Face To Face

With Chinese Vendors Part 2

What to expect on your visit to China

by Stanley Chao

With the recent outsourcing problems—tainted prescription drug ingredients, toys, and pet food—the pressure on multinational corporations to better manage their Chinese outsourcing strategies has never been greater. The days of arms-length relationships with Chinese factories are over. More foreign corporations are visiting and auditing their Chinese outsourcing partners, rather than taking the word of their licensing partner or overseas agent.

Despite having experience with Mexican or European outsourcing partners, purchasing and quality managers lack the experience to properly deal with their Chinese partners. Before a business trip, executives of U.S. corporations might ask, "Is China a communist country?" "Can I use U.S. currency to buy things?" "Is Singapore in China?" The business-related questions are just as rudimentary: "Why are we spending so much time at dinner with the Chinese?" "Why are they so quiet in meetings?"

Businesspeople can read books about China and still not get their basic questions answered. Scholars typically write about philosophical or cultural differences between the West and China, but don't explain the "nuts and bolts" on how to do business. The following tips will lessen the initial shock when visiting China and help lead to better planning, strategy, and decision making.

Planning for the trip

The most crucial decisions regarding a China business trip, whether for outsourcing or market entry, are made well before the actual visit. The most common mistake made by companies is the appointment of the trip planner. The planner is typically a procurement or supply chain manager having little knowledge about China. Companies hire people with Latin American or Eastern European experience, which has little correlation with the realities of China.

On one trip, the supply chain manager from a U.S. solar company planned the first stop in Beijing, with subsequent meetings in Shanghai, Jinan, and Guangzhou. This awful scheduling amounts to a U.S. equivalent of stopping in Los Angeles, New York, Denver, and Atlanta, in that order.

On that trip, improper scheduling resulted in rushed meetings, missed flights, and discouraged management. The planner didn't consider the many interruptions: three-hour flight and traffic delays, the proximity of the hotels to meeting locations, longer meetings due to translation, and down time for long lunches and dinners. These

Know & Go

- Foreign companies will need to take a more active role in managing their outsourcing relationships with China, rather than relying on an agent or licensing partner.
- Procurement and quality managers often lack the knowledge, experience, and skill sets to audit Chinese factories. Their experiences in Mexico or Europe do not apply to China.
- Many of the mistakes made on a China business trip start well before the actual visit.
- Foreigners will see unorthodox manufacturing and management styles in Chinese factories. Knowing these differences will prepare foreigners for the factory audit process.

disruptions seem minor, but can add up to a big headache when four company executives only have a week to meet six companies.

Culture shock

Businesspeople visiting China for the first time are surprised at what they experience in the cities, especially in the secondary municipalities, where most factories are located. The sights and sounds of China—restaurants serving silkworms, dirty public squat toilets, near-deadly taxi rides, people spitting and throwing trash on the streets, pushing and shoving in lines, and the overwhelming pollution—can all create a bad taste for foreigners.

This culture shock interferes with visitors' business judgments and attitudes toward the Chinese. As one solar-company executive said, "I find it hard to do business with the Chinese because we aren't thinking at the same level. How can we? We live in totally different environments."

Kingston Technology Co. Inc., a memory-module manufacturer headquartered in Fountain Valley, California, had similar experiences when its employees visited China. "We expect high standards from the Chinese, but at the same time, we know that their living standards are low," recalls John Tu, president of Kingston. "It's vital to separate the conditions in the factory from those outside. Plus, we train the Chinese to think and act differently when it comes to quality, manufacturing, and business ethics."

With this cultural shock comes the lowering of business expectations and the rhetorical question: Since the Chinese have such different behavior, living conditions, and ethical standards, how can they be expected to maintain quality standards in manufacturing syringes or pharmaceutical drugs?

> ***The translator does not simply serve as a messenger, but rather, transfers knowledge, experience, and ideals.***

After visiting China, a U.S. medical-disposables company gave up its China outsourcing projects. It's not that the company saw bad factories or poor quality manufacturing, but rather feared that the Chinese mentality would eventually go astray due to social and economic conditions. The company's quality assurance manager said, "Don't get me wrong, we saw excellent factories, but it was hard to believe that they could sustain such high levels. The disparities between work and everyday life were just too great—working in super-clean rooms during the day and then going back to squalid living conditions at night."

China specialists required

Mishaps and unrealistic expectations can be mitigated by employing people experienced in working with the Chinese. Because such professionals are difficult to find, some companies use consulting firms specializing in Chinese-related projects. When hiring, these companies tend to find mainland Chinese living in the United States, Singapore, or Taiwan who are fluent in Chinese and English, and well-versed in Chinese business etiquette and customs. However, outsourcing companies overlook the most important quality: hands-on working experience.

Viewpoint: Engage With China

by Stanley Chao

The international media has reported that more than 100 people died in the March riots in Tibet between protestors and Chinese authorities. Foreign multinational corporations may be wondering whether to continue their business investments in China. I urge you to stay the course and continue the economic relationship.

The March incident was ruthless. Further, both multinational companies and Western governments should urge the Chinese to re-establish dialogue with the Tibetan government-in-exile, and resolve the longstanding issues by peaceful means.

However, this is the wrong time for multinational corporations to back off from China. Only by investing in China and participating in China' economic growth will foreign entities, government or private, be able to influence China's central government. Patrick French, author of *Tibet, Tibet: A Personal History of a Lost Land* (Knopf, 2003) recently wrote in the *International Herald Tribune* that past protests and political pressure have done nothing to improve Tibet's situation. The Chinese government has not bowed to brute force, and in fact, has shown defiance in the face of opposition.

If international arm-twisting cannot change China, then maybe economic pressure will. Knee-jerk reactions like boycotting the Olympics would only incite the Chinese, and further their isolationist mentality. Foreign investments into China create economic dependency, and thus, the ability to influence the Chinese communist government.

I believe that the Chinese will listen to economic pressure. The central government's success is the result of the new market-oriented economy. This great expansion is due, in no small part, to the hundreds of multinational corporations investing in China. Multinationals such as Walmart, Carrefour, and Motorola can voice private opinions to the Chinese without having to publicly embarrass the government. Multinationals create hundreds of thousands of jobs and billions of dollars in investments. Money talks in China and the Chinese will listen to these multibillion-dollar companies.

Only by having a presence in China can foreigners influence the Chinese and stop the atrocities in Tibet. To maintain China's economic progress, the government will quietly take note of the "behind the scenes" pressure from foreign companies, and eventually realize it must preserve and promote the Tibetan people's distinct heritage.

About the Author

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A U.S. contract manufacturer hired a Singaporean Chinese employee to manage its new plastic injection factory in Shenzhen. The Singaporean manager was in his mid-40s, fluent in Chinese, and had traveled to China once or twice during his career. The company thought this was a good fit; he looked, spoke, and acted Chinese, so he must know how to do business in China. Singaporean Chinese, however, like Chinese-Americans and even Hong Kong Chinese, don't think and act like mainland Chinese. The company was wrong, and he was let go after six months.

The ideal candidate has lived and worked in mainland China, not just as an executive, but preferably as a middle-tier manager working side-by-side with locals at the blue- and white-collar levels. This person must understand the company's goals and be able to break the big picture down into a series of separate, distinct actions, including choosing companies to meet, travel logistics, translation work, managing expectations, and most important, giving vital feedback and recommendations after a trip. The candidate should feel comfortable expressing opinions to senior management, and not be afraid to go against conventional thinking.

Translators

Translation is a responsibility that should remain internal and not farmed out to outside organizations. It's the only communication link between the outsourcing company and its Chinese partner. The translator does not simply serve as a messenger, but rather, transfers knowledge, experience, and ideals. Translation should be performed by an employee knowledgeable in the corporation's inner workings and experienced in dealing with the Chinese.

"We used outside translators before, and they were poor, not from a language point of view, but in terms of lacking fundamental business knowledge," says Gary Chan, vice president at Emerson Electric Co., headquartered in St. Louis. "We hired a consulting firm specializing in our industry. Because they were businesspeople who understood our products, strategy, and our technical jargon, they didn't just mimic our words, but gave deeper explanations and insight. The conversations went smoother, faster, and most of all, we understood each other's business motives."

A manufacturer traveled to Shenzhen to visit a potential partner. They hired a translator from a local language institute. The translator spoke perfect English but was unable to comprehend many of the technical terms and jargon. The U.S. delegation took five minutes to explain their equipment, followed by 45 minutes of conversation between the translator and the Chinese company. Then the translator would ask the Americans a question, and the whole cycle started again. The manufacturer left China in disgust, vowing to bring its own Chinese staff next time.

At the factory

Once at the factory, newcomers go through an eye-opening adventure. There is a great temptation to react negatively to the unorthodox manufacturing and management styles of the Chinese. However, many seemingly unfit operations are equivalent to the best U.S. and Japanese factories. A foreign audit team should be cognizant of both the subtle and obvious differences in Chinese factories, which will better allow them to assess the quality, manufacturing, and management systems.

The initial, visual factory inspection typically reveals the following characteristics: manual assembly that is usually automated in other countries; unlabeled work-in-

Viewpoint: Disengage With China

by William A. Levinson

Vladimir Lenin predicted that "the capitalists will sell us the rope with which we will hang them," although "us" turned out to be Chinese and not Russian communists. Executives with financial backgrounds—the kind of people whom Henry Ford pronounced unfit to lead any enterprise because they focused on the dollar instead of the job—have played a central role by shipping manufacturing jobs to China to get cheap labor.

Manufacturing is the backbone of national prosperity and military power, and companies that send manufacturing jobs offshore are indeed selling our potential enemies the rope with which to hang us. Mainland China's role as a regional aggressor and menace to world peace includes its illegal occupation of Tibet, its belligerence toward neighboring countries like Taiwan and Japan, and a thinly veiled threat to use nuclear weapons on the United States. In 2001, China committed an outright act of war by imprisoning the crew of an American aircraft that had to land in China after a midair collision with a reckless Chinese fighter pilot in international airspace.

The Chinese government is also infamous for suppression of all dissent, the murder of political prisoners for transplant organs, censorship of the internet, compulsory abortions, and the Tiananmen Square massacre. China exports its contempt for human life through toxic toothpaste, hazardous children's toys, and questionable pharmaceutical products. Chinese heparin has, for example, been blamed for several deaths in the United States.

Patriotism, human rights, and product safety do not have to conflict with the bottom line. Lean manufacturing, as developed by Henry Ford, made American workers so productive that overseas transportation costs and lead times negated the advantage of cheap offshore labor, or even offshore slave labor. Ford's payment of the unprecedented wages that created the U.S. middle class were not inconsistent with his company's equally unprecedented bottom-line performance, which also made the United States the wealthiest and most powerful nation on earth. We have no more right to squander Ford's legacy than a responsible heir has to squander his ancestors' hard-earned patrimony.

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progress stored in open spaces; relaxed restrictions entering clean rooms; improper ventilation; third-generation machinery; outdated calibration stickers; dirty floors and walkways; power generators operating at 150-percent capacity; and rooms dimly lit to reduce energy consumption.

Some of these factories are producing medical syringes, cosmetics, cardiovascular stents, and prescription drug ingredients for export. The key in resolving problems is to be direct, ask specific questions, and don't back down until the answers are satisfactory or a corrective measure has been recommended. These questions will bring to the attention of the Chinese that these concerns are important and that changes are needed before any deals are signed.

Because of cultural and economic differences, the Chinese are not aware of Westerners' views of what makes a good factory. The average Chinese has never traveled abroad, nor visited a Western-style factory, and has little interaction with foreigners. They are ignorant because of the lack of opportunity, but they want to know and learn. Once aware of the concerns, factories will take corrective measures, and show appreciation to their foreign partners for taking the time to educate them.

A U.S. syringe manufacturer visited Wenzhou Beipu Science Technology Co., located in China's east coast. The inventory in the raw materials warehouse was soaked from rain leaking through the ceiling cracks, leaving plastics resin bags contaminated and unusable. Resin bags were scattered on the floor in the dimly lit storage room. The quality manager expressed his concerns to Beipu's president. The next day, the leaks were patched, battery-powered lights were hung, and contaminated materials were thrown out.

> ***The key in resolving problems is to be direct, ask specific questions, and don't back down until the answers are satisfactory.***

When asked why this wasn't done before, the president, Hongjie Zhang, commented, "We were unaware that rain could cause contamination, and didn't know that foreigners expected such clean warehouses. We know now and won't make that mistake again. I'm happy that the Americans expressed their opinions. We will improve our quality to meet their standards."

U.S. citizens are polite and don't want to offend their Chinese hosts, but this is what creates misunderstandings. Indeed, face-saving is important, but not when quality is at stake. Too often, foreigners leave China wishing that they had asked additional questions or requested better clarification at the factories. All issues should be discussed the moment a red flag comes up. Listen to the Chinese's explanations, but also offer real, practical solutions to their shortcomings. Often, factories will adhere to new ideals and implement them quickly.

Socializing and drinking

Dinner is an appropriate time to discuss more sensitive issues one-to-one with the owner or senior management. It's a more casual setting for social talk, but also an opportunity to have serious business discussions privately. U.S. managers should sit next to their Chinese equivalents: president with president, quality manager with quality manager.

The discussions generate personal promises, and so the face-saving component of the relationship evolves. The owner will make a commitment on pricing, or to improve quality conditions. He doesn't want to eat his words. This is the time to emphasize manufacturing concerns or negotiate pricing. The comments are made in a light-hearted manner, but are taken very seriously by the Chinese. Later, they will ponder the dinner discussions privately.

It is absolutely not mandatory to drink alcohol with the Chinese until everybody is stone drunk on the floor. Some people like to drink, and the party becomes an excuse for it. For the Chinese, it is also impolite to drink alone, and toasting with others is customary.

Members of a U.S. company often feel pressure to "bottoms up" 90-proof rice wine, and then later have to rush to the toilet. No face is lost by toasting with a soft drink or beer. The Chinese will pressure the nondrinker a few times, but then quietly drop it and move on. Let them toast among themselves.

Quality discussions

The discussions tend not to follow the planned agenda, and the meetings following the factory inspection can be confusing. Topics change as different questions pop up. This is sometimes due to the translator, who is often inexperienced in the specific industry. To minimize flip-flopping, the team should designate one person to take control of the agenda and conversation flow. The highest-ranking Chinese manager will do the talking, and subordinates will only speak when spoken to. Foreigners should take the initiative to make small talk with these middle managers, because they will be doing the real work.

When inspecting quality and manufacturing documents, it's advisable to follow a workflow-style analysis starting from raw-materials to outgoing inspection. Audit the documents in the order of a real production flow and for one manufacturing lot. Ask to see raw material purchase orders, incoming inspection reports, manufacturing instructions, and work orders. Review the actual, handwritten working documents, not just the ISO standards manuals or presentation material. Ask to view the actual machines that the lots were manufactured on, and speak with the line managers about that day's production.

This audit method will reveal the true kinks in the manufacturing processes, and will take the Chinese out of their comfort zone. This puts pressure on the managers to prove their processes and commitments to quality. At the end, all processes and procedures must be proven.

A workflow-style analysis was performed on a syringe manufacturer in Yangzhou that makes 1 million syringes per day. The quality managers walked the facilities, following the raw material from the warehouses to the production facilities, sterilization, quality control, and finally to the finished goods warehouse. A major flaw was revealed; the quality control laboratory was located in the sales offices, separate from the production facilities. This distance would have made it impossible to bring a

5-percent sample (50,000 syringes) to the lab. A legitimate factory would have its quality control laboratory situated closer to the actual production floor. The lab was in place simply to showcase their high-tech quality equipment to unassuming customers. Without a walkthough, this discrepancy would not have been detected.

Follow the supply chain

Because of time constraints, audit teams rarely inspect the raw material and component vendors supplying the factories or examine the locally made machinery and test equipment. This should be done in subsequent trips when one or two factories have been chosen as finalists.

Much of the equipment used—plastic injection machines, three-axis robots, liquid dispensers, molds, and laboratory testers—are locally made knockoffs, not comparable with their European or U.S. equivalents. The local equipment is up to 200-percent cheaper and in no way matches the precision and longevity of the foreign brands. Further, factories drive their capital equipment well beyond the recommended lifetime, often two to three times longer, using home-made parts. Local raw materials such as steel, plastic resin, paints, and lubricants can be 50-percent less expensive, but lack consistent quality and should not be used for medical products, precision parts, or toys.

To counter these measures, some outsourcing companies import their own material and store it in separate warehouses in the Chinese factory where the materials can only be used for their production runs. Other factories have segregated production lines for foreign companies and use foreign-made assembly equipment purchased by the factory. In such cases, experienced line workers and machine operators are specially trained to operate the foreign-made equipment.

Scrutinize employees

Mid-level managers rarely speak during customer meetings. For one thing, they speak little English and feel shy about what little English they do know. They leave most of the talking to the higher-level managers or English-speaking employees, not wanting to say the wrong thing or speak out of line. Similarly, foreigners focus their time toward the translator or highest-ranking manager, not bothering to inquire about others in the room. This is a big mistake.

Take the time to speak to managers and line workers; break the ice by presenting them with small gifts as a token of partnership. Their feedback will provide valuable information on factory conditions such as turnover rates, employee satisfaction, morale, and professional qualification levels. Ask how long they have worked at the factory, where they worked before, how many hours are in the work schedule, if they receive overtime pay, and why they chose to work there. Request to see the company dormitories, ask to speak with the dormitory managers, and even eat at the employee canteen.

Companies going to China for the first time can't anticipate all of the problems that lie ahead.

A well-managed factory will have employees working two to four years, which is long by Chinese standards. Good factories will have many local residents as employees, as they have connections to the better jobs in town. The factory management will also look after the welfare of their workers by organizing unions. These unions are unlike the labor unions in the United States that have political and economic power. The Chinese unions organize social and sporting activities, and even serve as matchmakers for the single employees.

Last day

Foreigners sometimes make the mistake of not asking the factory owner to attend the final day summary meetings. Chinese management styles are autocratic; the owner makes final decisions. Without the owner present, managers can only acknowledge the request, needing further consultation. Managers of U.S. companies might confuse the acknowledgement as an acceptance of the terms. With the owner present, quick and decisive decisions are made on the spot, leaving no doubt.

Discuss price at this time, not during the initial discovery phase. Leaving the price negotiations to the final stages will allow the Chinese to properly factor additional costs for quality improvements, better raw material, and production changes. Conducting the negotiations too early will create face-saving issues for the Chinese which may result in hidden cost-cutting measures, resulting in poor-quality products.

Conclusion

Companies going to China for the first time can't anticipate all of the problems that lie ahead. The old adage, "Ignorance is bliss," applies to these inexperienced companies. Ironically, it's the companies already in China that realize they have much to learn, and ask for outside assistance.

Hopefully, the suggestions presented here will better prepare first-timers and warn them of China's unique challenges. These difficulties are worth resolving. The Chinese are early in the learning cycle and eager to work with foreigners to upgrade their quality standards. Give them the opportunity, educate them, and meet them in the middle when it comes to business and cultural differences.

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Comments

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