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Shanghai Euclid Printing Machine Co.: Navigating through Layoffs and Closure

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In late 2012, Jack Wang, general manager at the joint venture (JV) Shanghai Euclid Printing Machine Co. (Shanghai Euclid), considered the JV, a partnership between a Chinese state-owned enterprise (SOE) and an American multinational enterprise.

After almost two decades and following multiple rounds of downsizing, the JV was coming to a close. It was to be succeeded by a wholly owned SOE called Shanghai Gutenberg Printing Machine Co. (Shanghai Gutenberg), and Wang was anxious about the many questions raised by this situation. The first issue the leadership of Shanghai Euclid had to address was how to maintain the SOE in any form after the JV ended, since many SOEs in China had closed in recent years. If the SOE portion of the JV was to continue operations as a standalone business, a second issue was how to determine the appropriate scale of operations. How many employees should the post-JV company employ? If the scale was to be reduced, what basis should the leadership use for inviting people to remain with the organization? Historically, the pressure of management and restructuring had caused considerable employee stress; employees were worried about being laid off and felt anxious about going to work. Wang had to make some hard decisions in order to gain employee buy-in and prevent disruption during this time of transition. In particular, he had to take into account the nuances of the Chinese approach to downsizing. Were there any alternatives to downsizing? This situation was the biggest challenge Wang had faced in his 30-year career in the printing machine industry.

First Stage: 1958–1993 (Pre-Joint Venture)

The JV’s Chinese predecessor was established on August 1, 1958, as the People’s Printing Machine Factory. Back then, it had over 600 employees. As a local SOE, it was formed through the merger of seven factories. At that time, China had a planned economy, and most private factories were transformed into SOEs through public–private partnerships.

In December 1958, the People’s Printing Machine Factory produced the first LB403 high-speed rotary press in China for the *Southern Daily News*. The press could print over 80,000 copies of a four-page newspaper every hour. Over the next 35 years, the company introduced more than 20 products and won regional and national scientific awards and accolades. Its market share reached around 75 per cent in China. At this time, production tasks were issued by government authorities. The company and its employees faced no pressure or competition in the planned economy, and SOEs in this era functioned almost like small societies. Each SOE had its own canteen, dormitory, fleet of cars, clinic, kindergarten, and employee school. Even the space where employees got married was assigned by the company. Whoever contributed to the company got priority in housing, and employees paid a small amount of rent to the company each month.

In 1992, there were over 1,800 employees at the People’s Printing Machine Factory. That same year, Deng Xiaoping, the paramount leader of the People’s Republic of China between 1978 and 1989, appeared on the cover of *Time* magazine. He had taken a 2,440-kilometre (km) train ride at age 88 to visit South China and had affirmed the achievements of China’s reform and its push towards a market economy. China was changing and opening to foreign investment and business methods.

In order to improve operational efficiency, many SOEs had begun to enact enterprise reforms in connection with the three types of foreign-funded enterprises: wholly foreign-owned enterprises, Sino–foreign JVs, and Sino–foreign co-operations. In April 1992, the People’s Printing Machine Factory began a pilot program for its transformation, which saw the liberalization of operations and a move towards a market orientation. Departments unrelated to production and operation—such as kindergartens, clinics, restaurants, and guest houses—were separated, and profit maximization was prioritized over social services.

As China’s economy continued to reform and open up, there was a drive to acquire advanced foreign technology and improve products. The company had manufactured and processed parts and products from Germany and the United States starting in the mid- to late-1980s. With changes in the development of enterprises and the needs of domestic users, Chinese companies were becoming more ambitious. The People’s Printing Machine Factory wanted to partner with a company that had a long history of printing machine manufacturing, world-leading product technology, an appropriate product line, and a mature global marketing and service network. It wanted to leverage the manufacturing strength of China and consolidate an expansion in the Asia-Pacific market. Thus, it sought out an opportunity for a joint venture, marking the beginning of the second stage in the company’s development.

Second Stage: 1993–2008: Foundation and growth of the Joint Venture

The People’s Printing Machine Factory and the US firm Euclid Printing Machines jointly established Shanghai Euclid Printing Machine Co. in December 1993. While the American company held 60 per cent of the shares, the People’s Industrial Group (the holding company that owned the People’s Printing Machine Factory) acquired 40 per cent of the shares. The JV at that time had registered capital of US$15.5 million. The American firm was among the world’s three largest printing machine manufacturers and had over a century and a half of experience.

Like its predecessor, the JV operated in the printing machine industry—designing, manufacturing, selling, and maintaining printing machinery and related parts (see Exhibits 1 and 2). The company did not make print products such as newspapers or books themselves. The most common types of printing machines used offset lithography, digital, flexography, and screen techniques.

The offset printing technique involved transferring an image from a metal plate to a rubber blanket or rollers before it was printed on media such as paper. This technique did not require contact between the paper and the metal plate. Because it was reliable, affordable, and good quality, offset printing was highly efficient for all scales of production. Large-scale, bulk printing publications leveraged two primary types of printing techniques: In the first, sheet-fed offset printing, sheets of paper were placed in the machine one by one and then cut prior to printing. In the second, web offset printing, paper rolls were printed on and later trimmed and assembled. Because it was cost efficient, web offset printing was often used for large-scale printing that varied frequently, such as newspapers. Offset printers were the most common type of machine.

The digital printing technique used electronic or digital files as a source; press plates were not required to carry the image, nor were set-up sheets needed.[[1]](#footnote-1) Compared to traditional (offset) techniques, digital printing offered better quality, but it entailed higher per-page costs.

Other printing processes included flexography (also called rotary printing) and contemporary letterpress printing, which represented one of the main choices for large-scale printing. Over the years, the change from traditional to digital printing affected Shanghai Euclid’s operations substantially.

As part of an effort to foster efficiency during the foundational stages of the JV, more than 600 of an initial 1,800 employees at Shanghai Euclid were diverted at the end of 1993—that is, they were given new jobs elsewhere or retired with compensation. To facilitate the smooth progress of organizational adjustment, the company formed a re-employment engineering office. Especially in the beginning, the American and Chinese sides disagreed on several issues, the first of which was the correct method of dismissing or diverting employees. The Chinese side insisted on gradual and stable methods to promote the optimization of personnel structure and efficiency, whereas the American side was used to taking more drastic action.

After the JV was created, advanced management concepts were introduced and the company’s organizational framework was set up: there was a chairperson on the Chinese side and a general manager on the US side. Departments for personnel, finance, sales, manufacturing, quality, development, and engineering were established. The number of management layers was flattened, which led to faster information flow and more efficient decision making. This flat organizational structure presented challenges, however, as it was a departure from the operating method that was familiar to the Chinese managers and employees. The Chinese employees had particular difficulty adapting to advanced management methods from abroad. Under the SOE mode of operation, they had been accustomed to working and getting paid regardless of the firm’s health or profits, with wage levels unaffected by performance or effort, and they retained the idea of “eating out of one big pot of rice”—a metaphor for egalitarianism.

Moreover, foreign companies in China sometimes struggled to understand the kinds of employee benefits paid in China. For example, when family planning came under government control as a national policy in the 1980s, incentives were enacted as part of the one-child policy. A single-child family might receive ¥5–10[[2]](#footnote-2) per month from an employer as a reward for compliance. Subsidies such as this child benefit were not always entirely understood or taken into account by foreign firms when operating in the Chinese market.

Despite the challenges, however, Shanghai Euclid prospered. In 2000, the JV’s per capita income was the highest in the national printing industry. Later, in 2006, Shanghai Euclid set two records. It obtained 22 tower rotary offset presses from *Nanfang Daily*, which together were worth over ¥70 million. The company also set a record for high contract values in the domestic market as it undertook orders totalling more than ¥400 million.

Third Stage: 2008–2012: Decline and Closing of the Joint Venture

By early 2008, however, a need for change started to become obvious. On February 18, 2008, the company set up a re-employment working group according to government requirements. In 2009, the 28th board of directors contemplated closing the foundry, and on November 25, the company decided to restructure the foundry.

In 2010, the holding company People’s Industrial Group acquired a 100 per cent equity interest in Euclid International (the US partner of the JV). After the acquisition of Euclid International by the People’s Industrial Group, the strategy was to integrate Euclid International’s global resources in places like the United States, France, the Netherlands, and Japan; this would make Shanghai Euclid the largest printing machine production base and Euclid International’s Asia-Pacific centre. However, with the outbreak of the global financial crisis, the sharp decline in paper media advertising, and the impact of Internet multimedia, the print volume of paper media had also fallen and the demand for printing machines in the market had plummeted. Printing machinery manufacturers were the first to bear the brunt. Their performance declined, and many companies lost money. Printing machine companies with more than 600 employees would often dismiss more than 100 employees at once.

Due to the global financial crisis, Shanghai Euclid’s profits in 2010 were half of those in 2006. After 2011, the international printing machine market further declined due to the development of the Internet, mobile phones, and new forms of multimedia. Shanghai Euclid’s sales income, nonetheless, had grown from ¥87 million before the JV to ¥600 million in late 2011. It was the dominant firm in China in terms of market share, with two domestic competitors: one state-owned enterprise and one private enterprise. Competition also came from countries like Germany, the United States, Italy, Japan, and South Korea.

In October 2012, the People’s Printing Machine Factory acquired 60 per cent of Shanghai Euclid’s equity held by Euclid International. Shanghai Euclid became a 100-per-cent state-owned holding company and was renamed Shanghai Gutenberg, thus effectively terminating the JV. The foreign employees then left China. While co-operation in the JV had been more or less successful, there was a perception that the American side had given up. As well, the People’s Industrial Group no longer regarded printing and packaging as key strategic sectors. The future of the printing machine industry pointed to leaner, more technologically advanced firms rather than sprawling industrial operations.

Around the same time, Shanghai Gutenberg signed a land agreement with the Minhang District Planning Bureau, marking the official start of the relocation of the new Shanghai Gutenberg factory. This was in line with requirements regarding the transformation of the urban environment, whereby the SOE had to follow government orders and relocate the factory 30 km away. The new plant would be located in the Pujiang Town area of the Caohejing Development Zone in Pudong, Minhang District, and would have a land area of 9.4 hectares (141 mu).[[3]](#footnote-3) The new factory was 15 km from the city centre, 37 km from Pudong Airport, and 27 km from Hongqiao Airport. The existing staff lived close to the current factory location and were able to ride or drive there within half an hour. The factory relocation meant that the one-way journey to work would require more than two hours. Staff would have to leave at 6:00 a.m. for work, leading to employee complaints and management headaches. At the same time, some employees of the younger generation presented challenges because they preferred more exciting work, such as jobs in social media, and struggled with the discipline required for industrial factory work.

At this point, 668 employees remained at the JV and considerations around diverting and redistributing them, rather than terminating their positions outright, were a major challenge. It was to be carried out according to China’s labour laws and standards for negotiating employee terminations with respect to labour relations (see Exhibit 3). The People’s Industrial Group included a human resources unit that attended to many thousands of laid-off workers, including many elderly people. These workers often faced illness or disabilities and had no children or support network. Because many had devoted their lives to the enterprise, they expected that the enterprise, rather than the neighbourhood community, would care for them. As such, this human resources unit often helped these workers purchase insurance, attain medical services, procure daily necessities, and deal with the aftermath of family deaths. The unit had established 12 regional locations that provided services such as living assistance and medical care for the elderly.

The human resources department of the company analyzed the circumstances of each company position. Because the company was planning to relocate in the future and wanted to give some veteran employees the opportunity to choose whether or not to work at the new location, it also formulated a special Shanghai Euclid employee termination plan. The management wondered whether the diverted or redistributed staff should be able to choose their new destinations. Regardless, it would be necessary to formulate a system for evaluating employees. Shanghai Euclid employees knew about this development, so the atmosphere of the whole company was tense. Almost everyone was at risk and worried that they would be laid off.

The company had formulated guidelines titled “Operational Measures for Workers’ Labour Relations in the Human Resources Optimization Configuration Plan of Shanghai Euclid Printing Machine Co.” (see Exhibit 4), which ran to 5,000 words. The problem faced by the management was that employees had to support the rules at the Workers’ Congress, and yet a large number of employees would have to be laid off. Management believed that the reforms might lead to the departure of dozens of employees who were less critical for the company’s operations. As a result, nearly 200 people wanted to leave, and there were many skilled workers in key positions, and this was simply too much for the company to maintain.

2012: THE DECISION POINT

Jack Wang had been with Shanghai Euclid and, before the JV, with the People’s Printing Machine Factory, for almost 30 years, having started as a mechanic in the workshop. Because of his creativity and leadership, he had been promoted to assistant general manager, deputy general manager, and then general manager. He was familiar with every facet of the company, and he understood its entire history. Because Shanghai Euclid had performed well in recent years, employee incomes had improved, and employees greeted Wang enthusiastically whenever they met him. The company’s business had spread throughout North America, Europe, and East Asia. Wang admired Jack Welch, of the General Electric Company in the United States, and he imagined that one day he could become China’s Jack Welch.

Now Wang was challenged with managing employee downsizing in an acceptable way, if that was the approach chosen by the post-JV SOE. He had to get employees on board and choose who would relocate to the new plant. What was the appropriate size of the SOE? On what basis should people be invited to remain with the organization? How could Wang implement these changes without unduly or excessively alarming employees or losing the best talent whom he hoped to retain? Were there any strategies besides or in addition to downsizing that could be deployed? How could employee stress be mitigated? He knew he had to make some tough decisions soon.

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EXHIBIT 1: Shanghai Euclid—OPERATIONS, 2009–2013E (in ¥ thousands)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **2009** | **2010** | **2011** | **2012** | **2013E** |
| Sales | 510,795 | 523,047 | 601,645 | 466,097 | 366,192 |
| Net Profit | 50,404 | 59,563 | 62,228 | 44,891 | –50,863 |
| Number (Persons) | 676 | 671 | 691 | 651 | 579 |
| Per Capita Sales | 756 | 780 | 897 | 694 | 636 |
| Net Per Capita Profit | 75 | 89 | 93 | 67 | –88 |

Source: Company information.

EXHIBIT 2: SHANGHAI EUCLID—EFFICIENCY OF EACH WORKSHOP, 2009–2013E

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Workshop** |  | **2009** | **2010** | **2011** | **2012** | **2013E** |
|  | Working Days | 241 | 242 | 247 | 250 | 244 |
| Metalworking | Average Number of Workers  Complete Task Hours Required  Actual Hours Worked | 151  311,955  173,805 | 141  364,517  193,429 | 136  383,300  213,919 | 130  277,930  219,116 | 117  172,830  170,269 |
|  | Task Hours Required per Person | **8.57** | **10.68** | **11.41** | **8.55** | **6.05** |
|  | Daily Hours Worked per Person | **4.78** | **5.67** | **6.37** | **6.74** | **5.96** |
|  | Daily Productivity (%) | **56** | **53** | **56** | **79** | **99** |
| Assembly | Average Number of Workers  Complete Task Hours Required  Actual Working Time | 101  369,482  187,573 | 106  265,932  174,727 | 113  301,181  186,631 | 110  200,087  190,933 | 113  199,838  195,306 |
|  | Task Hours Required per Person | **15.18** | **10.37** | **10.79** | **7.28** | **7.25** |
|  | Daily Hours Worked per Person | **7.71** | **6.81** | **6.69** | **6.94** | **7.08** |
|  | Daily Productivity (%) | **51** | **66** | **62** | **95** | **98** |
| Total | Average Number of Workers  Complete Task Hours Required  Actual Working Time | 252  681,437  361,378 | 247  630,449  368,156 | 249  684,481  400,550 | 240  478,017  410,049 | 230  372,668  365,575 |
|  | Task Hours Required per Person | **11.22** | **10.55** | **11.13** | **7.97** | **6.64** |
|  | Daily Working Hours per Person | **5.95** | **6.16** | **6.51** | **6.83** | **6.51** |
|  | Daily Productivity (%) | **53** | **58** | **58** | **86** | **98** |

Note: E = estimate

Source: Company information.

EXHIBIT 3: EMPLOYEE DOWNSIZING IN CHINA Versus in THE WEST

The Chinese people were taught from their childhood that they were the masters of their country and that enterprises belonged to the nation. As such, having a job was their birth right. Under the planned economy, almost no one could be fired in the conventional sense; instead, people were sent to new jobs or given paid early retirement. Chinese culture pursued social harmony, in contrast to the Western pursuit of law and contracts. Although Chinese employees could terminate their labour contracts relatively easily (by providing 30 days’ written notice or three days’ notice during a probation period), employers generally could not terminate employees’ contracts without strong cause and severance payments.

|  |  |
| --- | --- |
| **Western Enterprises** | **Chinese SOEs** |
| Employees were one of the factors of production, and they could be laid off at any time in the event of a financial crisis. | Employees were the masters of their country, and SOEs could not arbitrarily dismiss them. During a financial crisis, pay cuts and layoffs were to be avoided. |
| Layoffs were normal activities of business operations. Both companies and laid-off employees considered this acceptable. | Layoffs brought social problems, and companies would not easily dismiss employees. At the same time, employees would resist dismissal and considered work to be a right. |
| Laid-off employees had basic social security after leaving a company. | From 1949 to 1991, China implemented a planned economy, and almost no one was unemployed. After the implementation of the market economy in 1992, employees could be laid off and unemployed. After workers were laid off, their social security was not perfect, and their living standards dropped drastically. |
| After being laid off, employees themselves found new jobs. | SOEs made necessary arrangements for different employees during layoffs, assigning them to different departments or positions, giving them sufficient subsidies, or buying out the length of service so they could retire early. |
| Termination was quite possible. | Termination usually required a good cause and a severance payment. |
| Westerners pursued law abidance and contracts. | Chinese pursued social harmony. |
| Mutual termination was not often needed. | Chinese employees agreeing to a mutual termination (with a settlement agreement) greatly minimized employer risk. |
|  | Chinese employment often involved a probation period, for example, one month. During this time, employees could often be terminated within days; otherwise, they were given 30 days’ notice. Immediate termination without compensation was only done in exceptional circumstances. |

Note: SOE = state-operated enterprises.

Source: Created by case authors with data from Dan Harris, “Terminating Your China Employee. It Ain’t Easy….,” China Law for Business Blog, January 9, 2010, accessed May 1, 2019, www.chinalawblog.com/2010/01/terminating\_your\_china\_employe.html.

EXHIBIT 4: EXCERPT FROM “OPERATIONAL MEASURES FOR WORKERS’ LABOUR RELATIONS IN THE HUMAN RESOURCES OPTIMIZATION PLAN OF SHANGHAI EUCLID”

Employees who belong to one of three categories can be directed to the retirement centre of the superior group company to retire early, and the centre is responsible for managing and issuing monthly living expenses, which are regulated by the Shanghai Municipal Human Resources and Social Security Bureau. The payment base is “three insurances and one gold.”\* The three categories are:

(1) Employees within five years of the statutory retirement age (including five years)

(2) Female employees between 42 years and 45 years; male workers between 52 years and 55 years

(3) Workers who are disabled due to work and suffer from occupational diseases

Employees can negotiate with the enterprise to terminate the labour contract in the following three ways:

(1) If you are away from the statutory retirement age by more than five years, you may receive economic compensation and one-time incentive fees for self-employment.

(2) Workers who are disabled due to work, suffer from occupational diseases, or have lost their ability to work due to illness may apply for financial compensation, rewards, one-time subsidies, and other subsidies.

(3) In the case of employees within five years of the statutory retirement age (including five years), the enterprise shall not terminate the labour contract in principle. If one negotiates with the enterprise to terminate the labour contract, one shall submit a written application and the enterprise may consider giving a one-time subsidy.

The economic compensation, rewards, one-time subsidies, and other subsidies for the termination of labour contracts are to be negotiated, and details include:

(1) Quick reward fee:

Signing time for completing the labour relationship cancellation procedure

Within 10 working days: RMB10,000 + 2 months’ wage

Within 15 working days: RMB7,000 + 1.5 months’ wage

Within 20 working days: RMB4,000 + 1 month’s wage

More than 20 working days: RMB0

(2) Re-employment subsidy: a one-time employment subsidy of RMB6,000

(3) For employees who have special difficulties, after the application is filed by the enterprise, the enterprise union will verify the employee’s one-off difficulty subsidy:

Subsidy content (RMB5,000 each):

1. Children who are still in school (preschool, primary school, university)
2. Spousal unemployment
3. Widowed or single parent supporting underage children
4. Employee, spouse, and minor children who are seriously ill or undergoing treatment
5. Spouse who was an employee of the company and has been diverted from their post
6. Disability
7. Service retired military support
8. Other help (except for other subsidies and circumstances mentioned above)

The statutory retirement age of the employees referred to in these measures: men, 60 years; women, 50 years. In the 15 working days after the completion of the formalities for the cancellation of the contract, the enterprise will settle the compensation and incentive fees at one time, and remit the employee’s salary card or the bank card provided by the employee.

Notes: \*Three insurances = pension insurance, unemployment insurance, and medical insurance; One gold = housing provident fund (used in the purchase of a mortgage) until formal retirement (the individual payment was partly borne by the enterprise); RMB = Chinese yuan.

Source: Company records.

1. “Digital Printing,” Techopedia, accessed January 4, 2018, www.techopedia.com/definition/14338/digital-printing. [↑](#footnote-ref-1)
2. ¥ = CNY = Chinese yuan; US$1 = ¥6.23 on December 31, 2012. [↑](#footnote-ref-2)
3. Mu = Chinese unit of land measurement. One acre was slightly more than six mu. [↑](#footnote-ref-3)