

CHINA HR

Ethical differences carry risks

Global firms entering China must be careful to avoid the pitfalls, writes *Peter Humphrey*

CHINA CONTINUES to see a flood of overseas investment and is now widely acknowledged as the country which will be the driving force of the world's economy in the first half of this century.

International companies have seen the cost benefits of relocating their manufacturing and sourcing operations to the mainland, but have also become sharply aware of some of the risks involved. These often centre on how best to operate in an environment which has long relied on different business practices and operated with ethical standards which are some way from those of the major multinationals.

Despite the opportunities, many joint ventures and acquisitions still fail, and the foreign investors generally come off worst. They complain of lack of transparency, limited market access, obscure regulations, HR and cultural problems, counterfeiting and unfair competition.

At various levels, they also encounter corruption and fraud, sometimes well hidden in a company's auditing and accounting records. As an indication of the problems, China's listed firms score only 44 out of 100 for corporate governance on an international scale.

The story of Bill, a personable Chinese businessman, shows what overseas investors can face. He started out in the car industry and soon developed good contacts with local suppliers, distributors and government regulators. A multinational car parts manufacturer saw his potential and hired him to lead its sales team in China.

When appointed, Bill immediately set up his own company, got his brother to manage it, and secretly began to transfer product technology and manufacturing know-how. The company grew steadily and Bill made full use of contacts made through the multinational to channel business to his brother.

Finally, he even persuaded his employer to form a joint venture with his firm, while carefully



The employees of multinationals on the mainland must get to know Chinese staff as individuals. Photo: Bloomberg

disguising his own involvement. It was only when he quit to concentrate on these outside projects that everything came to light. Now, however, he is competing directly with his former employer and selling virtually the same products.

This is a cautionary tale, but firms can avoid similar situations by taking the following steps:

Reference checks As a bare minimum, companies should independently check all references provided by applicants. They should ask for written references from named referees, even when assistance from executive search firms is available.

Personal background checks When hiring senior executives responsible for large sums of money and intellectual assets, companies should also check the candidate's background. They should be on the lookout for forged credentials or inaccurate personal details. If possible, it is useful to verify discreetly why a candidate left previous jobs and if the actual responsibilities were as stated. Past employers and former associates may give new insights into character, track record and integrity. It also pays to check into the possible ownership of any companies.

Screening suppliers and distributors This is to determine whether any of your staff have an interest in these companies. Simple credit checks are not enough.

Due diligence Where there is a lack of transparency and companies have a patriarchal leadership structure, due diligence must go beyond examining the balance sheet. It is vital to take a close and critical look at the people in the company at all levels, especially in cases where it is thought the corporate governance of a potential joint-venture partner or acquisition target is weak.

Code of ethics Multinationals must have a clearly defined code of ethics and tie it to contracts with employees, suppliers, distributors and joint-venture partners. If necessary, the code should be circulated, sent to clients and displayed prominently in reception lobbies and meeting rooms. The code and all contracts must include unequivocal statements about bribery, kickbacks, money laundering, conflicts of interest, intellectual property rights protection and confidentiality. It should be reviewed and updated annually. There should also be ethics awareness training for all staff.

Hiring restrictions Consider a ban

on the hiring of close relatives as well as on conducting business with close relatives of staff and managers. Collusion between employees and their friends or relatives, as well as the creation of fake vendors, are increasingly common features of fraud cases occurring on the mainland.

Cultural gap It is easy to make excuses or explain things away by saying Chinese culture is different. However, multinationals must take steps to bridge the language and culture gap. Allowing the possibility of a gap is a risk in itself as it creates an "us and them" atmosphere, which is open to abuse. The employees of multinationals must learn about local culture, get to know their Chinese staff as individuals, and understand the nuts and bolts of the business. Segregation can lead to alienation from Chinese staff, so a balance is needed between locals and expatriates at management level. Internal policies must encourage inter-cultural understanding.

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JOBS ROUNDUP

COMPILED BY IRENE WANG

NEWS WHAT'S HAPPENING AND WHERE

Job burnout affects 40pc of workers in Shanghai

Job burnout affects about 40 per cent of workers in health and education, catering, finance, government and manufacturing in Shanghai, according to research by the Shanghai Academy of Social Sciences. Middle-aged staff make up the most seriously affected demographic, but the condition also hits workers after five years in employment, the *Shanghai Evening News* reports.

Growing demand for financial planners

There is demand on the mainland for 200,000 more qualified financial planners for an industry that is already valued at more than 100 billion yuan, the *Beijing Youth Daily* reports. Domestic programmes have produced associate financial planners and from next year the exams for certificated financial planners will be held on the mainland, enabling them to be internationally recognised.

Nanjing offers subsidies to retrain workers

The Nanjing government will offer subsidies of up to 1,500 yuan to retrain retrenched workers, Xinhua reports. Subsidies will be available for courses in human resources management, project management, logistics, electronic business, psychology, job guidance, welfare and secretarial skills. The municipal government has provided similar subsidies in the past.

Langzhou employers bemoan cost of training grads

Training costs are putting Lanzhou employers off hiring fresh university graduates, Xinhua reports. At a recent provincial graduate job fair, half of the companies advertising positions said they were looking for applicants with at least two years of work experience. Employers said inexperienced students had relatively low skills.

Job market seems to stress men more

Stress about finding a job is on average 20 per cent higher among the mainland's male university students than their female counterparts, the *Shanghai Evening News* reports. A survey conducted in major cities around the country found that most students feel the job market is very competitive but men registered higher levels of pressure, citing an increase in the number of graduates, self-motivation and external pressure as reasons. Eighty per cent of female students said they did not need a high salary.

Male university students cite an increasing number of graduates, self-motivation and external pressure for their higher levels of stress in the job market.



COMPANIES WHO'S LOOKING FOR WHAT

CH2M Hill - IDC Senior project manager and senior construction manager in Shanghai

Intertek Automotive Services Inspection project leader in Shanghai

Bank of China Senior customer manager in Shanghai

Sacha London Production/QC manager in Guangzhou

York International Sales manager in Shanghai

Belle Group Supplier quality engineer in Shanghai

Argos Retail Group Quality control supervisor in Shanghai

Procter & Gamble SKII supervisor in Beijing

Philips Senior human resources manager in Dongguan

Jacuzzi Brands Product & marketing manager in Shanghai

Avery Dennison Sales executive in Shanghai

Bright China Holding Management committee executive director in Beijing

Resort Condominiums International Human resources manager in Beijing

Pegete Group Project manager in Beijing

EU-China Information Society Project Events and communication manager in Beijing

MDS Pharma Services Medical technologist in Beijing

Coles Myer Asia Compliance auditor and quality assurance officer in Guangzhou