

Morality and Integrity Keep a Company away from Trouble

——An Interview with Mr. Feng Lun

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Beijing Vantone Holdings, Co. Ltd.

Vantone Holdings is one of the largest professional real estate investment companies in Beijing. Its total assets exceed RMB13.8 billion, and has one public company Vantone Real Estate. Vantone Holdings has two major businesses: direct investment and fund investment, in real estate development, industry estate, fund management and asset management.

Vantone Holdings was founded in June 1993. Since its founding, Vantone has followed the “making current plans by standing in the future” principle in forming its business strategies, and has explored new models of real estate investment. Vantone has developed the well-known business estates such as Beijing’s Vantone New World Plaza, and Beijing Vantone Center. It has also built high-end residential properties such as Beijing Wanquan Legacy Town, Beijing Asia Olympics Legacy Town, Beijing New Town International, and Beijing Longshan Legacy Town.

As an innovator and explorer in China’s real estate industry, Vantone has transformed itself into a specialized real estate company over the years. In 2004, Vantone entered into the Tianjin real estate market full force by actively introducing the strategic investor – Tianjin Teda Group. At present, Vantone’s real estate business in Tianjin includes six projects and a land bank of over 3 million square meters. In 2006, Vantone Industrial completed its business integration and became the first majority shareholder of Vantone Real Estate, which marked Vantone’s transformation into a strategic investment company from a real estate development company. In 2007, Vantone Industrial started to participate in comprehensive investment business, including real estate investment, Vantone Inn, Vantone industrial real estate, Vantone Business Express, Taitong Foundation, property management, and Vantone Mall property management. In 2008, the Vantone Foundation was established. Its first efforts surrounded disaster relief in the wake of the Sichuan earthquake. Since then, the Foundation has fulfilled its corporate social responsibility by promoting and implementing energy conservation and environmental protection projects. In 2009, Vantone signed a contract concerning the China Center project at the World Trade Center in New York City. Meanwhile, Vantone Academy and Vantone Museum (new museum) were established.

With twenty years of hard work and continuous innovation, Vantone has become one of the most innovative real estate development companies in China. Vantone has developed its deep-rooted cultural values and will continue to create wealth for its employees, shareholders, customers and communities.

Feng Lun, Chairman of Vantone Holdings Co., Ltd

Feng Lun was born in 1959 in Xi’an, Shanxi Province, P.R.C. He received his Bachelor’s degree in Economics from the Northwest University, and obtained the degree of LL.M. and JD respectively from the Party School of the Central Committee of C.P.C. and the Chinese Academy of Social Sciences. From 1984 to 1991, he used to hold posts in the Party School of the Central

Committee of C.P.C., the Publicity Department of Central Committee of the Communist Party of China, the National Reform Commission, and China Institute for Reform and Development. He is now the Chairman of Vantone Holdings Co., Ltd., the Vice Chairman of the Urban Housing Development Commission of the China Real Estate Association, and the Rotating Chairman of the Real Estate Chamber of All-China Federation of Industry and Commerce as well. He once served as the chief compiler of “Report of China’s National Conditions”, published the paper of “Economic Function of the Socialist Countries”, etc, and translated the book of “Sturm und Drang - the Mentality of Marx”. His newly published writings include the best-selling books - “Savage Growth” and “Voluptuous Aspirations” which reflect “the spiritual history” of Chinese private enterprises. Also, he is the chief editor of the personal E-zine - “Apple and Orange”.

Feng Lun began to lead the establishment and development of Vantone in 1991 and set up Beijing Vantone Industrial Co. Ltd. in 1993. He once participated in the establishment of China Minsheng Banking Corporation and served as its Venture Director. Known as the “Property Thinker” in China, he initiated the “American Model” of real estate (i.e. turn almighty developers into professional real estate investment companies expert in investment), and actively promoted the progress of the industry as an innovator and pioneer. In 1999, he co-sponsored the establishment of “China Urban Realty Association” (hereinafter referred to as “CURA”), and acted as the second Rotating Chairman, who actively promoted the “New Residential Movement” which was ecological, humanistic, and technological. In 2001, by publishing the paper of “Follow the Good Example of Vanke”, he strongly advocated the direction of being good enterprises with social responsibility. In 2003, he positively planned and promoted the shooting of the large-scale TV documentary- “Housing Remodel China”, which actively promoted the development of China's real estate industry and enhanced its moral image. In 2005, elected as the Rotating Chairman of the Real Estate Chamber of All-China Federation of Industry and Commerce, he concentrated his efforts on the integrity, self-discipline and rights protection of the industry.

In June 2004, Mr. Feng Lun, together with nearly 100 renowned Chinese entrepreneurs, established the Society of Entrepreneurs & Ecology (SEE), an organization committed to desertification control and environmental protection. Presently, the SEE has emerged as one of the most famous non-governmental environmental protection agencies and one of the largest NGO incubators in China. As one of the core sponsors of the association, Mr. Feng Lun has served as Executive Director of the society for two terms and President of the Constitution Committee of the SEE. He is now the Fourth President of the SEE. In April 2008, Mr. Feng Lun initiated and founded the Vantone Foundation, a non-public foundation in Beijing, marking that Vantone began to act in an institutional and professional manner as a socially responsible corporate citizen. Vantone Holdings and Vantone Real Estate donate respectively 1% and 0.5% of their annual profit to the Vantone Foundation every year for public welfare. The foundation is mainly committed to the building of green-friendly communities and research and development of new technology. Since the inception of the Foundation, Mr. Feng Lun has served as its Deputy Director.



In 2008, he established the Vantone Foundation with the aim of systematically, rationally and persistently fulfilling the social responsibility of the enterprise. As the spokesman of private enterprises, the sermonizer of core values, the advocator and the participator of the corporation citizens as well as social responsibility, Feng Lun has won the Award of “Special Contributor of the Year” many times. And Vantone Holdings as well as its holding company - Vantone Real Estate, etc. have won the title of “Top 10 Most Valuable Real Estate Brands in China”, “TOP 10 of Wealth Creation Capacity”, “Top 100 Enterprises in Economic Contribution”, and appeared on the list of corporation social responsibility repeatedly, including the “Outstanding Corporate Citizen in China”, “Model Enterprise of Responsible Real Estate in China” and “Outstanding Contributors of Chinese Settlements in Ten Years”, etc.

Morality and Integrity Keep a Company away from Trouble

On February 27th, 2012, I had a phone interview with Mr. Feng Lun, the founder and chairman of Beijing Vantone Holding Corporation. Mr. Feng shared his experience and wisdom regarding establishing and growing a company based on his more than 20 years of experience with Vantone. Mr. Feng is a man with a great sense of humor; his witty remarks and insightful views made our conversation full of laughter.

Chen Xiao-Ping: Hi, Feng Lun! It's a great pleasure for me to have this opportunity to interview you. I have read your two books *Savage Growth* and *Voluptuous Aspirations*, and have huge respect for your views on many issues. I feel honored to have a chance to hear your deep thoughts by telephone. To start, would you please describe briefly your management philosophies?

Feng Lun: My management philosophy is very simple, and can be described using one phrase, "be moral and be creative". It is extremely important to stick to moral values and do things according to laws, regulations, and national policies. With regard to the practice of Vantone, we do things according to established rules at least on 70% of the issues we encounter. On the other hand, when encountering ambiguous situations and grey areas, we will try to be creative in coming up with solutions, but would never go beyond moral bottom line. For instance, as a real estate development company, one of our main businesses is to get land from the government. In China, there are various approaches one might use to get land, and our basic principle is "never bribe". In cases where money is really needed, we would like to spend our money in the open, for instance, sponsoring a beach volleyball match. In addition, if

we encounter personal affairs, our basic principle is to make these affairs public, so that we can deal with these affairs following consistent principles. With this approach, our company has built a good reputation and a long-term credibility, which has kept us away from any legal troubles for almost 20 years. Meanwhile, an ethical and transparent culture has been formed within the company.

Certainly, we have paid much price for keeping this practice, for example, we did not get the land we wanted. So in the short term, it is clear that sticking to the moral principle sometimes makes us lose deals; however, in the long run, we have found that benefits start to appear. Firstly, we have got well-deserved reputation; then, many of our projects have been approved because of our good reputation, especially when good reputation was the key requirement for governments or some institutes to avoid arousing suspicion; thus, we turned out to be their right choice to partner with.

Chen Xiao-Ping: What life experience profoundly influenced your management philosophy?

Feng Lun: Three major factors influenced my management philosophy: external factors, internal factors, and accidental triggers.

The external factor was the great public attention paid to our company since the day we started in 1991. At that time, several external forces were watching us closely, which made us become self-conscious and self-disciplined.

The internal factors are the six co-founders of Vantone. Wang Gongquan, Pan Shiyi, Wang Qifu, Yi Xiaodi, Liu Jun and I are men with lofty ideals. When we met many challenges and problems at the beginning of starting our business in Hainan, we decided to spend two days to reflect on what we really wanted. After two days of heated discussion and debate, we reached consensus on our mission,

that is: To create an enterprise that could help us to save the world, to create wealth, and to perfect self. This mission was reported by China Youth Daily at the time. Since then, we were clear about our basic principle of doing business, that is, we do not just do it to make money, more importantly, we wanted to do good for society, the so called “benefit self and benefit others” principle.

The accidental trigger actually happened after 1993 when our company was transformed into enterprise groups. We invited Mr. Wang Luguang, a person who grew up in a military family and attached special importance to the rules and laws, to serve as a long-term monitor for our company. He was asked to monitor every act and every move we made. Mr. Wang put forward high standards on us and I reported everything our company did to him on almost a weekly basis for more than ten years until his death in 2005. Another meaning of “be moral and be creative” is to correct errors and apologize for what we did wrong once we found it. Over the years, we have gradually formed a habit that we are used to being monitored and being self-correcting.

That is why our company has never been involved in any legal troubles; all we have focused on are analyzing the market, optimizing our business operation, and building effective teams. Recently, a 38-year-old female graduate student has established a website named “virgin net”, calling for females to prove their purity by showing a certificate from a doctor that they are still a virgin. I don’t want to comment on this, but just wanted to say if there is a place for Vantone to show its purity (morality), we will be so happy to show it

Morality and integrity are also reflected in our company governance and financial management; all of us are self-conscious and self-disciplined. Our company also has an “Annual Introspecting Day”, and has set up self-monitoring systems, including internal control system, etc. Through these practices,

we have established a value system that has been translated into something similar to a religion, which guides people’s behavior unconsciously. Therefore, I am confident that nothing terrible will happen even when I’m not around as I am now; I spend about 180 days a year on the road.

[Chen Xiao-Ping: How do you see your roles in your company?](#)

Feng Lun: I see myself in three roles. First, I am the founder of Vantone, so my authority has been accompanied with legitimate source and carrying on some mystique in the view of the younger generation. Second, I am the strategic leader of our company, and I focus on the company’s development, transformation and governance. Fortunately, every transformation of Vantone has been proved to be on the right track. When a strategy is chosen, it will rely on the general manager’s competence to get it implemented, and fortunately, Vantone has a very competent TMT. My third role is as a mentor. I love to read and think; and have read many books and articles, especially stories in the real estate industry. I know all of the important events and people in this industry, so I can provide adequate information to help others solve problems. I also prefer to influence others through communication rather than through my status. I respect people and treat others equally.

The Stranger Principle and Continuous Innovation

[Chen Xiao-Ping: What management practices have been introduced into Vantone? Why did you introduce these practices?](#)

Feng Lun: There are three distinguished characteristics in Vanton’s management practices; they are transparency, the stranger principle and

continuous innovation.

Transparency has two meanings: one is being transparent to investors and the other is for internal management to be transparent. The transparency principle has been set up by the six co-founders at the very beginning of our business: (a) everyone knows how much everyone is paid, and no one is allowed to have a second income; (b) everyone's identity is clear to everyone else. If someone got a passport or immigrated to a foreign country, everyone should know. This principle has been passed on since then.

The stranger principle is another important principle we advocate because an acquaintance culture would weaken the implementation of a fair system. Generally speaking, when dealing with strangers, the system will get 100% execution by excluding potential problems caused by personal relations and reciprocal gestures such as Renqing (human obligation) and Mianzi (face). Independent investors and independent board members are like that. However, when encountering acquaintances, it is much harder to stick to rules 100%. For example, when an acquaintance asks for reimbursement of certain expenses, the degree to which one can stick to the rule might be reduced to 40%~50%. This is the problem related to an acquaintance culture. In Vantone, we encourage everyone treating others as strangers by sticking to the rules.

On the other hand, the stranger principle doesn't mean to prohibit introducing competent friends into Vantone. We encourage our employees to introduce their friends to work for Vantone, but we require them to take responsibility as well. If the person introduced exhibited prominent performance and made great contribution to the company, the friend who had introduced him/her would be rewarded. In contrast, if the person did something wrong and caused a loss for the company, the friend's performance appraisal will be affected. In this way, everyone will be particularly cautious

to recommend his or her friends into our company, and fair and objective rules and systems will be well implemented.

In addition, we value learning a great deal and see it as the premise for a person's career progress in Vantone. Training and development have been emphasized by our company. All employees in our company have received wide-ranging training in our company school (DragonMountain School) including cultural values and basic skills. We also sent senior managers to pursue advanced studies, like MBA, EMBA courses. For example, I have attended CEO Training Program both at Cheung Kong Graduate School of Business and Euro-China International Business College, and plan to apply for a master's degree at Lee Kuan Yew School of Public Policy in National University of Singapore so that I can learn more about the political systems and operations in Singapore. In our company, approximately 3% of revenue is invested in research and development to encourage innovation. We often say that Vantone does not have anyone to depend on, so we shall have to rely on our own efforts. Recently, Vantone's share price has increased constantly. One possible reason is that everyone shows interest in our new concept, the three-dimension city. The other possible reason is Vantone's solid financial performance, and that's also why people feel worthwhile to invest on us.

Chen Xiao-Ping: *By the way, personally I'm interested in the three-dimension city concept. Can you talk a little bit about the progress of this project?*

Feng Lun: In a sense, the three-dimension city can be seen as the subversion of the traditional city model, as well as the transformation of a psychological pattern. This project will start in Chengdu, Sichuan soon, and we have made good progress: the land, location, and funding have all been secured; we are ready to break ground. Meanwhile, we have circulated on the Internet

a novel describing a love story that happened in a three-dimension city, which gained a lot of popularity. The paper edition of this novel was published in March, 2011, which opens people's minds to imagine life in a three-dimension city.

In addition, we are working on a concept called the underground retail supermarket. We have formed a team of 50+ people who had no background in the real estate industry, in the hope of bringing more diverse ideas and thinking styles to foster imagination and innovation.

I personally feel that there are many advantages associated with innovation, one of which is a strong cooperative culture. We work with others to create something new, and these others could be bosses from private companies, managers from state-owned companies and foreign companies, and also people from different projects, companies and investment institutions. We have two kinds of potential partners: people with high ability and people with good ethics. People with high ability can make lots of money, and people with good ethics are willing to give money to others

Chen Xiao-Ping: You have said that “Vantone is a typical private company that has made many mistakes as other private companies have.” Can you describe the mistakes private companies often make in a few sentences? What do these mistakes mean to the growth of private companies in China?

Feng Lun: The mistakes private enterprises have ever made can be discussed based on their development stages. At the early stage, a company grows fast because it makes money easily, but does not know how to operate a real company. It should be noted that the ability to make money is totally different from the ability to run a company. It is like a teenager, in the period of adolescence; his or her body grows quickly but the mind develops slowly.

This period is a socialization process for a child to grow into an adult; and similarly, if a company in this period cannot learn to grow up, it will stay small and won't last long.

Diversification is the second common mistake private companies often make. After the initial success, CEOs often feel overconfident and tend to view their accidental success as destined winning. They then start to take their companies into multiple business fields to achieve lateral development, and eventually fail because of lacking necessary skills to meet challenges from blind diversification.

The third mistake private companies make is their relying on political connections to get things done; some are even obsessed with power and politics. In a recent book written by Wu Bi, *Revolution and Business*, the author described four major institutional changes during the past 100 years in China. With every institutional change, private enterprises were forced to choose a side, and if they chose the wrong side, they would lose their entire business. In contrast, in British society where there has been a stable social institution, a company needs to think only about market and product, but in China, the relationship with government also needs to be considered besides other factors. Therefore, there exist four choices for companies: (a) actively participating in institutional change; (b) completely cooperating with the current institution; (c) gradually fitting into the system; and (d) going abroad to join competition in the global market with a stable institution. My sense is that companies that depend on political connections for success in China often fail in a pure market environment.

Another type of mistake is over relying on the capital market. These companies attempt to get capital through the IPO of their companies, and then spend too much time on capital manipulation, instead of focusing on the internal management, operation of the company, or on the product/service innovation to

meet customers' needs.

The Most Cost Effective Organizations are the Ones that Have Good Values

Chen Xiao-Ping: In many public speeches and in your books, you often mentioned the importance of "time and persistence". For example, you said that bravery and persistence are two critical characteristics for leaders to establish an lasting enterprises. Without values that go beyond pursuing individual interest, people cannot unite to fight to succeed. On the other hand, once these values are internalized by members of the organization, group cohesion will be there, which will have extraordinary power to encourage people to overcome obstacles courageously and sometimes sacrifice their own life to achieve the organizational goals. These values can help organizations overcome their greatest fear and achieve goal at the lowest cost. What experiences bring you such an inspiration? Can you share some stories?

Feng Lun: This inspiration came from my observation and thinking about religious organizations. Personally, I like traveling and have been to many Asian, European and Mideast countries. I have witnessed the powers of various religions. First, religious organizations are the oldest originations in the planet; second, their members receive no salary but instead contribute money to the organization, some members even sacrifice their own lives for the organization. Third, many religious organizations have their own brands. As in China, "Guan Yin" is the most famous brand, and Guan Yin

temple is one of the most prosperous temples. Many people go there to pray for a happy life by kneeling and donating. Although most of things they prayed for have not been realized, they never complain or give up. Meanwhile, the most efficient coordination exists among people with the same religious beliefs, and they strictly comply with canon and act in similar ways. Let's think about it, compared to Coca Cola's \$4 million annual expenditure on maintaining its brand, isn't that the cost of running a religious organization the lowest?

But how do you explain this? I have a simple answer. That is, religious organizations rely on values, rather than systems or restrictions in guiding members' behaviors. Management cost decreases dramatically when organizational values have been fully internalized. Vantone's emphasis on integrity and self-discipline is the steps we take in this direction.

Chen Xiao-Ping: You must have encountered many situations in which you faced a conflict between taking care of personal relationships and sticking to business rationality. Can you describe several incidents? In retrospect, how could you have properly handled such conflicts?

Feng Lun: There are countless incidents like these, especially because we are in the real estate industry. People who are interested in investing in real estate or land will come to bother you again and again. For example, once, a private company's CEO, a friend of our senior manager, sent his department manager to negotiate with us on one project. This manager gave us a profitable price but asked for

a personal rebate. Obviously, there are several decisions that we should make: first, whether or not we should report this unethical request to that friend; second, whether or not it is worthwhile to give a rebate to that manager, that is, if we give the rebate, would we be better off financially? On the other hand, if we choose to give the rebate, it obviously goes against our ethical code; if not, we may offend that CEO, and that manager. After some debates, we decided to give up potential profits and take the risk of offending our friends to terminate our cooperation.

Another problem we encountered in the real estate industry is that many of our acquaintances come to ask us to give a discount when they purchase properties. Sometimes, they have control over the land, and if you don't agree to provide a discount they would deny approving your land application. Whether to persist in your principle or to compromise to get land is one dilemma we often have to face. Our principle is to stick to long-term principles by giving up short-term interest. We don't want to cater to others' unreasonable demands. Of course, some friends made an obscure request firstly, and then presented it more obviously when their expectation hadn't been met. In these situations, we would rather suffer a profit loss by sticking to our moral code than compromising it.

[Chen Xiao-Ping: Thanks so much for sharing your thoughts and stories. Finally, I would like invite you to summarize the most important points you](#)

[would like to get across to readers.](#)

Feng Lun: First and most important is the “be moral and be creative” principle. The second one would be the “learn to step back and not fight for personal interest” principle. Oftentimes in the business environment, people like to win and they will negotiate many hours just to get a few dollars. To me, it is not worth the time and energy to just win over a few dollars at the expense of a harmonious relationship with your business partner. In contrast, I prefer to compromise financial interest in order to save time and relationship, because harmonious relationships established in negotiation will benefit our future cooperation. In addition, since I made concession, I can encourage others to make concession too, and that will make doing business easy and enjoyable. We had such experiences when we were raising funds for our three-dimension city project. It was a hard time that investors were experienced negotiators and they were so good at calculating everything. Many problems occurred during our negotiations, which really annoyed me. I decided to let others get whatever they asked for and we reached agreement happily. With this agreement, we could achieve our goal to break ground for the project, which is the result I really wanted.

I have many other similar stories to share, but to sum up, the most important thing is that you do the right/moral thing, and you learn to step back. Once you have these, you have the world.

*Footnote: I thank Gao Zhonghua for her initial English translation of the interview.