

3.1. General observances and rules of conduct (RC)

Introduction

China has developed since its opening in a tremendous speed – and it did not stop there, the constant change continues. With China being an incredibly big country which is characterized by distributed responsibilities of governance, localized rules and regulations and also their enforcement might differ between each administrative area. In general it can be observed that procedures are handled by all obvious players, e.g. Banks and Tax authorities, are more professionally in first tier cities and get more complicated the more you get away from them.

Quick Pace

China is following a very quick pace: On a macro-basis considering the developments since the start of the opening but also on a micro perspective in every-day life. Often quite spontaneously things are happening which do not leave a lot of time to react. It can definitely happen that some high-level government officer invites himself the same day to the company for a visit or a reform like the VAT reduction from 17% to 16% is announced 2 weeks before it gets effective.

Be agile

The Chinese market is a very dynamic one. Sticking to old principles without questioning and being too inelastic will take away the required flexibility to operate in the Chinese market. Managing a foreign-invested enterprise to be successful in a

- dynamic market with
- dynamic regulation

requires a high level of agility on a personal as well as on an organizational level.

Grey areas in regulation

Due to the quick pace, often regulations are not defined as detailed as you might know it from “home”. Often new regulations are put

into place and the interpretation of these rules will happen afterwards and can be dependent on the local authorities.

As a general rule of thumb, it is recommended to better follow the regulations “more” than “not enough”. People who gained experience operating in the Chinese market will often acquire a certain feeling on how to deal with regulatory risk to stay on the correct side of the law.

Even if the rules and regulations are clear by themselves, sometimes enforcement is lacking. Counting on a lacking enforcement this is a risky strategy though since this can change any time and can also haunt you even years after your violation.

Stay below the radar

Considering the high speed and the grey areas in the regulation, it definitely is recommended to stay “below the radar” in every way possible. Anything that can trigger more investigations by any government authority should be avoided if reasonably possible. Additionally, personal misbehavior of staff can lead to a viral shitstorm on social media which can seriously impact your business at least in the short term.

Know your rights – and your limits

Investigations often can lead to penalties, especially fines. If this case happens, there might be ways for a formal objection. Even while the original reason for a penalty might be canceled in the mid- to long-term it can lead towards much harsher controls. Sometimes it can be just the more efficient way to accept penalty payments to keep the long-term effects on a low level.

Keep up to date on regulations

The regulatory framework and basically all rules might be subject to quick change. It is essential to stay up to date on current developments – good ways for this are joining the responsible chambers of commerce for your country and their mailing lists and some newsletters of companies.

Complicated things are easy – easy things are complicated

You might be surprised how seemingly easy topics suddenly get complicated way beyond your imagination while other topics, that look immensely complicated, suddenly can be solved in a surprisingly short amount of time.

Do not be surprised that this could happen and plan ahead by trying to identify alternative action plans and/or by analyzing the impact of delays on project plans.

Use local knowledge

While lots of principles that are true in your own home might be applicable to the Chinese market too, there still are lots of potential pitfalls if you try to force actions without consulting local knowledge.

Certainly also local knowledge should be taken with a grain of salt and be questioned, at the same time local expertise can be vital to stay compliant and/or to reach business goals.

Additionally, while China is a big country, “local knowledge” not only means that you need someone who has experience in the country, but due to vast differences in each region it is recommended to acquire local knowledge of the specific region you are operating in.

Find your own way

While you should never ignore recommendations that you get from somewhere else, due to the dynamics in the market and the regional differences, it might be beneficial to identify your own way how to deal with challenges. Literature and information sources can be quickly outdated. While they can give you general guidelines, the final implementation depends on you and often allows a broad range of possible ways to reach the same goal with different midterm to long-term consequences which should be considered before taking an action.

Ensure you have enough resources and a “Plan B”

Due to the dynamics of the environment, including the regulatory framework, you never should make just a tightly calculated plan and just hope that it works. During implementation of the plan you might find out that key assumptions that you were counting on suddenly turn out to be not valid anymore. You always need enough wiggle room and, for strategically important topics, an emergency plan to ensure that you can reach the desired objective.

Hard data is hard to come by

Data quality and good data sources are notoriously hard to find. Even if you employ two professional consulting companies to research the same topic, their results might differ fundamentally. Do your best to make a good research but often in the end you have to trust your gut feeling.

Ensure you can pay the bills

While some potentially lucrative projects come with somehow risky terms considering payments, ensuring a good cash flow is especially vital for foreign invested companies. Financing options can be limited to cover a sudden lack of cash on bank.

It is recommended to build your business first with contracts and partnerships that can ensure a stable cash-flow, additional business contracts with less stable terms should be your second priority and should be entered selectively after a serious evaluation of the risk.

Find the right balance between control and trust to your employees

Key personnel can at the same time bring a business forward as well as at the same time bring big risks to the company. When your business is growing, it is getting pretty impossible to control everything – you have to trust your employees to work for the benefit of the company.

At the same time, giving too much freedom to

the employees especially when contracts and money is involved can bring additional risks to the company. Also, staff capability might be more limited than you might think.

When implementing your processes, you should ensure that the responsible Manager must be involved in critical steps so that there is at least an opportunity to interfere if something goes wrong. At the same time, the manager should not act erratically and his actions should be predictable.

Be careful what information you share with whom

While being in general total favoring of transparency, topics that can either operationally or strategically hurt the company should be handled in a very sensitive way. While this is true especially towards personnel outside of the company, employees within the company might use the gained information against the company, especially in a case of disputes.

Identify your Key Selling Points, build your marketing upon them and develop them

You should identify the key value propositions to your customers and constantly develop them. Due to the market development and changes, you should clearly identify why a customer should choose you instead of your competition. Marketing plays a vital role in the Chinese market and these value propositions should be promoted towards the market. At the same time, the required KSP to stay successful might change quickly so they should constantly be monitored and adjusted if required. Try to stay ahead of your competition by identifying short-, mid- and long-term development plans but also do not forget that not all prognosed market developments turn out in the way how you expect.

Consider a totally different Online-Environment

The censorship of the "Great Firewall of China" lead to a seemingly parallel development of an Online-Environment that

at the first glance offers similar services as in the western world. At the second glance, while having the downside of missing international availability and integration to international platforms, they are domestically highly integrated into each other. Online-Services tend to be concentrated to a few big players offering strong ecosystems of apps and functions while the western world mostly has single companies offering highly special services. Their business models might also be very different from their western counterparts.

Gain a high level of independence from your headquarters

Multi-National companies often concentrate functions in their headquarters, e.g. Finance and IT. Still, local knowledge about the Chinese market environment seems to be mostly very limited in these centralized functions. As a general guideline, the headquarter should only be involved in decision making if their involvement brings additional benefit when making a decision. Otherwise a centralized decision-making process will just slow the local company down while not improving the quality of the decision: Headquarters tend to demand that they get involved, will ask lots of questions but in the end the decision still has to be made locally.

Get comfortable with ambivalence

Working in a Chinese business environment can often involve being in ambivalent situation in which there is no single clear answer on how to proceed ideally. You should try to examine your situation, the choices you have and execute the choice that seems best to you - or actively decide not to act at all. There seldom is a single, clear-cut right way on how to do solve a problem and sometimes just trying out possible solutions after a reasonable risk-consideration will bring you much more ahead than over-analyzing a situation beforehand.

Respect the Territorial Integrity

When you are using maps or declarations of places in internal and external communication, be sure that the maps you are using or the declarations of places are in line with the official versions. When printing maps, ensure that the south-eastern islands are marked out as part of China and that Taiwan is being shown on the maps, otherwise you might violate the territorial integrity of China.

Respect the History and historical people

There are some very sensitive topics when you are relating to history and historical people which can easily be perceived in the wrong way by the government or also your customers. Be open, be curious but it might be a good idea to listen much more than talking.

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