



Article by

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Valérie studied Sinology and co-founded China Inroads. She has been active in China since 2000. Valérie creates a bridge between customer requirements and the implementation of their plans in China.

China Inroads supports innovative companies in their expansion to the Chinese market. "China belongs to the Chinese." This philosophy is the guidance for how we match companies with the right parties and markets in China, to create a successful and effective venture.



➔ **TRANSPARENCY, NECESSARY TO CREATE A HEALTHY CHINESE BUSINESS ENVIRONMENT**

Transparency and China are not a match made in heaven. However, it seems the skies have cleared a bit since the Chinese government is now making more information publicly available. For example, by 2020 authorities at all levels will be required to release fiscal reports and financial analyses. Another milestone are platforms that almost all of China's provincial governments have created to disclose data online about local factory emissions, though data quality and reporting speeds vary. But will changes like these really lead to a more transparent, reliable and healthy Chinese business environment?

Controlled change, uncontrollable insecurities

In China, a lot of information is often not publicly available because it is said to be a 'state secret'. With China's vague state secret laws, information about the number of people executed every year, industry databases and pollution figures can all be retroactively labeled a state secret. Although the Chinese government actively implemented new rules regarding the publication of information in February 2014, the laws remained vague. Chinese officials, particularly at the provincial level, still invoked secrecy laws to prevent problems that could lead to punishment, such as police brutality or pollution, from being reported to more senior officials.

Due to the country's poor performance in Transparency International's Corruption Perceptions Index from 2014, transparency problems in China have been highlighted yet again. This index ranks countries based on a 100-point "corruption perception" scale, where zero equals a "highly corrupt" perception and 100 means the country is perceived to be very clean. The Netherlands scored 83 this year and ranks 8th in the overall list. China, however, scored 36 and fell to the 100th place from 80th last year.

Besides providing reliable information, transparency also plays a role in creating a better business environment and establishing a sound legal system to back it up. However, in a country as big as China this will not happen overnight, it will take time for new policies to seep through the whole system. Michiel van Yperen, sector manager textiles at the organization MVO Nederland (CSR The Netherlands), emphasizes that, 'the government realizes they have to change, but they want to stay in control and properly regulate these developments.'

However, Martijn van Rijnsoever, CSR Manager at Pactics, mentions that it is difficult for companies to adjust to the new policies accordingly. 'As a CSR company, we want to produce and manage our business in a fair and environmentally safe way. Pactics' factories are located in China and Cambodia where we produce microfiber products. However, due to law revisions and policy changes, certain things which were allowed before suddenly become prohibited. It is important for us to comply with these changing policies as much as possible, since legal compliance has become much more important for our clients these years. I do think it is a good thing that these changes happen, however companies need more time to catch up.'

Changing and improving the system

Van Yperen states that SME's are taking the lead in making their business transparent.

'It is also a certain confidence that companies need to have, which makes them more reliable,'

'We are producing in a fair and safe way, thus we are not afraid to show it to our customers. For instance, G-Star has an interactive map on their website which shows where their factories are. These new methods are not only cheaper than hiring auditors for checkups, they also create a certain image of the business which makes them more reliable,' van Yperen explains, who has been an auditor himself.

Van Rijnsoever explains that, 'Pactics aimed to be an honest and transparent company from the start. Our founder is Dutch, but since we started in China, there was also a Chinese management who managed the daily production. Along the way, we found that we were a fairly responsible company, but there was still a gap between our ideas and the reality in China.' This gap not only exists due to differences in the Chinese business environment, but it also has to do with our Western view on certain issues.

Van Yperen published an extensive report in 2012, regarding CSR practices in China. Conclusions were that CSR in China has to be profit driven and should also be approached in such a way. This means that we need to use a different terminology when addressing this issue to the Chinese. 'It surprises me at large, that Western multinationals still hold onto the Western view of CSR. A Chinese professor from Shandong University explained this to me before. He said that Western values and human right issues, are often seen as management problems in China,' Van Yperen remarks.

Moreover, van Yperen advocates that auditing is not the most suitable tool to use in China and CSR should be approached as a business case. 'It is not that Chinese factories do not want to improve their management and modernize their factories, but you should show the profitability of certain measures. In other words, let them understand that profits will rise if their employees are happier. Content employees will make less mistakes and be more loyal so they will not change jobs so often. When you approach CSR this way, you do not have to mention all the sensitive terms and issues.'

While this change in consciousness and approach happens slowly, other things are changing rapidly. 'Our Chinese production facility is situated in an industrial park in Shanghai. Initially we had all the necessary licenses needed for production. However, the laws changed in August last year and now we suddenly need an environmental license for production, which can only be authorized at certain industrial parks. The problem is that Chinese industrial parks themselves are unclear whether they are authorized to do this. Of course some parks make claims, however in the end it often turns out that they are not authorized. The uncertainty that comes with these changes also affects large multinationals like Philips', van Rijnsoever explains.

Telling stories to create trust

In the future, van Yperen foresees that the West and China will be able to get closer. '





‘Instead of auditing, companies could opt for a long term partnership with mutual trust and achieve a better understanding.’

‘At the moment, CSR and transparency cost companies money. Auditing is, in the end, based on distrust. Checking if everything goes according to plan and punishing them if anything is incorrect. This way of doing business only creates mutual misunderstandings. The Chinese are more opportunistic and they will be much more willing to change if we can show them that doing business in a certain way will yield better results.’

A project that aims to set up system on the basis of mutual trust and also increase transparency in companies’ supply chains, is the Corporate social responsibility monitoring and evaluation system. This is a part of the Sino-Dutch Corporate Social Responsibility Project, funded by the Royal Netherlands Embassy and overseen by Chinese Ministry of Commerce. This system is mainly targeted at the supply chain companies between China and Holland. Additionally, it also provides services to the purchasers, supply chain companies, government agencies, research institutes and media on a global basis.

Van Yperen reckons that China will keep going in the right direction. ‘In my opinion, the importance of CSR, transparency and related issues will be realized within ten years. China also wants to be respected and build a good reputation. It is important to work together with local parties to improve the communication and yield better results. Lastly, we should also see the opportunities that are available in China, instead of solely looking at risks and problems. That would make us all a lot happier!’

How China Inroads can increase your chances of success in China.

From our offices in Amsterdam, Beijing and Shanghai China Inroads supports innovative companies in their expansion to the Chinese market. We represent your company in China, creating a strong foothold on the Chinese market. We assist you in setting up a sound strategy and are – from start to finish – deeply involved in your China activities. Our services consist of a detailed market research; searching long-term reliable business partners; maintaining relations with local partners and clients; and providing the necessary follow-up on daily activities. China Inroads is locally present at all times, providing you with the needed insights to successfully build your business.

You are welcome to visit us for a consultation at one of our offices.

China Inroads supports innovative companies in their expansion to the Chinese market. "China belongs to the Chinese." This philosophy is the guidance for how we match companies with the right parties and markets in China, to create a successful and effective venture. We believe that companies doing business with Chinese, making use of local resources, will be the most successful and effective. Based in Amsterdam, Beijing and Shanghai, we have our local Chinese team ready for you.

We think proactively and offer (un)solicited advice on various issues that companies encounter before, during and after entry to the Chinese market. China Inroads believes in a local, long-term relationship. We like to act as your important local strategic partner. You are welcome to visit us for a free consultation at one of our offices. We are of course happy to visit your office as well.