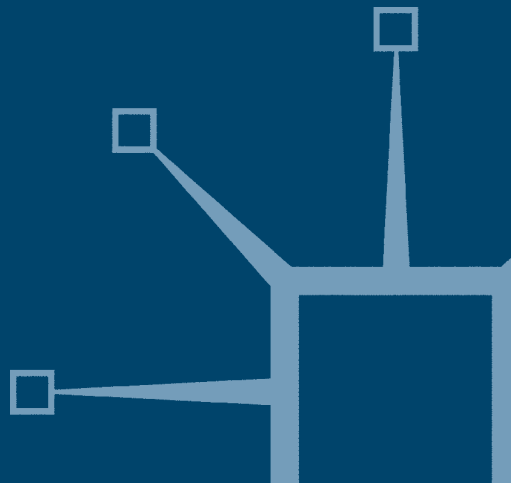


palgrave
macmillan

The China Management Handbook

A Comprehensive Question and Answer Guide to
the World's Most Important Emerging Market

Engelbert Boos,
Christine Boos and Frank Sieren



The China Management Handbook

This page intentionally left blank

The China Management Handbook

A Comprehensive Question and Answer Guide to
the World's Most Important Emerging Market

Engelbert Boos

Christine Boos

Frank Sieren

Foreword by Chris Patten

palgrave
macmillan



© Christine Boos, Engelbert Boos and Frank Sieren 2003
Foreword © Chris Patten 2003

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP.

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

Important disclaimer

The material in this book is of the nature of general comment only. It is not offered as advice on any particular matter and should not be taken as such. The contributing authors expressly disclaim all liability to any person in respect of the consequences of anything done or omitted to be done wholly or partly in reliance upon the whole or any parts of the contents of this book. No reader should act or refrain from acting on the basis of any matter contained in it without taking specific professional advice on the particular facts and circumstances in issue.

First published 2003 by
PALGRAVE MACMILLAN
Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N. Y. 10010
Companies and representatives throughout the world
ISBN 1-4039-0024-8

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data
Boos, Engelbert, 1960-

The China management handbook: a comprehensive question & answer guide to the world's most important emerging market / by Engelbert Boos, Christine Boos, Frank Sieren.

p. cm.

Includes bibliographical references and index.

ISBN 1-4039-0024-8

1. Management—China—Miscellanea. I. Boos, Christine, 1962– II. Sieren, Frank, 1967– III. Title

HD70.C5 B66 2002

658'.00951—dc21

2002072347

10 9 8 7 6 5 4 3 2 1
12 11 10 09 08 07 06 05 04 03

Printed and bound in Great Britain by
Antony Rowe Ltd, Chippenham and Eastbourne

For Julia

This page intentionally left blank

Contents

<i>List of Illustrations</i>	xii
<i>List of Tables</i>	xiii
<i>Preface</i>	xv
<i>Acknowledgements</i>	xvii
<i>List of Abbreviations</i>	xix
<i>Foreword by Chris Patten</i>	xxii
1 What Should a China Manager Know about China's Economy, Politics and Society?	1
1.1 Is China's economy more reliable or only bigger than other economies?	1
1.2 How stable are the Communist Party and the government?	8
1.3 When making business, what is important to know about China's history?	13
1.4 Why do the Chinese negotiate the way they do?	23
1.5 To what extent is corruption undermining the economy?	27
1.6 How to do business in a country with a weak rule of law?	33
1.7 How important is the WTO for the Chinese economy and western business?	38
1.8 What role does the stock market play in China's economic development?	47
1.9 How will the Internet change China?	51
1.10 Will tensions between Taiwan and the People's Republic increase?	55
1.11 Is the gap between rich and poor getting wider?	58
1.12 What are China's future problems?	63
2 What Kind of Strategic and Organisational Issues Have to be Taken into Consideration?	67
2.1 How do I prepare strategic planning for my investment in China?	67
2.2 What are the most important factors for success and failure in the operational implementation of the strategies?	72
2.3 What are the main objectives of Chinese and western investment partners?	76

2.4	How do I select a Chinese partner?	80
2.5	What kind of organisational structures fit the specific situation in China?	84
2.6	What are the sensitive issues that still may cause intercultural problems?	87
2.7	Do language problems really matter?	93
2.8	What are the most common legal business structures in China?	97
2.9	What are the advantages and disadvantages of the different ways to enter the market?	100
2.10	When does it make sense to establish a holding company?	105
2.11	When does it make sense to locate in a free trade zone?	108
2.12	What major advantages and problems are most likely to arise when investing in central and western China?	112
3	What are the Most Relevant Issues in Recruitment of Personnel?	116
3.1	What requirements does an expatriate have to fulfil to work in China?	116
3.2	How do I prepare expatriates for their job in China?	122
3.3	What are the special features of expatriates' labour contracts?	126
3.4	Does the localisation of senior management positions make sense?	130
3.5	How can I find qualified local staff?	139
3.6	How can I evaluate the qualifications of local Chinese staff?	145
3.7	What are the special matters concerning employment of local Chinese staff?	151
3.8	How is the Beijing social insurance scheme for local employment regulated?	161
3.9	What are the special features of an employee handbook?	167
4	What is Important in Personnel Development?	173
4.1	How do I handle evaluation interviews with my employees?	173
4.2	How can I motivate and retain my Chinese employees?	180
4.3	According to which considerations FIEs should conceptualise their training activities?	186
4.4	Which learning styles have to be respected when teaching local Chinese employees?	188
4.5	Which teaching methods are suitable for local Chinese managers?	192

4.6	Should I train in-house or should I outsource the training activities?	194
5	How Do I Get Reliable Market Information?	199
5.1	How reliable are Chinese sources?	199
5.2	What do you have to consider when doing market research in China?	202
5.3	What impact do the new market research regulations have on FIEs?	205
5.4	What can market research agencies do for me?	208
5.5	Which institutions can help me to collect secondary data?	212
5.6	How can I use the Internet to get information and to promote my China activities?	221
5.7	What are the most interesting consumer classes?	224
5.8	How can I realise competitive advantages through benchmarking in China?	229
5.9	How can I find a good consultant?	232
6	How Do I Plan a Successful Marketing Campaign in China?	237
6.1	How can I create an optimised company, brand and product image in China?	237
6.2	What legal aspects have to be considered in marketing your products in China?	242
6.3	What kind of advertising messages appeal to Chinese consumers?	245
6.4	Which Chinese institutions can help me to market my investment goods?	247
6.5	How do I plan and produce advertising material in China?	250
6.6	What are the essentials of effective media planning in China?	252
6.7	Shall I produce my advertising materials in China or abroad?	259
6.8	How do I plan and carry out a successful presentation at Chinese trade fairs?	260
6.9	How do I co-operate with advertising and PR agencies?	268
7	How Do I Create a Strong Sales Concept?	272
7.1	How do co-ordinate different sales channels?	272
7.2	What are the critical success factors in selling?	274
7.3	How to find an adequate balance between the stock level and the time and the capability to deliver on time?	277

7.4	What are the most important issues that influence the decision-making process in purchasing?	279
7.5	How do I manage the relationship network?	281
7.6	How can I arrange sales activities and relevant documentation?	284
7.7	How should sales control be organised?	286
7.8	What are the most critical terms and conditions in co-operation with distributors?	288
7.9	How can I find and keep good salesmen?	290
7.10	What is the best kind of training for salesmen?	292
7.11	What are the common payment conditions and guarantees?	294
7.12	How do I handle debtors and customers who are not willing to pay?	296
8	What are the Most Relevant Production-related Issues?	301
8.1	Which product-related standards have to be respected?	301
8.2	How do I define and run a reasonable product policy?	304
8.3	Which levels of product quality are feasible and saleable?	307
8.4	What manufacturing and assembly activities are suitable in China?	309
8.5	What are the major weaknesses in organisational controlling and production management?	310
8.6	How can I optimise my local sourcing activities?	312
8.7	Under what circumstances is licensing and transfer of technology advisable?	316
8.8	How can I avoid product and know-how piracy?	319
8.9	Under what circumstances is it recommended to transfer R&D activities to China?	322
8.10	How do I arrange my supply chain management?	324
9	Which are the Most Crucial Finance-related Issues?	327
9.1	What kind of costs are decisive?	327
9.2	How do I organise budgeting and an efficient cost and liquidity management?	329
9.3	Which key ratios are essential for the finance control of my China investment?	330
9.4	How can I optimise business and finance control in the invested entity?	332
9.5	What insurance is required, recommended or not necessary?	334
9.6	How can I finance the daily business through RMB loans?	337
9.7	How can I finance the daily business through foreign currency loans?	339

9.8	What are the general rules and standards of bookkeeping in China?	343
9.9	What are the major differences between Chinese (PRC GAAP) accounting practices and international standards (IAS GAAP)?	346
9.10	How do I build up a suitable reporting system?	350
9.11	How do I choose a suitable auditor?	351
9.12	How do I manage the risks of applied transfer pricing policy?	353
9.13	How can I optimise the business policy with regard to strategic, financial and fiscal aspects?	356
9.14	How is the taxation of FIE's structured?	358
10	How Can I Restructure my Business in China?	364
10.1	How can I influence external and internal decision-making?	364
10.2	How can I restructure a joint venture in trouble?	366
10.3	Which legal issues are important on exit from a joint venture?	369
10.4	When does it make sense to turn an existing joint venture into a wholly foreign owned enterprise or contractual venture?	373
10.5	What kind of outsourcing activities optimise the business?	375
10.6	What has to be considered during the phase of business establishment?	377
10.7	How is the accessing of international equity capital organised?	380
10.8	Which international commercial laws are applied to China?	382
	<i>Bibliography</i>	385
	<i>Index</i>	390

List of Illustrations

1	Government organisations of the People's Republic of China	12
2	Application process for locating in a free trade zone	109
3	Example of a trading company and its functions	111
4	Components of intercultural competence	123
5	Benefits for expats in 1999	132
6	Advantages and disadvantages of different types of senior managers in China	137
7	Comparison of distances (map)	203
8	The average per capita living expenditure in 1999 of China's rural population	225
9	The average per capita living expenditure in 1999 of China's urban population	225
10	Determination of Value Added Taxation	360
11	The lifecycle of VAT compliance process	362

List of Tables

1	Nominal GDP increase in US dollars (per cent)	4
2	WTO influence on different business sectors	41
3	Interests of western and Chinese joint venture partners	77
4	Communication between the board of directors	78
5	Characteristics of western and Chinese thinking	92
6	Contrast between language, writing and thinking	93
7	Different styles of communications	96
8	Attractive regions for investment outside the booming coastal areas	115
9	Interview worksheet for China candidates	120
10	Table of taxation rates (2002)	129
11	Recruitment options	143
12	Important criteria for interviews with applicants	150
13	Types of overtime and its payment	153
14	Employers' contributions to Beijing social insurance schemes 2001	165
15	Employers' contributions to Shanghai social insurance schemes 2001	166
16	Roles of the teacher/trainer and the student in western countries and in China	190
17	Participants' expectations in training situations	191
18	Selection of relevant newspapers, magazines and periodicals	218
19	China on the Internet	219
20	China-related websites	223
21	Geography and wealth	228
22	Chinese translation of western brands	241
23	Survey amongst dealers in China on the most effective marketing instruments	248
24	Broadcasting areas, attendance figures and prices for 30 seconds of TV advertising	254
25	Broadcasting areas, attendance figures and prices for 30 seconds of radio advertising	255
26	Prices for a half-page ad in some selected Chinese newspapers	256
27	Advantages and disadvantages of the production of advertising materials in China compared to western countries	259
28	Exhibition agents in China	264
29	Formal and informal impacts of <i>guanxi</i>	283

30	Requirements for obtaining an RMB loan secured by a foreign exchange pledge	339
31	Summary of key differences between PRC accounting regulations and IAS	347

Preface

China, the promised as well as the feared land of the world economy, doesn't give itself away easily. It took us longer than expected to understand much about the basics of the China market. Like everybody else, we made quite a few mistakes during our time in China, as well as learning a lot. We hope this book at least helps you avoid making the mistakes we did.

With 384 pages, our book can hardly claim to encompass all business aspects of this 1.3 billion people country. Some problems can only be outlined, others are reduced to their core aspects. We therefore try to provide you with tools to enable you to find your own way around China. Some of these tools might make the decisive difference even for Old China Hands with profound knowledge and experience.

We do not expect you to read our book straight through from beginning to end, but rather use it as a reference book. Divided into concise question and answer chapters, you can easily look up the appropriate section when confronted with a certain problem. Questions and answers are summarised at the beginning and end of each chapter, and one plane ride to China should be enough to grasp the basics.

Those readers who want an overview in order to make fundamental decisions and need to know the implications of China's economic framework for everyday business will find the most important basic questions and aspects in the first and second chapters.

Our goal is fairly simple: we want you to spare your nerves, save money and be successful in the China market.

We hope to get feedback to our e-mail address **Managementhandbook@china.com**. We will gratefully accept suggestions, but will also accept criticisms. Please don't hesitate to contact us for further advice.

We want to thank our publishers at Palgrave Macmillan, namely Stephen Rutt and Caitlin Cornish, and our editor, Keith Povey, who were helpful and patient with us throughout the publishing process, despite the problems of distance between England and China.

Our particular thanks go to Chris Paterson, who has for years shared our fascination with China, for his crucial support of our book. Michael Grabner, an impressively experienced businessman who quickly learned to move in the China market, has helped to give this book its structure with his intelligent and unerring questions. Stefan Baron, a long-time China expert, has long been a knowledgeable as well as humorous discussion partner. Clemens Riedl has found China to be an appropriate playing field for his vitality and analytical

power. Anke Redl always keeps a clear and clever head in critical situations. And of course we are grateful to all our Chinese friends in various ministries, institutions and companies who are working hard to integrate China into the global economy and have therefore provided us with invaluable insights.

Without Bernhard Bartsch's intensive collaboration and profound China expertise, this book would still not be finished.

CHRISTINE BOOS
ENGELBERT BOOS
FRANK SIEREN

Acknowledgements

Much of the material that we assembled for *The China Management Handbook* has been based on exclusive one-on-one interviews with China managers, consultants and other specialists. We would like to personally thank all our interview partners, proofreaders, information providers and all other persons that supported us writing this book, for their enthusiastic involvement and assistance, which we deeply appreciated.

Andreasen, Andrew, Managing Director, Asia Information Associates Ltd, Beijing
Arntz, Willi G., Managing Partner in charge for GIN Asia, Arthur Andersen, Düsseldorf

Barth, Dr, Ruediger, Chairman, Aventis China Investment, Beijing
Berweger, Rolf, former Head of Corporate and Institutional Banking, Standard & Chartered, Beijing

Berthold, Peter, Managing Director, Deutsche Asiatische Beteiligungs-gesellschaft (DBA) Ltd and Chairman, Sino Investment Management Services Limited, Hong Kong

Boeckle, Dr Hardy, former Counsellor, Economic Department, German Em-bassy, Beijing

Büchenschütz, Alexander, Senior Consultant, KPMG, Frankfurt

Chia, Hui Tian, Senior Manager, PriceWaterhouseCoopers, Beijing

Chow, Patrick, General Manager, Beijing Better Life Automobile Import Export Co. Ltd, Beijing

Claussen, Christian, former Senior Manager Market Research, Volkswagen Group, Beijing

Dai, Henry, Manager, Winterthur Insurance (Asia), Shanghai

Dehoux, Genevieve, China Manager, Asia Invest Secretariat, Brussels

Etgen, Dr, Bjoern, Partner, BBLP Law Firm, Beijing

Giannakaros, Vangelis, Director China, The Economist Conferences, Beijing

Girsewald, Alexander von, former Director, DEG Investment, Beijing

Goujon, Eric, Partner, Price WaterhouseCoopers, Beijing

Grimm, Dr, Klaus, Delegate and Chief Representative, Delegation of German Industry and Commerce, Shanghai

Groenegres, Martina, Manager Group Coordination and eCommerce, Lufth-ansa German Airlines, Beijing

Heltmann, Pit, Counsellor, Head of the Trade Promotion Office, German Em-bassy, Beijing

Heraeus, Dr, Juergen, Chairman, Heraeus Holding GmbH, Hanau

Jessen, Dr, Franz, Counsellor of the European Delegation, Beijing
Kaemmerer, Dr, Peter, Executive Vice President Overseas, LBBW, New York
Kauw, Dr, Volker, Managing Director, Peiniger International, Shanghai
King, Adrian, Media Com/Grey Advertising, Hong Kong
Klingspor, Nina, Vice-President Business and Risk Controlling, Allianz AG, Munich
Kracht, Jürgen, Managing Director, Fiducia Consultants, Hong Kong
Kreuzberger, Peter, PhD, OECD, Paris
Kühl, Christiane and Martin, Correspondents, *German Financial Times*, Beijing
Laschan, Dr, Ernst, former Commercial Counsellor, Austrian Embassy, Beijing
Lauber, Jürg, former Head of the Economic and Commercial Section, Embassy
of Switzerland, Beijing
Lauffs, Dr, Andreas, Partner, Baker & McKenzie, Hong Kong
Lee, Addy, Managing Director Industrial Practice, Korn\Ferry, Hong Kong
Legner, Peter, General Manager, Schenck AG, Shanghai
Mak, Grace Y.P., Regional Director Asia-Pacific, E.J. Krause, International Exhib-
ition Management, Beijing
Marson, Allan K., Attorney, Baker & McKenzie, CA
Müller, Prof. Dr, Bernd, University of the Armed Forces, Munich
Murray, Hermann, former General Manager, Krupp, Beijing
Nieter, Ulrike, former Partner, Heidrick & Struggles, Hong Kong
Pack, Prof., Heinrich, Member of Executive Board, Demag Cranes & Compon-
ents, Wetter
Redl, Anke, Managing Director, cmm-Intelligence, Beijing
Reisach, Dr, Ulrike, Economics and Corporate Relations Office, Siemens AG,
Munich
Schmidt, Peter, General Manager, Dresdner Kleinwort Benson, Beijing
Schneider, Helmut, Regional Manager Asia, Messer Group, Beijing
Schütz, Michaela, LogistiX, Beijing
Seidlitz, Peter, former Asia correspondent of *Handelsblatt*, Beijing
Seitz, Dr, Konard, former German Ambassador to China, Beijing
Stucken, Dr Bernd-Uwe, Chief Representative and Partner, Haarmann, Hem-
melrath & Partner, Shanghai
Tang Haisong, CEO, Etang, Shanghai
Tauber, Dr, Theresia, Intercultural Training Manager Asia, Siemens AG, Munich
Ueberschaer, Dr, Christian, former German Ambassador to China, Beijing
Weber-Liu, Kosima, Director of the Directory of German Companies in China,
Beijing
Wei, Lisa, Buying Director, Mind Share/JWT, Beijing
Weinmüller, Alf, General Manager, Porsche China, Beijing
Yu, Arthur, Managing Director, J. Walter Thompson, Beijing
Zhang, Max, Manager, Sedgwick Insurance & Risk Management, Shanghai
Zhang Wei, Researcher, Beijing

List of Abbreviations

ACC	Anti Counterfeiting Coalition
ADB	Asian Development Bank
AIIESEC	Association International des Etudiants en Sciences Commerciales et Economiques
APA	Advanced Pricing Agreements
ASC	Accounting Society of China
ASME	Technical Inspection Standard (USA)
B2B	Business to Business
B2C	Business to Consumer
BAIC	Beijing Municipal Administration for Industry and Commerce
BMRB	British Marketing Research Bureau
BMS	Business Management Service
BT	Business Tax
CCCPC	Central Committee of the Communist Party of China
CCIB	Product label
CCOIC	China Chamber of International Commerce
CCPIT	China Council for the Promotion of International Trade
CCTV	China National Television
CE	Label for electrical products
CEIBS	China European International Business School
CICPA	Chinese Institute of Certified Public Accountants
CIEC	China International Economic Consultants
CIIC	China International Investment Corporation
CIRC	China Insurance Regulation Committee
CITIC	China International Trade and Investment Corporation
CKD	Completely Knocked Down
CMMS	China Media Marketing Services
COS	Cost of Sales
CPBS	Central Broadcasting System
CPIC	China Pacific Insurance Company
CPPCC	Chinese People's Political Consultative Conference
CSRC	China Securities Regulatory Commission
CV	Curriculum Vitae
CVSC	China Central Viewers Service and Consulting Centre
DIN	German Industrial Standard
ECIP	European Commodity Investment Partners
EDI	Electronic Data Exchange