Though some partners might have switched to other companies at a certain point, they continued to work with us and to expand the scale. Third, our investors and competitors have also recognized us, and the media has as well. I really appreciate all of that. From a numerical perspective, our returns from foreign investments have almost caught up with domestic numbers. Given this, we estimate that the overseas market will soon account for roughly 75 percent of our annual income.

Wanxiang has grown into a widely respected and acknowledged company. What do you think might be the main reasons lying behind this recognition?

I'd rather say that we are still trying to become a widely acknowledged enterprise but we aren't there yet. The reason why we can develop many long-term clients and partners is because we hold tight to our principle of getting to know their real needs. Once a cooperative relationship is established, we prioritize clients' demands before our own revenue concerns, and treat them with credibility and sincerity.

I heard that you allocate a lot of energy in fulfilling corporate social responsibility and never consider yourself an "outsider" or "guest" in other countries. How do you view this sense of ownership and Wanxiang's social accountability performance?

We have a saying in Wanxiang: "People unite when money is dispersed while they separate when money gathers. Earn it in proper ways and spend it delightfully." In other words, generating revenues is only one part of our managing philosophy; taking good care of employees is another essential element. In the end, everything will flow back to society and that's why I made up my mind to participate in philanthropic endeavors.

You mentioned reciprocating society, so what does money mean to you right now given that you started off with only RMB 400 and now have hundreds of billions in asset under your name.

They belong to all and will go back to society eventually.

Was that also how you educated your children?

Yes, it sure was.

You know in some other countries, many wealthy people choose to donate a large portion of their money to the public.

Yes, they set good examples for me.

Then what legacy will you leave for your children?

How to be a decent person. They have to know what it means to live their lives to the fullest and to be worthy before focusing on making money or accumulating a fortune. The sequence can't be reversed.

I also heard that you once dreamt of becoming a city dweller. What's your goal now?

Yes, I longed for an urban lifestyle very much when I was young. However, ever since I was laid off from my job in the city and got back to my village, I cast that idea aside because I felt unneeded there. If there was no room for me in the city, I had to stand up on my own and do something for the rural population. If anyone asked what identity I consider for myself, it would be a country person. In fact, if all the Chinese farmers get richer, our country will really thrive.

There's a well-known saying from Confucius: "At seventy, you can follow your heart, as long as you're not breaking the rules." Since you just turned 70 this year, what do you want to celebrate most?

It is still too early to celebrate. The average life expectancy in China is 73 now so I've still got several years to work. Actually, I'm going to work for another 20 years and save the celebration for my 90th birthday.

What's your objective then?

To grow Wanxiang into a globally respected and renowned company, and we are still working hard to realize that. ●