

- market rental trends
- the best locations
- future property developments.

Leases are usually for two to three years, but longer lease periods also exist.

Leasing premises is a key step towards meeting regulatory requirements to set up a representative office or WFOE in China. You need to make sure that the building or office you are considering leasing as your representative office is permitted to be used in this way. Most cities only allow representative offices in grade A (top quality) buildings.

You also need to make sure that the location you have in mind is in an area approved for your type of business.

KIWI LESSON – GETTING A PRESTIGIOUS ADDRESS

Financial services company KVB Kunlun says consider getting a “prestigious address” which will help you be taken seriously. “Be prepared for the extra costs involved if window dressing is important in your type of business.”

KIWI LESSON – BE CAREFUL WITH LEASE AGREEMENTS

“Small errors in detail can sometimes add weeks to the process,” says Bruce McNabb, Pertronic’s Technical Director for China. “For instance the building number on our lease agreement was missing (should be A803A instead of 803A) – that added another few weeks to the process, as well as requiring notarised board resolutions in New Zealand and more expense in setting up the office.

Pertronic realised the need to be very alert to the process and to ensure it was complied with at every step. The lawyers monitored the legal documents for the rental of the office premise; and added some clauses that would protect the company if the WFOE application was not successful. This precaution paid dividends as when the office lease was being transferred to Pertronic Trading (the WFOE), the landlord attempted to get Pertronic to pay the tax on the lease payments and refused to sign the transfer documents. After meeting with the lawyer the issue was resolved in our favour. This added another three or four days to the process.

Pertronic managed to negotiate a good leasing rate for two plus one years. To fit out the office we got three quotes, from a European company and two local firms. We chose a local firm and found that they were excellent to deal with.”

How to buy premises

Generally foreign companies can only get land use rights (not ownership of land as we know it in New Zealand) through a WFOE or a joint venture.

No foreigner can currently own land in China, although ownership of land for Chinese nationals is currently under review.

KIWI LESSON – WATCH WHO OWNS THE LAND

“A lot of people have been burned by property purchases after they are told by government officials that the property is available to them. I’ve had this recently. We looked at property and when I dug into it, they didn’t own the property. They didn’t have the right to offer me the property. They thought they were going to get it but they had to get approval from Beijing.”

– Keith Curry, China Chief Executive, Skellerup

Using serviced offices

Start-up businesses or those with a limited budget have the option of using serviced offices.

Serviced offices provide an array of business services, including bilingual secretarial support, as well as the usual handling of mail, fax and telephone calls and courier services.

This one-stop approach to setting up an office allows many companies that are new to China to focus on core business activities by bypassing the technical difficulties of finding an office and hiring staff.

KEY LEARNINGS

- Research the market.
- Use local expertise.
- Check titles and leases carefully through a law office in China.
- Do due diligence on agents.
- Do a careful inspection of properties.

5.2 HUMAN RESOURCES

Managing human resource issues

You will probably have to spend more time on human resource (HR) issues in China than in other markets. A survey of US Business Council members found recruitment and retention was their number one operational issue in China.

One of the major drawbacks for Western companies in China – relatively low wages – is disappearing within some job categories in some regions and industries. This is particularly the case for well qualified technical and management staff in the main cities. In Shanghai professional salaries can match what you’d have to pay in large Western markets. Skill shortages are also a major problem with many companies listing this as the biggest brake on their growth in China.

McKinsey Global Institute has identified a “looming talent shortage” in China. A 2005 Institute report estimated that over the next 10 years China would need 75,000 leaders who could work effectively in global environments in order to match the global aspirations of many Chinese companies. The report estimated there were only 3000 to 5000 such managers in 2005.

Another issue is looking after your New Zealand staff who have relocated to China (or expatriates).



Who to hire

David Mahon, Managing Director, Mahon China Investment Management, says the simple rule in China is to hire whoever is best for the job. "Do not feel obliged to send over an expatriate nor to hire the first Chinese graduate of a New Zealand university who comes through the door. Companies need people who can understand their own culture, and products and who can also understand the Chinese market. Someone with a commerce degree from the University of Otago who has never worked in China is unlikely to be the best fit, as is someone who sells themselves on their 'connections'."

He says the tradition of the great trading houses and many successful multi-nationals in China of employing a reliable company "man" (an expatriate), who can bring company culture, product knowledge and oversight to the operations, supported by a bright (Chinese) mainlander, has been proven to work over the decades.

Kiwi companies already operating in China say employing locals to help you make business decisions is a must. Keith Curry, CEO for Skellerup's China operations says you have to let the Chinese manage the Chinese. "Chinese managers are very good on detail. They know their jobs. They manage people differently from us."

Curry says critical staff members include an accountant you can trust and a good purchasing person. He says Chinese accounting is different from Western practice and your accountant has got to be familiar with the latter.

However, accounting and auditing practises in China are moving more into line with New Zealand. For more information see the "Setting Up a Base in China – Business Accounting" section.

Be careful not to put too much emphasis on language abilities when deciding who to hire. Anyone you hire must also have the relevant business expertise you need, and be able to fit in with your corporate culture.

KIWI LESSON – USE CHINESE NATIONALS FAMILIAR WITH NEW ZEALAND

"A very important aspect of our start-up is that we employed Chinese nationals who have been working in New Zealand. Our Office Manager/Sales Assistant has proven invaluable in interfacing with local companies and individuals, resolving all manner of issues. Our Engineering Manager, having attained a Bachelor of Applied Technology from Massey University, is also invaluable to our operation. Without these two we would hardly have progressed." – Bruce McNabb, Pertronic's Technical Director for China

Choosing between expatriate or local hire

Advantages of expatriates:

- they come from a similar business culture and if they are already an employee they will know the company
- can carry clout in China

- less risk around hiring, such as CV fraud
- they are more readily accepted as the company representative than a local hire.

Disadvantages of expatriates:

- lack of market knowledge
- unfamiliar with language and culture
- expensive – a generous package may be needed to get them to work in China
- danger of poor adjustment to living in China.

Scott Brown from RedFern Consulting says don't localise your staff too quickly as the added cost of keeping expatriates (expats) on board will be worth it in terms of management and communication benefits. He also says don't try to develop your new business by regular trips to China alone – the Chinese, like anyone else, will respect and follow those who are on the spot, prepared to roll up their sleeves and demonstrate commitment to them.

KIWI LESSON – HIRE A MIXTURE

"A strategy around having a mixture of local and expat staff is really the starting point. How you then mould your company and structure around whether it's more local or more foreign is all part of your business plan going forward. It's not something you'll see straight away. You'll have to be in China for a while to really understand that. We're still trying to determine what the right mix is." Clive Richardson, Former – General Manager China Operations, Beca Engineering Consulting, Shanghai

Expats and their families can find it difficult to adjust to life in China, particularly if they are based away from the main centres where there are likely to be few people who can speak English and a small or non-existent expat community. Schooling, sporting, social opportunities and medical facilities, other than those for the Chinese, are limited.

To help reduce expat burn out many companies give generous travel allowances for employees and their families.

KIWI LESSON – OFFER REGULAR VISITS HOME

"I think in terms of relocating staff to China, whether it is short-term or long-term, it's quite important to start with people getting regular visits back home. In my own case and that of a colleague, we worked up here for three or four weeks and then went home for two weeks. It was really necessary. It got to you after a while, working here. We were working seven days a week. But now that I'm living here permanently, it's different. I go home every four months for a quick one-week trip just to see my daughters. I miss China now when I go to New Zealand." – Keith Curry, CEO China Operations, Skellerup

As a rough guide, the salary of a New Zealand expatriate working in China would typically be about 30 to 40 percent more than an equivalent staff member in New Zealand. Housing supplements or company housing and schooling, medical, travel and entertainment allowances push total salary packages higher still.

When employing expats you need to check the rules regarding permanent residence and effects on worldwide income. If you are paying a portion of an expat's salary offshore, be consistent in your management accounts. Officials are not silly and know the market value of expat managers. Also remember to consider New Zealand taxation rules.

Foreign employees must do jobs that can't be done by locals and they need a residency visa (called a Z visa) and a residence permit.

Hiring 'half-pats'

Hiring 'half-pats' – Chinese nationals returning home or ethnic Chinese with foreign citizenship – can have the advantages of both expats and local hires. They can bring with them market knowledge, bilingual language skills and a familiarity with both Chinese and Western business cultures. However, you need to be sure that they have maintained their Chinese connections.

How to make contact with 'half-pats':

- use New Zealand universities with alumni networks
- the New Zealand alumni network in China
- New Zealand China Association in New Zealand
- New Zealand China Trade Association.

How to hire

Common recruitment channels for managerial and technical expertise in China are:

- specialist recruitment agencies – this is recommended by Kiwi companies
- advertising
- e-recruiting
- head hunters
- universities and technical institutes
- referrals and networking.

The latter can be effective in China because of the emphasis placed on personal relationships.

To hire workers for factories a more direct approach can work. Skellerup, which is based outside of a main centre, says it puts up a notice on its factory gate when it needs staff and gets 40 takers.

But it's likely to be more difficult in places like Shanghai. Keith Stevens, General Manager of Richina Pacific Ltd's Ovine Garment Leather Division based in Shanghai says:

"We're entering into the one child family syndrome and most Shanghai people would prefer that their sons and daughters were working in an office environment, certainly not in a tannery.

So most of our labour force now comes from the neighbouring provinces. Probably the education level of the workers is not as high as the people that we have employed in the past from Shanghai, but we can overcome that by putting in place good training schemes."

Background checks by professional external consultants are essential when hiring senior staff, particularly because of the danger of intellectual property loss.

Exaggerated and fraudulent CVs are also more common than in New Zealand.

For a list of recruitment agencies and consultancies contact New Zealand Trade and Enterprise.

Remuneration in China

While China remains a relatively cheap place to hire factory workers, particularly in the less developed cities and regions, skill shortages and rising standards of living in the main centres are pushing up salaries for management and technical staff to levels similar to Western countries.

English speakers are costly and in short supply outside the main centres.

Typically there are four components to salaries in China:

- annual base salary – the minimum wage in China is set by individual cities and rises every year
- guaranteed bonus – becoming less common as employers roll it into the base salary
- cash allowance – a small traditional payment at Chinese New Year and traditionally paid in a red envelope
- bonuses and incentives – becoming more common.

When investigating staff costs make sure that all costs are transparently listed. These contributions can include: housing, meals, pensions and health insurance (which can add a third to the basic pay rate).

Also, if you are hiring factory staff you will often have to hire more workers to do a task than would be needed in New Zealand.

All workers must have a contract which sets out employment terms and conditions.

One thing to watch for is that employees talk more openly about pay than they do in New Zealand. As a result it may be a good idea to be transparent about what you pay and why.

Attracting and retaining staff

Attracting and retaining staff can be challenging in China's competitive job market where skilled and valuable staff are regularly headhunted. In key positions it's rare for someone to stay with the same company more than six years.



Once someone has had experience working in a Western company their skills become highly sought after on the job market. For example, experienced accountants could have had four or five jobs by the time they turn 30.

In this environment you need to look after your staff.

Jade Grey, a Kiwi entrepreneur based in Beijing, says Chinese staff expect to be provided with a work environment which is “very close and very tight, which is great for team building”.

The number one issue for staff, he says, is how the boss treats them. Next would be how the company cares for them and the opportunities it offers, then wages,

“As an owner you become much like a father figure. Staff look to me for all their needs. We bring kids in from the countryside, we house them, we feed them, provide insurance. If they get sick we get their medicine. Their parents come here and you meet their parents together.

They give you great support if they believe in what you’re doing. You’ve really got to care about it on a much more individual level rather than just the pay cheque. It’s a lot deeper than that so you’ve really got to spend a lot of time on it.”

KIWI LESSON – IT’S NOT ONLY ABOUT MONEY

“It is no longer so much a question of new entrants making tempting salary offers to your staff as it is to get the right cultural fit. Of course you have to pay what it takes to get the best people, but provided the match is right staff tend not to leave for the money. In addition, to attract and retain the best people you need to be able to offer opportunities, stability, challenges and rewards – the whole gamut.” – Richard Yan, Chairman, Richina Pacific

Managing executive and vocational training

Executive and vocational training is important in China for three reasons:

- there are severe skill shortages in some areas
- training opportunities are a key factor in staff recruitment and retention
- it motivates staff.

Issues around ongoing education and training opportunities and staff turnover are often accentuated in China because of severe shortages in skilled and internationally savvy staff and workers who have few qualms about leaving if they are not happy.

One effective way of keeping staff is offering good on-the-job training opportunities. An online survey by the Shanghai-based China Market Research Group in 2006 found 90 percent of Chinese aged between 18 and 28 wanted access to continuing education. Forty one percent said that they believed continuing education was the best way to raise salary packages and realise their professional and financial goals.

Many of these skill shortages are caused by China’s education system which relies on rote memorisation and testing which doesn’t prepare Chinese workers for modern workplace realities. Traditionally, Chinese businesses have not invested in training staff though they are now starting to catch up with best Western practice.

Options for providing executive and vocational training

McKinsey & Co estimates that fewer than 10 percent of Chinese job candidates (on average) are suitable to work in a foreign company as engineers, accountants, quantitative analysts and life science researchers.

Even if this is a pessimistic count, you clearly need to be ready to provide ongoing education for most of your Chinese staff to get them up to speed. Ways you can do this include:

- Financial positions – there’s a shortage of experienced Western-savvy professionals with English language skills, regulatory knowledge and international experience.
Ongoing education solutions:
 - posting to your New Zealand operation, or other international branches
 - degrees, diplomas and courses at New Zealand educational institutions
 - mentoring
 - using specialist Chinese or foreign training providers and programmes.
- Engineers – Chinese engineering students get little practical experience in projects or teamwork.
Ongoing education solutions:
 - posting to your New Zealand operation, or other international branches
 - degrees, diplomas and courses at New Zealand educational institutions
 - mentoring
 - inclusion in a Kiwi project team working in the region
 - using specialist Chinese or foreign training providers and programmes.
- IT specialists
Ongoing education solutions:
 - posting to your New Zealand operation, or other international branches
 - degrees, diplomas and courses at New Zealand educational institutions
 - mentoring
 - using specialist Chinese or foreign training providers and programmes.

Finally there is a set of generic skill gaps across all professions and occupations.

These include:

- Confidence in speaking English.
Ongoing education solutions:
 - English language lessons
 - mentoring by a more fluent colleague
 - visits to New Zealand.
- An understanding of Western and business cultures (including risk taking).
Ongoing education solutions:
 - mentoring
 - attending meetings between Kiwi manager and Chinese counterparts
 - visits to New Zealand.
- Lack of creativity
Ongoing education solutions:
 - mentoring
 - visits to New Zealand.

Overseas training is highly sought after. Offering your best employees an opportunity to train in New Zealand builds company loyalty and helps develop the international awareness and business skills often missing among Chinese managers and staff.

Tips

- Work in with a partner's plans (for example, a channel partner) to help cover your training needs.
- Do a comprehensive orientation course for new recruits.
- Use their skills immediately and provide constant challenges.

KEY LEARNINGS

- Watch out for contradictory advice on HR issues
– you need to find out what is right for your company.
- Check the CVs and references carefully.
- Make the final selection yourself.
- Look after your expats.
- Value your Chinese employees.
- Look out for hidden wage costs.
- Invest in vocational training and head or regional office placements.
- Conduct exit interviews.

If you 'inherit' staff via an acquisition or joint venture don't be too quick to pick and choose who you will keep or let go. Some labour laws prohibit layoffs in certain circumstances, but you don't know in the short term who actually plays which key roles, or more importantly in China, who is related to whom.

5.3 ACCOUNTING AND AUDITING

What are the accounting and auditing requirements?

Accounting is different in China so New Zealand companies need to get to grips with different rules and systems as well as any new legislation and standards.

Making the situation more difficult is a shortage of accounting and auditing professionals, especially those with experience of working with Western companies.

However, accounting and auditing in China are moving more into line with New Zealand. Richard Yan, Chairman, Richina Pacific says China's business environment is becoming more 'normal' by Western standards with the range of legal, accounting and intermediate services available growing every year.

Keeping financial accounts

If you have a wholly foreign owned enterprise (WFOE), a joint venture (JV) or a representative office you have to use accountants registered in China to prepare your annual financial statements and other financial documents.

You can use either a registered Chinese accounting firm or an international accounting firm to set up accounting systems that comply with Chinese law. Several accounting firms in New Zealand also operate in China, including KPMG, PricewaterhouseCoopers, Deloitte and Ernst & Young.

You need to be sure that the person managing the accounts process is doing so in China, not New Zealand, which incurs an additional cost.

For a list of accounting firms in China, contact New Zealand Trade and Enterprise.

Keith Curry, Skellerup's China Chief Executive, says one of the critical employment issues for companies in China is having a good accountant who is familiar with Western accounting practices.

"Chinese accounting is quite different to Western accounting. The accountant you have has got to have done Western accounting. It's as simple as that."

He suggests a good investment is sending your China accountant to New Zealand for work experience.

Many of China's accounting regulations are the same or similar to international practice. Areas of difference include tax deductibility and depreciation of capitalised assets.

You may need to produce one set of accounts that comply with China's regulations then adapt this to meet Generally Accepted Accounting Principals that apply to the New Zealand parent company.

The Chinese Ministry of Finance must approve any accounting software used in China.



Other important issues are:

- you must keep your accounting records in Chinese
- financial reports must be in the local currency (RMB).

For more information on taxes see the “Navigating China – Tax and Tax breaks” section.

Audit requirements

WFOEs, JVs and representative offices must be audited annually by a registered accounting firm.

You must submit an audited financial report, a foreign exchange audit report and an annual report. WFOEs and JVs may also need to submit a Taxation Consolidation Reporting Package. These need to go to up to seven different government departments, depending on your structure. Representative offices only need to send them to two.

KIWI LESSON

Instrument maker Commtest says “you need to have ongoing audit and compliance systems in place from the beginning so you have a clear understanding of expenses.

Networking, entertainment, gifts and other expenses can expand considerably if not defined and monitored. Commtest uses local audit company Sincere as a go between to audit wages, expenses and claims to ensure that all outgoings are legitimate and comply with local regulations. Sincere’s assessment is then emailed to Commtest New Zealand for approval. Sincere is then authorised to release the funds from a Bank of China trust account. Sincere, which holds Commtest’s company seals, is responsible for balancing the account.”



