



# ENGAGING CHINA

From the political to the cultural,  
much must be considered before engaging  
the People's Republic of China.

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PHOTOGRAPH BY RON AIRA

The burgeoning number of multinational corporations establishing manufacturing, research and development, and sales and distribution operations in China is not the first situation in which the outside world has shown a fascination with China. In fact, the world has been mesmerized with China since the times of Marco Polo in the 13th century. These days, inexpensive labor, enormous market potential, and a consumer base that is growing exponentially characterize China's role in globalization. According to *The McKinsey Quarterly* 2004 Special Edition: "China Today," China's economy has been averaging more than 9 percent growth per year. And it now manufactures 75 percent of the world's toys, 58 percent of the clothes, and 29 percent of the mobile phones. Boasting the sixth-largest gross domestic product in the world at \$1.4 trillion, the country is expected to be the world's third-largest exporter by 2008, and its economy is anticipated to grow larger than those of either France or the United Kingdom by the end of the decade.

But it's not all a bed of roses. *The McKinsey Quarterly* also reports: "Underdeveloped and inefficient capital markets deprive the brightest companies of much-needed funding. The banking sector is weak; unsound lending continues to threaten the economy. And China's rural population—half a billion strong—has seen little benefit from a decade of growing national prosperity."

This seeming conundrum of good and bad news is enough to keep the top executives of experienced multinational corporations with virtually unlimited resources frustrated and confused. Imagine how the average association executive who has just been mandated by a board of directors to "develop a China strategy" must feel.

Whether developing a strategy to help members work in China or to help the association to do so, starting this task from scratch does not inspire envy. So what's an association executive to do? The most direct response in its simplest form is "conduct due diligence." But associations that have been there and done that will tell you that

it's not business as usual. And their experiences, described in this article, provide good advice for dealing with a unique culture; protecting assets in a country with a legal system that is young, unstable, and characterized by fundamental flaws; and developing effective, sometimes quite lucrative, partnerships—often with the government involved in the mix.



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## Making the decision

Whether your association is approached by Chinese organizations or vice versa, serious thought should be given to making the leap eastward.

In the case of the Project Management Institute, Newtown Square, Pennsylvania, it was serendipitous timing that led to PMI's expansion of its certification program to China. In early 2000, as PMI was exploring strategies for continuing to advance project management globally, the State Administration of Foreign Expert Affairs Training Center (SAFEA TC), which falls under the Chinese Ministry of Personnel, contacted PMI about

offering the Project Management Professional credential in China. At the time, says Michael Price, PMI's manager of accreditation programs, "the Chinese government was about to become a member of the World Trade Organization, which would allow a lot more foreign businesses to set up shop in China, and they recognized that many of the government-run enterprises did not have the management expertise to effectively compete. They saw our certification as a scaffold for the profession—a quick way to bootstrap their managers up to speed to be able to manage all of these anticipated new projects."

Stephen Townsend, PMI's director of market and business development, says, too, that from a strategic perspective, PMI's board had made it clear that expanding the recognition of project management as a profession was one of its top priorities, and its certification program was a key way to do that. "The benefits of engaging China were clear," says Townsend. "It's a huge market and represents correspondingly huge opportunity for PMI."

For NPES, The Association for Suppliers of Printing, Publishing, and Converting Technologies, Reston, Virginia, the opportunity to interact with China came about 23 years ago when representatives of the Chinese printing industry invited NPES's president, Regis Delmontagne, to visit the country and assess the status of its printing industry. That initial visit opened a door for NPES. "We were looking at introducing offset and other forms of printing, and once we did that we felt that we had a real shot at doing business with the Chinese. And, for us, there was truly no risk. The mission of NPES is to help our members gain business opportunities around the world, and working with China was another way to do that."

## Cultural dynamics

Once you've made the decision that working in China has significant benefits for your association and its members, it will pay to spend some time learning the unique characteristics of doing business there. Ultra-modern

hotels, luxury restaurants, and familiar signs advertising Pizza Hut, McDonald's, and Coca-Cola may make you feel at home on your first visit to Beijing. But behind this Western facade is a several-thousand-year history of deep-rooted culture, much of which remains intact—particularly in the area of intercultural relationships. Understanding the dynamics will help save missteps and misconceptions that can derail—or at a minimum delay—your progress.

Chinese philosopher Confucius (551–479 B.C.) had a great impact on Chinese behavior, which persists to this day. His philosophy of life focused on order and harmony in society. In particular, Confucius thought that society would work better if 1) everyone knew one's place and 2) everyone understood one's obligations to others in the hierarchy. As a result, while Americans generally take a "What can I do?" approach, in China it's more likely to be "Whom do I know who can help me?"

Similarly, making connections and building relationships in China takes a different tack than in the United

States. Here, the goal of networking is often viewed as adding names to your Rolodex so that when the need arises, you'll have individuals to call. Such connections often tend to be short-term and results-oriented.

For the Chinese, the concept of *guanxi* plays a large role in successful relationships. While there is no precise English translation, *guanxi* involves personal connections based on mutually obligated dependency and lifelong commitment—a kind of mutual back scratching, which in the United States might be viewed as a form of nepotism or "a good old boys" network.

*Guanxi* survives partially due to the outsider's lack of information about people and organizations, the weak legal system, and the lack of transparency in dealings. As a consequence, you can't simply drop into China, give a series of banquets, and suddenly become a trusted colleague; you must demonstrate a sincere interest and commitment to an individual on an ongoing basis. A particularly important aspect of Chinese networking is that when out for business meal, it is

one person who pays; you don't split the check. The practice is reflective of a mind-set focused on the kind of mutual obligation in which costs will equal out across time.

As for meetings protocol, says Townsend, diplomacy is of utmost importance. "Conversations about problems or mistakes must be positioned in a way that doesn't place blame. Rather, we'll speak in terms of identifying the processes that are inhibiting our ability to do X, Y, or Z—and propose working together to improve those processes."

As China's connections with the world increase and more internationally accepted practices are put in place, watch for *guanxi*-based discipline to be modified or replaced with behavior and communication that is more efficient and driven by a more immediate-results mentality. Price notes, for example, that young Chinese professionals are quite entrepreneurial and have adopted a go-with-the-flow attitude. Despite the shift, however, it still pays to be aware of, cultivate, and manage this cultural relationship when appropriate.

### Moving forward

Taking the time to build relationships with your potential business partners and recognizing the importance of conducting due diligence in China cannot be overemphasized. This notion is effectively illustrated by an article in *The Economist* ("A Disorderly Heaven," March 20, 2004), in which James Bryant, owner of Subway's franchise in Beijing, states: "People leave their heads at home when they come here. They forget all about due diligence. They meet a guy on the street, give him a ton of money to run something and six months later he absconds with it."

Keeping this image in mind, how should you plan your engagement strategies?

First, identify how unique cultural issues might affect your organization's plans for activity in China. Will you need to allow additional time to find partners and develop business relationships? How will you find addi-

tional sources of information to identify and screen potential partners? Will the Chinese government expect to be involved? Delmontagne, for example, recalls that the biggest difficulty in early dealings in China was getting accurate information. "The size of the industry, the number of printing houses, the sources where companies bought their paper and ink—these were critical issues for us. And it took awhile to get the answers." Similarly, Price notes that some 135 ministries exist at the national level, many of which have overlapping areas of influence. And many of their top officials will tell you that *their* ministry is the one that you must deal with. Here are some tips for getting the help you need:

**Work with country experts.** One way to identify solid partners and build the necessary relationships is through identifying one (or several) cultural liaisons or cultural interpreters—people who understand both the Chinese and Western way of operating. Such experts can not only help you identify appropriate partners, but they can assist in making effective initial contact and, later, explaining to you what your Chinese partners may be saying about or perceiving in your interactions.

Townsend says that the Project Management Institute contracted with a private consultant who was familiar with project management and active in China and the Asia-Pacific region. "He was able to help us navigate some of the relationship issues in terms of reading between the lines," says Townsend, "and to help us understand, for example, how to position our comments in such a way that our partners or potential partners did not lose face when we were raising critical issues."

Another pitfall that a cultural expert can help you avoid is applying to the Chinese environment approaches that are tried and true for your U.S.-based membership. A great example of this is membership surveys. This common practice among Western associations might raise suspicion in China, where asking people questions about themselves is not yet a common practice.

**Make connections through association colleagues.** An even more effective way of conducting due diligence is to learn from those associations already operating in China. For example, when APICS—The Educational Society for Resource Management, Alexandria, Virginia, began seriously considering the possibility of licensing an international associate organization in China nearly three years ago, Townsend and Price provided APICS with invaluable advice and insight about operating in China.

Interestingly, APICS, as a professional association supporting individuals in inventory and operations management, receives more requests for training and for the administration of APICS certification exams from potential members and customers in China than from those in all other countries in the world combined. Hence, APICS's challenge is to position itself to effectively disseminate its body of knowledge in China, while ensuring that its intellectual property is not compromised. This led to an exhaustive research effort to learn how other associations have adapted their international strategies to overcome cultural, political, social, and economic complexities surrounding business in China. Fortunately, Townsend and Scott Ludlum, associate director of global services for APICS at the time, had already established a strong rapport while discussing business initiatives of mutual interest to their respective organizations. Consequently, Townsend, along with Price, were open to discussing some of their organization's techniques for dealing with China, eventually resulting in APICS's ability to leverage the elusive *guanxi* relationship through PMI's introduction of APICS leaders to the same Chinese government agency that PMI has been working with for several years.

Not only did this ease the building of a mutually beneficial relationship, but APICS leadership learned the value of government partners, which are involved in a wide range of activities in China—and often facilitate projects that would be hard to accom-

plish without such interaction.

On PMI's part, key staff and volunteer leadership make frequent trips to China to meet with officials from the State Administration of Foreign Expert Affairs Training Center to sustain the relationship, whereby SAFEA TC administers applications for the Project Management Professional examination, arranges test sites, and promotes awareness of the PMI examinations in China.

The bottom line for PMI, says Townsend, is that applicants for the PMI certification have grown from 20 in 1999 to 3,700 in 2003. "We anticipate 5,000–6,000 applications in 2004," he says, "and that ultimately translates into significant revenues for us. In addition, there is much broader awareness of PMI and our certification among leading firms in China." Greater exposure among government agencies and the media has resulted in other partnerships—notably one in which one of China's major publishing houses is working with PMI to translate its key standards. "Not only do they have significant distribution," says Townsend, "but also this will help stem the flow of unauthorized publications while making the official one more accessible to the marketplace."

### Learning from experience

APICS, PMI, and other groups have learned important lessons about working effectively in China. Here are some:

**Protect intellectual property.** China has some effective laws in place to protect the trade secrets of foreign organizations operating within its borders. However, in practice, enforcement is not very stringent. In addition, PMI and APICS found that the Chinese are extremely price-sensitive and may use any necessary means to obtain study materials at what they feel is a reasonable price, including potential infringements on intellectual property rights. Thus, one of the most effective means for protecting intellectual property in China may be to develop an affordable pricing strategy. In some instances, as PMI has done, working with local publishers that can translate, print, and distribute materials more efficiently

## RAMPING UP TO REACH OUT TO CHINA

When Michael Price, manager of accreditation programs, Project Management Institute, Newtown Square, Pennsylvania, learned that he'd be spearheading PMI's certification initiative in China, he headed for the nearest university bookstore. "Reading some of the textbooks that professors have selected for Asian studies courses is a good way to get up to speed on the culture," says Price. Universities are also likely to have faculty that serve as consultants and may be willing to share some of their experiences.

Other resources for gaining the kind of insights that will be helpful when engaging China:

- Reports on the business environment in China from the American Chamber of Commerce. Go to [www.amcham-china.org.cn](http://www.amcham-china.org.cn).
- International organizations or sister associations that may already be engaged in activities in China. Contact them for information and potential partnering opportunities.
- Local councils on foreign relations, Asia societies, and trade centers. They may be able to recommend experts in your association's particular field.
- Extensive background notes on China from the U.S. Department of State. Go to [www.travel.state.gov/travel/tips\\_china.html](http://www.travel.state.gov/travel/tips_china.html).
- Travel and cultural guides. A particularly comprehensive one is *The Chinese Have a Word for It: The Complete Guide to Chinese Thought and Culture*, by Boye Lafayette De Mente (2000, McGraw-Hill).

and cost effectively gives the organization more control over intellectual property. In any case, it is wise to take extreme precaution in protecting valuable association intellectual property. (For more information on intellectual property, see “Saving the Silver Bullet” in the October 2004 issue of ASSOCIATION MANAGEMENT.)

**Avoid exclusive partnerships, if possible.** While the Chinese view exclusivity as a demonstration of full trust and confidence between partners, it may be best not to put all of your eggs in one basket. PMI, which has policies that prohibit exclusive relationships, developed a contractual relationship with the State Administration of Foreign Expert Affairs Training Center that has creatively balanced internal policy requirements with the needs of external partners. Since then, PMI has broadened its relationships to include other organizations to support such activities as translating and distributing its body of knowledge in China; conducting research related to project management in China; and creating advisory bodies consisting of representatives from business, government, and academia.

**Develop a flexible strategy conducive to the Chinese business environment.** PMI is currently adjusting its strategy to meet the complex and changing business environment in China. “In 2002,” says Townsend, “we realized that the initial strategy of having only our certification in the market was not sufficient. And we recognized that we needed to understand the broader strategic aspects of everything that we were trying to accomplish. We decided that we needed a formal business plan for organizing our activities in China.” One of the results is PMI’s decision to establish a representative office managed by a Chinese national; the office is slated to open before year’s end.

Price notes that competition is fierce among the ministries that vie to become partners with foreign entities. “Don’t expect your first contact to be the right one,” he cautions. “Lines are gray, and it may take time to identify the appropriate partner. At the same

time, you have to start somewhere.”

Similarly, for NPES, The Association for Suppliers of Printing, Publishing, and Converting Technologies, an important part of its China strategy included the development of a more formal operating structure with its Chinese business partner, the national Chinese trade association composed of printers and printing equipment manufacturers. An informal kind of part-



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nership formed on the basis of information exchange eventually gave way to NPES’s hiring in 1998 of a Chinese project director who was well connected with the Chinese printing industry. At the same time, NPES developed a bona fide 50–50 joint venture with a large printing company in Shanghai. With a grant from the U.S. Department of Commerce and contributions from NPES members of another \$5 million worth of equipment for purposes of demonstrations and training with potential Chinese clients, NPES opened an office and training center there. From an operational perspective, the joint venture is fully func-

tional and operates similar to an American business. With a staff of 40, its primary focus is profitability. The office conducts seminars as well as two-to-three-day conferences in China on a regular basis. “Every dollar that we make through the seminars and training,” says Delmontagne, “is plowed back into the expansion of the center. So the center is self-funding; it’s been in operation for seven years and for the last three it has generated a surplus.”

Meanwhile, Delmontagne says that the biggest challenge to NPES in conducting business in China has been delays caused by regulations exerted by the Chinese government in controlling precisely what kind of materials are printed and where. Nevertheless, NPES and its member companies have been successful in China because participants in the programs have remained patient and committed to developing the necessary long-term, mutually beneficial relationship. In exchange for market access, NPES has provided the Chinese printing industry with much-needed, upgraded, and innovative technology as well as advice and guidance on how the industry can become more competitive.

Now, says Delmontagne, “NPES’s long history in building relationships with the Chinese has resulted in a bankable relationship; we now sell space in each other’s trade shows—and we have no trouble getting the Chinese to attend our shows.” Delmontagne and NPES are considered genuine friends to the Chinese printing industry. The bottom line for NPES members: “Today our members do a tremendous amount of business with China,” reports Delmontagne. “Not only do they sell products to the Chinese market, but also they’ve developed relationships with Chinese manufacturers such that member companies have products and components made in China for sale in China and other parts of the world.”

**Get it in writing.** Another reason for NPES’s success in China’s marketplace is the organization’s insistence on clearly and precisely stipulating the specific expectations of the relationship and its unwillingness to compromise on ethical and moral issues in circum-

stances where it believes it is right.

For APICS, its experience with China so far has taught its leadership that while Western societies may focus more on legal accountability as defined by the terms of a written contract, it may be a mistake to manage a relationship with a Chinese entity strictly based on such legal documents. APICS did have its standard licensing agreement reviewed and edited by an American attorney with a multinational law firm in Beijing who identified and incorporated specific expectations into the agreement. But Veron Hung, associate, China Program, Carnegie Endowment for International Peace, Washington, D.C., has recommended that the organization obtain a verbal commitment from a Chinese superior speaking before subordinates. For example, because APICS is making every effort to protect the integrity of its intellectual property, it is advisable to arrange for the CEO of the Chinese organization with which APICS is working to commit to this precise point publicly and in front of subordinates.

A final caution from PMI’s Price: “Contracts are improving, but the concept is all very new; in the past it was law by relationships.” He advises, “Write the contract as you would like to see things happen—but don’t expect it to be any kind of insurance.” In a related cultural tip, Price says, “Don’t take your lawyer on the first trip; you’ll offend your potential partner. Rather, allow a period of socializing and getting to know one another before moving into business and legal issues.”

In summary, China offers a tremendous opportunity to associations that are intent on expanding their body of knowledge, facilitating business development for their member companies, or building cross-cultural relationships. However, as Delmontagne cautions, “China is not for the faint of heart.” Association executives must be willing to learn what makes China such a complex market—such as its tremendous geographical size and population, its partially controlled economic system, its rapid technological development,

and its well-established cultural norms—and adapt their mind-sets and business practices accordingly. **AM**

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