Sessions

1. WHY IS DOING BUSINESS WITH CHINA IMPORTANT TO CANADA AND ALBERTA? (20 minutes)

(RFP Topic: Relations with Canada and Alberta)

This introductory session would lead participants into deeper areas of focus and discussion, via a review of such context setting themes as:

1. China-Alberta trade relations and investment trends;
2. Importance of China to Alberta's foreseeable economic future;
3. Chinese investment in Alberta's energy sector; and
4. Opportunities for Alberta businesses in China.

2. NAVIGATING THE CHINESE BUSINESS ENVIRONMENT: WHAT ARE KEY DIFFERENCES IN BUSINESS PRACTICES (70 minutes)

(RFP Topics: Navigating the Chinese Business Environment: what are key differences in business practices
Context: history, politics, practices that impact the current reality;
Role of government;
Business—government interactions.)

A national business environment shapes not only the practices, but also the culture, values and even the prospects for businesses in a nation. In China, this means reckoning with the “commanding heights” of the Communist Party (CPC) and with the developmental nature of the Chinese state. Unlike “Western” capitalism, state capitalism in China does not involve a relinquishment to the market of key economic decisions. The government does not just manage the economy through its fiscal and monetary policies, it seeks to further influence it through direct expenditures on infrastructure and via the workings of State Owned Enterprises. Indeed, SOEs are instruments used by the Chinese developmental state to influence the economy, control economic development and protect the “welfare” of the people. SOEs are guided by China’s developmental objectives and needs, even as they use market mechanisms to achieve their business objectives. This often involves a tradeoff between efficiency and political objectives. CEOs of SOEs are subject or vulnerable to political influence, particularly from local officials.

Government impacts on China’s business and economic environment also are channeled through Five Year Plans, regulatory regimes, preferential taxation policies, or social and human development policies. As an emerging economy, current and future economic reforms also determine the conditions, goals and growth prospects of Chinese businesses. The frequency of policy changes further explains why close relationship with officials is necessary—as a means for gathering market intelligence and problem solving, and not always as a result of corruption. Thus, over time and into the foreseeable future, this
business ecosystem will set Chinese managers apart from their Western counterpart and affect the business culture, practices and incentives in Chinese businesses.

Understanding well this government-business relationship and the way CEOs are appointed would allow Canadian businesses to gain insight into how Chinese corporations respond to external changes, and how their Directors may be led to work with their Canadian counterparts.

This module would address such issues and help to create a deeper understanding of the business environment in China, by offering for analysis the following topics:

1. History of economic reform in China since 1978;
2. Socialism with Chinese characteristics, and state capitalism;
3. Government structure as it relates to management of the economy, ownership of the SOEs, and the role of the CPC;
4. How the state exercises its economic influence: the Five Year plans, economic incentives, infrastructure investment, local SOEs, and changing local policy regimes;
5. Performance and trends in the Chinese economy and increasing outflows of foreign direct investment;
6. Regional diversity and the emergence of private enterprises in China; and
7. Prospects and challenges for foreign businesses: how dedicated is “China Inc.” to an open door policy?

MID-MORNIGN BREAK, 20 MINUTES’ DURATION

3. UNDERSTANDING THE CHINESE MANAGER AND CORPORATE GOVERNANCE IN CHINA (100 minutes)

(RFP Topics:
Business vs. government interactions
Business practices, negotiating, deal making, contracting, dispute resolution
Cultural contexts and practices that are key to success)

Contingency theory tells us that behaviours and practices adopted by business enterprises and managers are contingent on the business environment they operate in. In a rapidly growing and changing economy like China’s, business managers and entrepreneurs develop skills, practices and perspectives that are different from counterparts in more stable or settled economies. The need to manage an evolving state with ever evolving economic policies transfers over a burden to business management in China.

If Alberta businesses are to work effectively with Chinese investors and businessmen, we must understand their management outlook and business philosophy. Usual descriptors of
Chinese managers include, “nimble, flexible, impatient, short-term, micromanaging, authoritarian, and unfocused.” While regional and individual differences are to be expected, it is useful to attempt to identify certain “stereotypical” or commonly shared characteristics of executives or investors whom we might potentially work with.

Participants in this module will gain insight into how to work with potential Chinese business partners or investors through consideration of the following topics or themes:

1. A brief primer on Chinese cultural traits – collectivism, in-group culture, ageism, value of humility, protocols, private versus business sphere, indirect communication style, and relationships;
2. Guanxi versus networking – what does having Guanxi mean? Is Guanxi really necessary in today’s China?
3. Beware of regional, age and education differences!
4. Mistrust as the starting point of a business connection and why friendship is an integral part of business relationships;
5. Consequences of a weak legal environment – attitudes towards legal and other regulatory requirements; the use and enforcement of contract; the due diligence process and risk management;
6. Why ownership structure is key for risk management when you are small;
7. Key features of corporate governance and management practices – emphasis on speed, organizing for agility, core competency can wait, eschewal of outsourcing, authoritarian management, focus on government relations, penchant for growth and near-term profits, reliance on non-bank financing for private enterprises, CEOs qua officials in SOEs, flexibility in dealing with government officials and the law, and rising important of international business.;
8. Implications for Alberta businesses: two current Alberta business cases, will be analysed, in order to highlight differences between business cultures and illustrate how these might be addressed.

LUNCH, PROVIDED ON-SITE, 60 MINUTES’ DURATION

4. FASHIONING YOUR CHINA PLANS, AND MANAGING YOUR RISKS (90 MINUTES: 65 FOR PRESENTATION; 25 FOR CASE STUDIES)

(RFP Topics:
Business practices, negotiating, deal making, contracting, dispute resolution
Cultural contexts and practices that are key to success
Business vs. government interactions
Investment partnerships
Overcoming challenges for SMEs working with large SOEs)
The dynamic business environment in China clearly favours larger businesses with a strong financial standing. An ability by Alberta business executives to surmount the cultural boundaries and deal with the unique market challenges inherent to China are prerequisites to success there. This module is an attempt to provide guidelines to Alberta businesses who are entering the Chinese economic orbit. It will examine:

1. Building a relationship with partners and investors – less direct or forceful communication; more emphasis on big pictures; less linearity in thinking and planning; acceptance of detours, interruptions, and delays; emphasis on face to face meetings on business issues; and, “being a friend.”
2. Adjustment to business processes – allowing for “friend time” in scheduling; being prepared for last minute changes and late confirmation; relying more on direct verbal presentation than on documents; conveying the big picture before details in presentation and approaches to Chinese investors; developing your organizational capacity for fast response; recognizing that “it is not done until it is done”; and, cultivating secondary communication channels.
3. Understanding of the Chinese investor in crafting your investment pitch;
4. Negotiating contracts – starting with the strategic issues, and concerns of your partner; understanding whether ROI is the most important driver, and what the non-financial concerns are; allowing for flexibility in timing and processes, as the decision makers may not be at the table; trying for a good but not necessarily a perfect deal; avoiding cultural offences and paying heed to cultural differences; and, recognizing that contracting negotiations are the first step in building a relationship.
5. Building in non-legal means of managing and reducing risks – cultivating local knowledge or developing such capability within your organization; and, making friends in the local government and community.
6. For Alberta SMEs in particular, utilizing official channels and involving Alberta officials as much as possible (particularly when dealing with SOEs), and exploring local partnerships as a way to reduce financial risks and increase local market penetration and acceptance;
7. Again, for SMEs – not discounting JVs as a way of operating and raising capital in China;
8. Managing partnership or business with an eye on potential disruptions and disputes – anticipating conflicts and avoiding disputes rather than resolving them; seeing this as an extra business cost that should be factored in when working in China.
9. Case Studies: two case studies or company plans for China will be obtained from participants (who will submit prior to the seminar), and these will be used to illustrate how the aforementioned concepts could be applied to their specific situations.

MID-AFTERNOON BREAK, 15 MINUTES’ DURATION
CONCURRENT WORKSHOP-STYLE SESSIONS (75 minutes)

5A. IP ENVIRONMENT IN CHINA & MANAGING IP RISKS
(RFP Topics:
Challenges associated with the protection of intellectual properties in China)

The IP protection environment in China has been improving. In certain sectors, such as pharmaceuticals, counterfeit products or those subject to IP disputes are not allowed to be entered into bidding processes, or to be distributed through government or semi-official channels. As China tries to create an innovative economy and move up the value chain, more attention is being paid to IP protection and more and more domestic firms are turning to the courts to resolve their IP disputes. Strong legislation is now in place, although enforcement remains spotty and judicial recourse is time-consuming.

There are several types of IP risks in China including theft from partners, theft from competitors, and “copy cats” in the market. These require different types of management strategies. Different products are subject to different degrees of risks. While simple, low-tech products are hardest to protect against imitators, unique proprietary technologies are more vulnerable to the other two types of IP theft.

Appropriate and diligent registration and trademarks are a must in the IP management process. Weak enforcement against IP infringement, and the low punishment environment in China means that firms must protect IP through rigorous business processes and careful selection of business partners. “Copy cats” are the hardest to guard against. This means that speed of market entry and quick capture of a firm’s IP value in the market must be part of its business strategy. Manufacturing processes must be managed in such a way that technological knowledge and trade secrets are not available or apparent in production, and that different workers or contractors are assigned different production tasks. While local partners are potential violators of your IP, they may also be good allies in protecting it, provided the right partner is found, and right agreement concluded.

Operating in big cities or jurisdictions where local governments are keen on IT or high tech development also means a better environment for protecting your IP. A strong local partner is more likely to get better enforcement from local government and is more aware of the vulnerabilities of your product in the local market.

The question of IP protection and management would be handled in this short workshop through consideration of:
  1. Recent development in IP legislation in China;
  2. Successful strategies of IP management by both foreign and domestic firms;
  3. Employees as a source of leakage;
  4. The “Israeli Model”: when start up nation meets buy up nation;
  5. Group discussion of specific concerns with IP management or infringement in China, along with potential solutions; input from selected workshop leaders who
are experienced in this area.

5B. WORKING WITH STATE-OWNED ENTERPRISES: THE CHALLENGES FOR SMALL and MEDIUM ENTERPRISES

(RFP Topics:
Overcoming challenges for SMEs working with large State-Owned Enterprises)

The Chinese business culture business environment, as well as the scale of China’s economy, have conspired to create among Chinese SOEs a bias in favor of larger and well known companies. When approaching SOEs in China, the challenges for SMEs from Alberta are compounded by their lack of financial heft and unfamiliarity with China’s procurement system, or with the business environment more generally. Recourse to a local partner or a conduit to the SOEs—either someone with a direct connection into the SOE or into an overseas subsidiary— is often recommended. Working with official trade missions and local representatives of the Alberta and Canadian governments can also help to open doors to SOEs.

With the rise of private enterprises in China, there are now a larger number of potential local partners to choose among. However, the aforementioned business relations are no substitute for an understanding of how the SOE procurement system works. As well as understanding the process, one must know the role that leasing companies play in supplying SOEs. Working with local leasing companies and subsidiaries of SOEs may be the most effective way getting one’s product into the Chinese market. The money and time required to penetrate markets in China, particularly with respect to SOEs, both suggest that an SME’s entry strategy should include finding a local partner who can provide business relations as well as required capital. Leveraging local resources is a key factor of success. The first step in approaching the Chinese market for any SME, however, must be a thorough analysis of the suitability of its products for the Chinese market and of its competitive posture for China.

This workshop-styled module therefore would include review and discussion of:

1. The procurement practices of Chinese SOEs;
2. The interlocking nature of subsidiaries of Chinese SOEs;
3. The influence of local governments on SOEs;
4. What have you to offer? – Why a special advantage is needed;
5. Groups discussion of existing concerns, along with questions and input from invited workshop leaders who are experienced in dealing with SOEs.

6. PROGRAM WRAP-UP
   (15 minutes)