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Fast Guide to deploying in China: Five rules to live by when doing business in China

By The Associated Press

(Electronic Business) _ Other articles in this series: *Fast Guide to China: How to select a local intermediary* <http://www.edn.com/article/CA6420118.html?partner=eb> *Fast Guide to China: Four key questions to ask before taking the plunge* <http://www.edn.com/article/CA6420138.html?partner=eb>

There are numerous books and articles that explain how to navigate cultural differences when doing business in China. However, because the electronics business involves complex supply chains and intimate technical relationships, experts say, there are some rules you simply must follow if you're going to be successful with your China deployment. Here are five of the major ones.

Rule 1: Delegate authority along with responsibility. Western executives tend to see China as a country that was formerly primitive, then Communist, and now a growing market for Western goods. By contrast, the Chinese see China as the world's greatest civilization, with a millennia-long history of innovators, merchants, and empire builders. Under the circumstances, it's not surprising that Chinese executives are acutely sensitive to anything that smacks of Western paternalism, especially now that China is a major player in the electronics segment.



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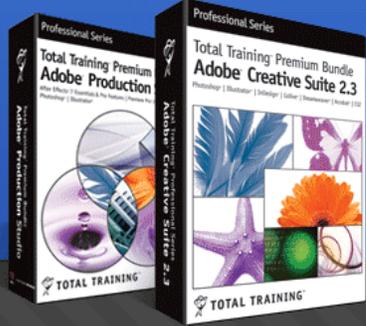


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When dealing with Chinese electronics executives, you absolutely must assign authority commensurate with responsibility, according to Rod Keller, vice president of global sales for Cisco <http://www.cisco.com/>'s \$1-billion-a-year LinkSys division, which does the majority of its manufacturing in China. "I've worked in situations in which corporate headquarters tried to call the shots overseas and have found that decoupling authority from responsibility leads to underperformance," he explains. "U.S. electronics firms must be particularly sensitive to the value of dispersed authority and deploy accordingly," he adds.

Rule 2: Cultivate the network (not just the hub). In the United States, extensive zoning limitations

and environmental laws discourage the growth of large clusters of electronics manufacturing facilities. The opposite is true in China, where government policy is to create electronics megacomplexes.

"China has excelled at ensuring that infrastructure in these megacomplexes is planned and adequately provided for, and this type of support is very attractive to foreign companies that are conglomerates or need multiple and linked processing of raw materials," says Diana Matthias, a Shanghai-based senior consultant with Rouse & Co. International <http://www.iprights.com/>, a company that consults on international intellectual property rights.

In addition to being convenient for electronics firms, the megacomplex concept reflects how the Chinese prefer to do business: as a network of companies with everybody sharing the risk. "Typically, a large Chinese company that receives orders from outside of China will outsource as much as possible to smaller factories," explains Matthias.

Because of this, U.S. executives must constantly be aware that a business relationship with a Chinese electronics supplier is actually a relationship with an entire web of separate business entities, explains Hainan-based business consultant Guo Hai. "In China doing business means working through a network of relationships rather than contracting with a single entity," he explains.

Rule 3: Emphasize your long-range plans. With the rapid growth of the consumer electronics segment, electronics firms face ever-shorter market windows and rapidly changing market requirements. To remain flexible, U.S.-based firms tend to focus on short-term planning, giving less thought to anything that might take place more than a year in the future. That attitude influences the way U.S. firms build alliances and supply chains, encouraging many electronics executives to view long-term commitments as inherently risky.

Chinese executives, by contrast, equate short-term thinking with fatuous shortsightedness. Indeed, there are Chinese-owned firms, such as Acer <http://www.acer.com/>, whose business plans project 300 years into the future. Not surprisingly, Chinese executives are reluctant to enter into a business relationship with any company that, due to the lack of a long-term plan, appears to be deploying in China simply to make a quick buck. "The most common mistake U.S. electronics firms make is to think of China as a region you can enter quickly, exploit, and then jump out of," says Frank Liang, the Asia sales [director](http://www.centillium.com/) for Centillium Communications <http://www.centillium.com/>, a semiconductor design firm.

Rule 4: Never criticize the Chinese government. In the U.S., corporate executives (especially those that make big campaign contributions) frequently complain heartily about government regulation, waste, and inefficiency. However, although there's no question that threading through the byzantine labyrinth of Chinese bureaucracy can be incredibly frustrating for Western executives, you must << never >> criticize the Chinese government in the presence of Chinese executives. The reason is both cultural and legal.

From the days of Confucius, Chinese culture has, in general, tended to respect central authority, and the Chinese government, whatever its faults, is still the central authority. Negative comments about government regulation or corruption that would pass virtually unquestioned in a U.S. boardroom are likely to be considered in a Chinese boardroom as criticisms of the Chinese people. More important, for a Chinese citizen, being known as a critic of the government can result in anything from a lost contract to a jail sentence. "You don't want to put Chinese executives in a position where, to keep from offending you by arguing with you, they are forced to agree with an antigovernment remark," explains Usha Haley http://en.wikipedia.org/wiki/Usha_Haley, author of the best-selling book *The Chinese Tao of Business* http://www.amazon.com/Chinese-Tao-Business-Successful-Strategy/dp/0470820594/sr=8-5/qid=1171905408/ref=sr_1_5/103-9487161-5057420?ie=UTF8&s=books.

Rule 5: Protect your Ibut plan to lose some of it. IP theft in China remains a major problem for the electronics industry, according to Erin Ennis, vice president of the U.S.-China Business Council <http://www.uschina.org/>, a nonprofit trade group.

"Things are slowly getting better, but the battle is far from over," she says.

The problem is that Chinese culture tends to treat IP as if it were publicly owned rather than private property, which means that you must approach your China deployment with great caution. "We always stress that protecting your IP is a fundamental first step before embarking on China entrmany think about this when they are there, but then it's too late," says Ben Goodger, a [director](http://www.rouse.com/) at Rouse.

There are many ways to protect your IP <http://www.edn.com/article/CA6328379.html?>, but the fact remains that, even with a wide range of internal controls, you're probably going to lose at least some IP. Therefore, it's a good idea to think in terms of limiting the damage rather than winning the battle. A good way to do this is to disperse your deployment among multiple companies that are in different relationship networks.

"For IP protection, you should manufacture pieces of the whole item in different locations, so that no one sees the whole picture, and do final assembly in the United States," Goodger recommends.

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I wish I had a dollar for every time I have been asked "What camera should I buy – it'll be for shooting the kids growing up and playing soccer and so on. Maybe a little bit of editing and adding music and titles and the like." Except the professional shooter, I find that there are three distinct types of people who buy video cameras. [Read More](#)



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While some in the media are urging home users to hold off on Windows Vista, or to



purchase a new system with Vista already installed, others, such as myself, have ignored that advice and have installed Vista on my home machine. Specifically, I installed Windows Vista Ultimate because I wanted to get a feel for what the new Media Center Edition looks and operates like. I have been a fan of the Media Center Edition since putting together an AMD-based Media Center PC last year. [Read More](#)

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