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Newsletter May 2006



News from the Chairman

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Quick News

A brief overview of interesting news from China. If you are unable to access the full article please contact DCBF. To view the full article click on the Read more link in each article.

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News from the Chairman

Chairman Nils Foss welcomes our new members and gives an update on the recent members' survey.

Dear Members,

First of all I have the pleasure to bid all our new members welcome to DCBF:

Aalborg Industries
Aalborg Portland
Aalborg Universitet
AP Trading
Asia Base A/S
Baltic Aseatic Trading Co.
Brüel & Kjær
Dansk Eksportforening
ECCO Sko A/S
EKF – Eksport Kredit Fonden
Findus AB
Global Eyes a/s
IFU
RM Group A/S
ScanAM Transport A/S
SEB Merchant Banking

Executive networking only works with active executive 'players' and fortunately we are lucky to have many very active 'players'.

DCBF is now six months old. The membership has reached 66 with 25 new members in the pipe line.

If you know of colleagues in companies who are working intensively with China or who consider entering the Chinese market we would be pleased to welcome them in DCBF's executive network.

By helping to increase our membership number you will also help strengthening our influence and thereby securing the best possible service for our members.

User Survey

We have recently conducted a user survey in which more than three quarters of our members participated. The members were asked the following five questions:

1. Are you satisfied with the information you have received so far from DCBF?
2. Are you satisfied with the Activity Plan?
Suggestions/Improvements?
3. Are you satisfied with the home page?
Suggestions/Improvements?
4. Are you satisfied with the newsletter (topics and general content)? Suggestions/Improvements?
5. Is your company interested in educational projects (e.g. in cooperation with Niels Brock on Middle Management Education – in Chinese and English in China)?

The participants replied as follows:

1. Information

Everyone was satisfied or very satisfied with the information DCBF sends out – some also commented that the information is very relevant and thorough.

2. Activity Plan

Again the members seem satisfied. Some were impressed with the activity level which DCBF has achieved in spite of its short existence. In addition there was a number of good suggestions to activities that DCBF will include into future activity plans and work schedule.

DCBF will try to get more Chinese talkers and focus on the possibilities of finding new leads in the Chinese market. In this connection our members' meeting at Foss A/S on 4 May is relevant with the themes Sales and Distribution in China.

Members also expressed an interest in DCBF getting involved with Danish-Chinese cooperation within the areas of research and education. Education and research cooperation has a very high priority with the Chinese government.

In addition there is an interest in the development of the skills of the Chinese employees working in Danish companies. In this connection I would like to emphasize that DCBF's role is that of a catalyst not of an executor. Niels Brock will soon come up with a course proposal which we will circulate to all our members.

The issue of cultural differences have also been mentioned quite a few times and members have expressed an interest in finding out more about the appropriate techniques to use in negotiations in China.

I would like to thank the members for their many good and constructive proposals.

3. Home page

Everyone was satisfied with the home page (although a couple of members had not yet accessed it). The home page was characterised as professional and informative and easy to navigate. We are in the process of developing the members' only area.

4. Newsletter

Again there was great user satisfaction. There seems to be general agreement that content, format etc. of newsletter is fine. In addition most members thought that four newsletters per year is a suitable number.

5. Education

There were many different opinions about this question and some did not answer the question at all.

Our members have different requirements. Some members handle their own education internally and others have a need for external help. The University of Southern Denmark and Niels Brock is working on this.

I would like to thank everyone for helping us make this survey and for the many good suggestions.

Delegation visits:

DCBF has also received the first Chinese delegations:

On 14 March DCBF received a visit from CIPA (Chinese Investment Promotion Agency). We organised a visit to IFU and Invest in Denmark. Later there was a meeting here at DCBF's offices with some of our member companies.

On 24 to 25 April Dongguan's vice-mayor with delegation visited Copenhagen together with a delegation from Invest in Hong Kong in connection with a big investment seminar. In connection with their visit there was a members' meeting at Nordea's head offices where we had invited some of our multipliers and a few of our member companies.

More China delegations will visit Denmark in May and June and we will keep you informed.

We are also looking forward to seeing you at our next arrangements. All our events are posted on our website at www.dcbf.dk under Calendar.

Nils Foss



The War For Talent in China

It is widely debated whether the growth of the Chinese market can continue with the same impressive pace as seen in recent years. The talent shortage in China can be expected to get worse before it gets better. This just adds to the impetus foreign companies in China should have for focusing on their talent management strategy. If handled well, it can become a major source of competitive advantage.

The War For Talent in China

by Kåre Sand, HEIDRICK & STRUGGLES

It is widely debated whether the growth of the Chinese market can continue with the same impressive pace as seen in recent years. Sceptics cite political instability, poor infrastructure, copyright infringement and regulatory issues as key challenges that may jeopardize the continued growth.

However, the scarcity of talent (especially at the senior executive level) may be a more real and imminent threat to companies looking to expand in China.

Realities of the talent market

The following three factors explain most of the current talent shortage.

1. Quality vs. quantity. Don't be fooled by the total number of MBA's, engineers etc. China produces every year. Yes, the numbers are mind boggling, but they disguise the fact that only few universities in China live up to international standards. You need to look not just at the degree a candidate holds, but also from where he obtained it.

2. Competition between MNC's. The Multinational Corporations (MNC's) present in China are expanding and those who are not already in China are entering the market adding to the competition for talent.

3. Emerging Chinese firms. As some major Chinese corporations start to expand beyond Chinese borders, they will be looking to tap into the same talent pool.

Some companies refer to cultural differences and disloyalty as a key reason for being unable to attract and retain good local talent in China. But while cultural differences should certainly not be ignored, the basic problem is more structural than cultural. Just consider how the Danish talent market would operate if it shared the same characteristics mentioned above!



Simply put, demand far exceeds supply in this market and the consequence of these structural imbalances is what it would be in all other normal markets: prices go up. Currently the most sought after employees are the “PRC returnees”. They are Chinese nationals with a university degree, typically combined with an MBA. With post-graduate studies and 5-7 years of working experience abroad, the best in this group command salaries that are fully comparable with, or even better, than those offered to traditional western expatriates.

Improving talent management

The need to focus on talent management applies globally, but it is often more pronounced in markets like China, where the link between poor human resource strategies and specific business consequences can be particularly transparent.

First, you need to align your HR strategy with your overall strategic objectives and make sure that you take a long-term perspective on human resources. Hiring purely when the need arises can be risky business and may jeopardize the ability to execute your strategy.

Second, make sure you have access to the broadest possible pool of talent. This includes building talent from within. You do not have to be a major corporation to have a talent program; you may just need to make use of different tools. Apart from competitive compensation, key elements of attracting and retaining good people include real and challenging job content, opportunities for career progression and training & development initiatives. Also, make sure to constantly screen the market and consider “opportunistic hiring” if the right candidate shows up even if you do not have a specific job opening. The analogy may be simple, but a professional sports coach cannot just start looking at the market after a player has left the field.

He has to proactively build and constantly nurture a strong talent bench – *companies should do the same.*

Unfortunately the talent shortage in China can be expected to get worse before it gets better. This just adds to the impetus foreign companies in China should have for focusing on their talent management strategy. If handled well, it can become a major source of competitive advantage.

Heidrick & Struggles is one of the world’s leading providers of senior level executive search and leadership consulting services, including organizational design, leadership assessment and talent management. Heidrick & Struggles was the first foreign firm in its industry granted license to operate in mainland China.

Kåre Sand has previously lived and worked for more than 6 years in China and now works in Heidrick & Struggles’ Copenhagen office. He can be reached at ksand@heidrick.com.



Corporate Social Responsibility (CSR) in China - Risks & Prospects

The issues of CSR in China are highly topical. It can be quite fatal to companies, if they are accused of complicity in unethical business operations, and this is not least the case in relation to operations in China, the "Workshop of the World". Here follows an outline of the key issues at stake, suggestions on CSR strategies that fit the Chinese realities, as well as a brief introduction to the network for CSR in China.

Corporate Social Responsibility (CSR) in China – Risks & Prospects

By: Mads Holst Jensen, Ph.D., Research Fellow, NIAS – Nordic Institute of Asian Studies

The issues of CSR in China are highly topical. It can be quite fatal to companies, if they are accused of complicity in unethical business operations, and this is not least the case in relation to operations in China, the "Workshop of the World". Here follows an outline of the key issues at stake, suggestions on CSR strategies that fit the Chinese realities, as well as a brief introduction to the network for CSR in China.

The minefield of CSR in China

Advocates of CSR contest the viability of short term economic assessment of business in isolation. Instead, they call for a broader, long term perspective encompassing the range of economic, social and environmental factors, which may affect, or be affected by business operations. CSR carries the promise of a win-win situation for all stakeholders and the insistence that the market forces, under proper guidance, may bring about a sustainable future for individual companies as well as the entire globalized world.

Attention on the issues of CSR in China has exploded in recent years. Prime time news media stories and international NGO campaigns highlight them frequently, and each year, thousands of Chinese workers take part in desperate protest actions to express their grievances. CSR plays a critical role in regard to outsourcing by Western companies of low-tech, labour intensive production to developing countries. In response, the Western companies develop Codes of Conduct that specify sets of ethical and environmental standards to be observed in all their operations around the world and the companies conduct "social audits" to assess whether partners and suppliers comply with the Codes.

Meanwhile, the Western CSR ideals remain a far cry from Chinese realities and several cases illustrate how this discrepancy can entail high risk for companies operating in China. A qualified understanding of Chinese realities is the key for companies to devise CSR strategies that more adequately support their operations in China. Looking at the political environment in China is the first step in that direction.

The Chinese insistence on Party-State control

25 years of reform have brought extensive liberalization and decentralization of Chinese society. Yet, the official insistence remains that the Party-State must have the ultimate control and this affects the way CSR is being submerged into Chinese realities. The state plays a minimal role in Western CSR, while full attention is devoted to civil society characterized by market mechanisms and rational choices by free, individual actors and companies. But in China, the Party-State control extends far into the private sector. The right to freedom of association is virtually non-existent and seeing that NGOs in China are required by law to obtain the sponsorship of a state agency, observers of Chinese affairs have coined the term GONGO, an abbreviation for "Government Organized Non-Governmental Organization".

Having the impression of the omnipotent Party-State fresh in memory, private entrepreneurs are reluctant to sell out of their newly won freedom and this affects their attitude towards CSR. The era of centrally planned economy was characterized by the danwei system in which state-owned enterprises (SOEs) secured lifelong social security for over-sized workforces. Contemporary private entrepreneurs tend to assume that CSR belongs to a past of Party-State controlled welfare burdens. Current policies of the leadership seem to justify this assumption. Thus, the principle persists that private sector charity must register under China Charities Federation, a national umbrella organization under the Ministry of Civil Affairs. In sum, CSR in China is undergoing a process of virtual expropriation by the Party-State.

Party-State control also affects the way the labour market operates in China. Labour markets in western countries are characterized by respect for the right to freedom of association and collective bargaining. But official China categorically maintains that the All China Federation of Trade Unions (ACFTU), which refers directly to the political leadership, is the absolute authority with regard to all labour issues. The government made a clear statement to that effect in late 2004, when it presented a survey in late 2004 on enforcement of the Trade Union Law in Chinese and foreign private companies in China: "No matter what 'investment', when it has arrived on the soil of the People's Republic of China, then it has to abide by the laws of the People's Republic of China".

As a result, the Chinese labour market lacks the element of multi-stakeholder dialogue, which is commonly recognized as the core element of Western CSR. Entering China Western companies meet these preconditions in the form of a very concrete dilemma. Practically all Western company Codes of Conduct state respect for the rights to freedom of association and collective bargaining, but in China Western companies have to deal with manifest non-compliance with their CSR policies, as well as the risk of being accused of complicity in violating these fundamental rights.

Chinese "Cowboy Capitalism"

"Socialism with Chinese Characteristics", as the political leadership dubs the current political system, comprises an odd element of anarchy, which appears to diverge fundamentally from the insistence

on Party-State control. The Chinese legal system serves as an illustration. Legal system building has been a core element of the reform project from the very start and the Chinese government has passed much labour legislation including the Labour Law (1994), the Trade Union Law (2001), the Law on Work Safety (2002), and the Law on Industrial Injuries Insurance (2003). Moreover, the government is currently in the process of drafting a Labour Contract Law (April 2006). All this legislation proscribes labour standards that meet or even surpass international standards.

However, the legal system leaves much to be desired in terms of universal implementation and enforcement. As we saw above, the political leaders sometimes insist that all companies, including the Chinese, must abide by national labour legislation. In reality, however, there are countless exceptions to this rule and appalling working conditions, excessive overtime, poor wages and dismal health and safety standards are rife in China's factories. The leaders seem hesitant to strike down on these violations, if the culprits are considered key drivers in China's economic development, be it local government officials, private entrepreneurs or odd schemes of collaboration between such actors. As a result, we see a kind of black political economy in China, outside the scope of explicit Party-State control that is by and large comparable to what Western advocates of CSR describe as "Cowboy Capitalism". Companies sourcing from Chinese suppliers must pay special attention to this sphere of anarchy, where CSR non-compliance is widely spread.

The improvement approach – an emerging trend in CSR

Now, how do Western companies navigate safely through the minefield of CSR in China? A straight answer to this question is yet to be found. After all, CSR has been on the agenda of global supply chain management for 'only' 15 years now. Striving to set up ethical and environmental standards, companies develop Codes of Conduct and conduct "social audits" to assess whether partners and suppliers comply with the Codes. This "compliance approach" is a predominant feature and it has brought many good results. But this approach is not the only answer to the question posed above. Auditors are often caught up in games of hide-and-seek with the suppliers, to name just one of several practical problems, but the fundamental problem lies in the fact that the compliance approach implies an "either-or ultimatum" - either compliance or non-compliance. Out there on the factory floor level, Western CSR ideals are overruled by Chinese realities and the denial of the rights to freedom of association and collective bargaining. But the compliance approach gives no other option than a demand on compliance and a follow-up audit, which will almost always find that non-compliance still prevails by the Chinese suppliers. As a result, companies remain in constant risk of being accused of complicity in CSR violations.

In recent years, we have seen a rapid increase in CSR projects based on multi-stakeholder engagement and partnerships that aim at step-by-step progress to pave the way from Chinese realities to CSR ideals. This is the basic formula of the "improvement approach" and it gives companies the option of playing a more proactive role and attaining a much stronger CSR strategy.

The improvement approach has the following key elements:

- **Communication:** Much non-compliance is caused by misunderstandings that rather basic improvements in communication can clear away. Through better communication with Chinese suppliers, workers etc. Western companies get to see CSR “from the Chinese perspective”, so to speak, and may thus organize concrete steps of improvement that interact more effectively with Chinese realities. Moreover, huge black holes of communication often exist at the Chinese suppliers’ factories between different management levels and between management and workers. For instance, executives are often unaware of CSR violations committed by line managers at their own factories. Again, Western companies can foster direct steps of improvement, if they assist Chinese suppliers in developing adequate communication mechanisms.
- **Engagement:** Breaking down barriers between stakeholders invites much criticism, and stakeholders joining forces to make step-by-step improvements paves the way for win-win situations. Companies can facilitate engagement of local communities, management and branches of the All China Federation of Trade Unions (ACFTU) and elections of workers’ representatives. Chinese legislation supports such initiatives, they are based on a strategy of “working within the system” and, most important, several pilot projects show that the initiatives give direct benefits to all stakeholders engaged.
- **Partnerships:** Currently, the CSR field is a virtual chaos of individual efforts that are often mutually redundant or even counterproductive. Partnerships help to coordinate the efforts. Partnerships within industries coordinate CSR standards that are much more manageable for suppliers. Partnerships give individual SMEs more weight in their CSR claims on suppliers and a framework to pool resources into CSR projects of considerable scope. Moreover, there are several good examples of partnerships between Western companies and Chinese suppliers in which the companies have conducted capacity training for management and workers. Developing “lean & clean production”, for instance, the companies help to reduce excessive overtime and other problems that constitute core CSR issues.

The network for CSR in China

The time is ripe to develop a network in Denmark for debate, partnerships and projects related to CSR in China. In January this year I co-organized the international conference *Responsibly Made In China? Chinese Development & Corporate Social Responsibility (CSR)*. The first of its kind, the conference brought together the leading experts on CSR in China with prominent scholars focusing on China’s internal developments and integration with the global economy (conference webpage: <http://csrchina.cbs.dk>). Conference participants and others with an interest in CSR in China have been included in a database, which will serve as a basis for further development of the network. To join the network for CSR in China, please send an email to: mads@nias.ku.dk

Quick News

A brief overview of interesting news from China. If you are unable to access the full article please contact DCBF. To view the full article click on the Read more link in each article.

Economics

• China takes steps to slow down rapid increase in forex reserves

China has noticed the negative impacts brought by the huge foreign exchange reserves and is taking steps to relieve the pressure, said spokesman of the National Bureau of Statistics on Thursday.

Exports of products that consume much energy and produce heavy pollution will be restricted in China, while more manufacturing equipments and high-tech products will be imported in the future, said spokesman Zheng Jingping for the National Bureau of Statistics at a press conference. [Read more](#)

Source: Xinhua, April 20th 2006

• Mainland's GDP grows by 10.2% in Q1

The Chinese mainland scored a 10.2 percent growth in its gross domestic product in the first quarter of this year, said Hu Jintao, general secretary of the Central Committee of the Communist Party of China, Sunday. [Read more](#)

Source: Xinhua, April 16th 2006

• Import and Export of High-Tech Products grew rapidly in the first two months

According to Customs Statistics, in Jan and Feb 2006, import and export of high-tech products of China amounted to US\$68.48 billion, up by 34.9% compared with the same period of last year. Of which import was US\$32.71 billion, up by 33.9%; export was US\$35.77 billion, up by 36.6%. [Read more](#)

Source: The Network Centre of MOFCOM, March 30th 2006

Trade Policy

• China fully implements WTO accession commitments: official

China has comprehensively and fully implemented the extensive commitments it made when joining the World Trade Organisation (WTO) in 2001, a senior Chinese official said in Geneva on Wednesday.

China's average tariff level of industrial goods was lowered from 14.8 percent before its WTO accession to 9.1 in 2005, and during the same period, the tariff level of agricultural products was down from 23.2 percent to 15.3 percent, said Vice Commerce Minister Yi Xiaozhun. [Read more](#)

Source: Xinhua, April 20th 2006

- **Chinese shoe exporters incur falls in export orders, price under EU's anti-dumping duties**

As the European Union's anti-dumping tariffs against China-made leather shoes took effect on Friday, Chinese shoe makers say they are suffering a double hit. [Read more](#)

Source: *People's Daily*, April 10th 2006

Innovation

- **2006 China VC Forum officially unveiled**

The 8th China Venture Capital (VC) Forum officially opened on April 7 in the Wuzhou Guest House in Shenzhen City of South China's Guangdong Province. [Read more](#)

Source: *China Daily*, April 7th 2006

- **China Earmarks 50 BLN Yuan Innovation Budget**

The ministry of Science and Technology inked a deal with the National Development Bank on Monday, vowing to provide 50 billion yuan to support innovation during the terms of the 11th five-year-plan. [Read more](#)

Source: *CCTV / China's Foreign Economic Cooperation*, March 22nd 2006

- **R&D investment to weigh performance of SOE managers**

The volume of R&D investment will become an important tool to assess the performance of the senior managers of China's 167 central state-owned enterprises (SOEs). [Read more](#)

Source: *Xinhua / China Economic Net*, April 10th 2006

Intellectual Property Rights

- **Information on China's Action Plan on IPR Protection 2006**

To better protect the IPR, resolutely punish and combat various infringement and other illegal activities, the National IPR Protection Working Group Office, in conjunction with other relevant departments, formulated "China's Action Plan on IPR Protection 2006" (hereinafter referred to as the "Action Plan"). [Read more](#)

Source: *MOFCOM*, March 13th 2006

- **Officials: Different practices will not hinder IPR fight**

Just because China's judicial process handles intellectual property rights (IPR) differently from other countries does not mean that the nation is slackening its effort to crack down on IPR violations, according to top judges. [Read more](#)

Source: *People's Daily*, February 17th, 2006

- **Address of Vice Premier Wu Yi at the Conference of Enterprise IPR Protection and Self-initiated Innovation** [Read the whole article](#)

Source: MOFCOM, February 24th, 2006

- **China Launches IPR Protection Website**

China has launched an intellectual property rights (IPR) protection website, a source with the Ministry of Commerce said here on Saturday. (www.ipr.gov.cn) [Read more](#)

Source: IPR.gov.cn / Gov.cn April 30th, 2006

Miscellaneous

- **China's Most Competitive Cities**

Hong Kong, Macao and 5 Taiwan cities have beaten most of their mainland counterparts to join the top ranks of China's most competitive cities. Beijing was ranked 4th in overall competitiveness of 200 major Chinese cities, behind Hong Kong, Taipei and Shanghai. [Read more](#)

Source: CCTV, March 22nd, 2006

- **State Pension Fund Permitted for Overseas Investment**

China's State Security Fund Council said Saturday it has been approved by the Chinese Government to begin to invest overseas as of May 1 of this year. [Read more](#)

Source: Xinhua / CRI English, April 30th 2006

- **Foreign Professionals in Great Demand** [Read the whole article](#)

Source: China Daily, March 30th 2006