

Key Risks for Doing Business in China¹

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Organisations doing business with China know that the operating environment is complex and very different from the western world. However, the market opportunity remains promising, despite recent challenges from the coronavirus pandemic. Success depends on identifying and managing a number of China-specific risks, including the following:

- *Current organisational leadership capabilities, structure and culture may not effectively support business performance.* Many multinational organisations have a dominant western mindset and a lack of cultural intelligence. Others have corporate functional and regional silos which hinder business performance. It is vital that multinationals understand how China works. They need to be aware of the many invisible and subtle differences between Chinese and western culture, mindsets, behaviours and ways of working. Leaders require an informed understanding of the current business environment in China. Companies working in China must increase the ability of their leaders to manage cross-cultural teams, and they should develop a supporting organisational structure that matches the specific challenges of the Chinese business context.
- *Organisations may not foresee and adjust to significant changes in the business environment in China.* The Chinese government's austerity drive and the war on corruption have become permanent fixtures since 2012. Multinational companies are under increased government and public scrutiny, with stronger regulatory oversight, so businesses need tighter corporate governance and a focus on improving government relations. This is not just about gaining market access (getting approvals, licenses, land etc.), but it extends into managing risk. Risk management should focus on understanding regulatory threats, closing control gaps, and having an effective crisis-response team in case a regulatory investigation is launched. As companies improve their understanding of the implications of new laws and regulations, and seek to adjust and adapt their operations, the importance of building a pristine business reputation will be more critical.
- *Failure to manage relationships with partners, clients, suppliers and other stakeholders may lead to litigation.* China's legal framework is different from many western countries. If disputes occur, lack of familiarity with China's legal

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framework or how the legal system works can cause problems. Local arbitrators can deliver unexpected outcomes, despite legal opinions, facts and contractual terms that would suggest otherwise. Organisations should therefore seek to minimise the risk of litigation, with a strong culture of relationship management, clear communications, and proactively identifying and addressing issues that might give rise to conflict.

China is different. Organisations doing business with China must have a deep understanding of how China works. They need to improve their organisational capability, governance and culture if they are to succeed in China. While the Chinese government remains committed to opening up and reform, the attitude towards multinationals is undergoing a subtle change. Only those organisations whose investment can bring meaningful impact to the country will be welcome. The challenge for organisations wishing to do business in China is to ensure that they are on the preferred list, that they operate in a compliant manner, and that they make positive contributions to the local community, economy and stability of the country.

To provide feedback on this Briefing Note, or for more details on how to develop effective risk management, [contact the Risk Doctor \(info@risk-doctor.com\)](mailto:info@risk-doctor.com), or [visit the Risk Doctor website \(www.risk-doctor.com\)](http://www.risk-doctor.com).

About the Author



Dr Yang Chu

China



Dr Yang Chu was born in Shandong province, the hometown of Confucius in the east of China, and raised in the Gobi Desert in Xinjiang autonomous region in the northwest of China. It's fair to say that he was made in China but assembled in the West. He spent two-thirds of his growing up, studying and working in China and the other third living, studying and working in the UK.

Dr. Chu is a Risk Management Professional and combines GuanxiConnect with a highly successful career with a top FTSE 100 company.

He realises that the world is facing an unprecedented risk now, as long as the West does not properly understand China and China does not properly understand the West. Compared with many other business risks that he works to manage, the cultural risk is a much bigger one. In his professional view, if this can be successfully managed, this presents a huge opportunity for the World. That's what motivated Dr. Chu to co-found GuanxiConnect.

Dr. Chu has benefited greatly from both China and the Western World in his career journey and life so far. In China, there is an old saying: "Receiving drips of water when in need and I shall return the kindness with a spring". Reciprocating an act of kindness is our nation's fine tradition. Dr. Chu considers this a fantastic opportunity to give back for what has been given to him.

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More about GuanxiConnect at <https://guanxiconnect.com/>