

Prominent Risks and Recommendations for Operating in China

China's rapid economic growth provides foreign companies with enormous business opportunities, but China is also a difficult business environment with substantial risks. Companies looking to invest in China for the first time, expand their operations, or simply maintain their foothold must prepare to take appropriate measures to mitigate the risks they face.

Every organisation is different, and the local environments, business lines and industries will of course create separate risk profiles for every company. The basis of good risk management, therefore, is identifying the risks most pertinent to your organisation. Still, there are several issues that are particularly common in China, as well as some general tips for mitigating the risks associated with those issues:

1. Information security breaches (IT, intellectual property, commercially sensitive information, etc.)

Is your information safe?

- IT systems should be secured and password protected.
- Classification and document control systems should be strictly implemented for sensitive materials; maintain clear desk policy.
- All employees should undergo pre-employment screening according to their access to sensitive information.

2. White collar crime (fraud, embezzlement, conflicts of interest, etc.)

Do you know how the company's money is being spent?

- Enforce strict accounting and due diligence procedures and thoroughly investigate suspected malfeasance
- Rotate responsibilities so that no person monopolizes relationships with distributors, customers, etc.
- Top management should be involved in JV and local operations.
- Anonymous whistle-blowing lines should be established and a culture of openness should be maintained.

3. Corruption and compliance

"We didn't know" is not an excuse!

- Build strong relationships with business partners and local officials based on personal contact and mutual understanding, but do not give in to corruption (*Guanxi* is NOT bribery!)
- Implement culture of strict compliance with FCPA, OECD Anti-Bribery and China's anti-corruption laws and regulations.
- Execute periodic internal audits, investigate suspected malfeasance and employ anonymous whistle-blowing lines.

4. Labour disputes and unrest

It's more common than you think!

- Maintain close relations with local PSB and labour bureaus and coordinate redundancy and contract renegotiations *before* taking action.
- Implement pre-redundancy planning; prepare redundancy packages and coordinate with local authorities, augment security management and support, identify third party avenues for arbitration, etc.
- Be prepared to provide security support for management.

5. Theft of assets

Are your assets safe?

- Identify valuable, vital and non-replaceable assets and store in separate, access-controlled high-security areas with strict accounting procedures.
- Conduct periodic internal and third-party site security reviews.
- Require pre-employment screening and investigate lost or stolen items.

6. Extortion (includes attempted or actual product tampering, illegal detention, etc.)

How do you secure your reputation and personnel?

- Provide potentially threatened staff/management with security awareness training.
- Conduct pre-employment screening and limit access to executive schedules.
- Maintain records of all communications related to extortion attempts and thoroughly investigate.
- Create and maintain crisis management and business continuity apparatus; provide annual training for crisis management team.

7. Natural disaster (fire, flood, earthquake, etc. affecting building integrity, supply chains)

How would your company respond to disaster?

- Conduct safety assessments on buildings and surrounding areas.
- Maintain comprehensive crisis management and business continuity plan and framework.
- Appoint crisis management teams for all areas of operation and provide annual training.
- Identify key assets and personnel and create backup systems as necessary.
- Prepare evacuation procedural guidelines.

8. Poor access to quality medical care (esp. outside of first-tier cities)

Where will you send your employees for emergency help?

- Identify nearest hospitals and treatment facilities and build relationships where appropriate.
- Identify medical responsibilities to contracted workers and families of employees.
- Review medical and evacuation assistance coverage (*e.g. International SOS*)

9. Poor safety and road conditions

One of the biggest dangers in China.

- Remember, employers are often held responsible for the safety of their workers both in the factory and while commuting to and from work!
- Conduct safety and security assessments of buildings and surrounding road conditions; ensure that all safety exits are clearly marked and unobstructed.
- Conduct structural integrity assessments of factories and living areas.
- Where appropriate, provide workers with transportation to and from work – DO NOT overload vans or busses.
- Provide drivers with defensive driver training where appropriate.

10. Petty crime or scams

What sort of trouble are your employees getting in to?

- Be aware of loiterers near building premises and provide security awareness training when relevant.
- Provide employees with security awareness training.
- Maintain close contact with local PSB and authorities and report any issues; investigate recurring problems.

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