

the**leadership**council

Reaching out to China

A Report by **The Leadership Council**

This report is based on 13 in-depth interviews with leaders.

The leaders interviewed are:

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Chair, Bounty Brands Holdings Limited

MIKE FLEWITT

CEO, McLaren

SIR JOHN HOLMES

Former diplomat

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This is the tenth in a series of papers on topical concerns for leaders. The Leadership Council brings together senior figures from commercial and public life. Chaired by Lord Janvrin, the Council provides a powerful perspective on the leadership agenda.

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Introduction

Martin Newman Director, The Leadership Council

Reaching out to China

From Huawei to the exploration of the Dark Side of the Moon, China is flexing muscle around the world. Every business leader knows that the question of how best to engage with China is one he or she must resolve sooner, not later. Yet culturally China remains puzzling and inaccessible to many in the West. How can we build strong relationships with Chinese partners? How can we navigate discussions and negotiations? What do we have to learn - and unlearn - to get the most out of our dealings with China? In turn, how can we change our behaviours to be the best business partners for the Chinese?

These are among the questions our research seeks to answer. Featuring in-depth interviews with key international executives, our report distils some of the best available advice 'from the front line' of business engagement with the Chinese. Our findings will help you understand why in dealings with China relationships matter more than contracts, how lightning-speed entrepreneurial business goes hand-in-hand with long term state-sponsored strategic horizons, why the idea that China is still playing catch-up needs to be consigned to the archives, and why things only get serious after the third or fourth meeting!

For the UK, these insights are particularly timely. Having waded through two years of Brexit, it's hard to cast our minds back to President Xi's 2016 visit here, when he articulated the concept of a 'Golden Era' in China-UK relations. Sherry Madera, the City of London's Special Advisor for Asia, is keen to remind us that officially this hasn't gone away: *'The 'golden era' halo has not been switched off, but neither are the Chinese actively reaching out to make suggestions based on it. China respects strength, the ability to convene, the ability to influence, which historically the UK has commanded to a high degree...this is wait and see time from a Chinese perspective, as it is for many of our international trading partners.'*

The call to action for the leaders of UK business is to strike while the iron is at least lukewarm, to push the accelerator before the lights flick from green to amber and possibly to red. We need to reach out and build great relationships with the Chinese, to show that we have what it takes to be among their best international partners. And we need to do this today, not tomorrow.

The insights you will find in these interviews will be of material value in making sure that when you do reach out, you will do it with greater confidence and with an informed awareness of what works, and what can go wrong, when global business gets into a room with the Chinese.



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Chris Bull

Chair, Bounty Brands Holdings Limited



Chris is the Chairman of Bounty Brands Holdings Limited. He has over 30 years FMCG experience, with 25 years at Unilever, ultimately as Chief Customer Officer. Following that, Chris spent five years as CEO of McBride Plc, the London FTSE listed leading supplier of private label consumer goods in Europe, and two years as Chair at PE/Chinese-backed Weetabix Food Company, leading to a successful trade sale exit in 2017.

Trust between the Chinese and the rest of the international business community is an issue on two levels. Firstly, at the individual level because of the difference in cultures and therefore the ability (or lack of) to 'read' what people really mean. Then, at a higher level, there are concerns (sometimes founded, sometimes exaggerated) about protection of IP. You can address the former by greater contact and understanding, but I am not yet sure how you address the latter.

Face-to-face meetings are vital, and by far the best way of conducting business with the Chinese. It offers more potential for rapport and a better opportunity to read people. This may be true in most situations, but it is particularly relevant with the Chinese given the other cultural and communication barriers.

Furthermore, in my experience I have found that the best approach is to orchestrate meetings with structured, planned discussion and no surprises. This is especially true if a decision may be required and the authority to make it is required from someone outside the meeting. Surprises can be even more troublesome than in other cultures. In my experience the Chinese can be incredibly hierarchical and if in any doubt push (or check) decisions upwards.

An obvious solution to any dichotomy between Chinese and non-Chinese colleagues is to invest time in building that relationship. However, I have found that this may well involve banquets with copious amounts of alcohol being consumed. This is an extremely important part of relationship building for the Chinese and a challenge to us Westerners who can't or don't want to consume as much alcohol as their hosts.

Gan Bei (Cheers!) and receiving a personal toast is an extremely important part of building a relationship and to refuse is an insult and breaks down trust. If someone wants to pay respect to another guest around the table at a large banquet, the custom is to walk around the table to that individual and invite them for a toast (normally with a spirit) which they stand and make together. This can become quite frequent and is equally applicable to both genders.

When you first meet a Chinese colleague, it is very important to present your business card with two hands with a small bow. This focussed manner is very different to Westerners who tend to flick their cards across the meeting table.

The more each understands about the other's culture and normal practices, the better. Each side is then able to notice and appreciate the effort the counterpart is making to conform with their standards. In practice I think Westerners have to make the effort to reach out to Chinese norms, and the Chinese should appreciate the efforts their Western guests are making.



Mike Flewitt

CEO, McLaren

Mike Flewitt joined McLaren as Chief Operating Officer in June 2012 and became Chief Executive Officer in July 2013. Mike's current role as a CEO includes the development, manufacture and global distribution of a range of current and future McLaren sports cars. Prior to joining McLaren, Mike was Vice President, Manufacturing, Ford of Europe, and Corporate Officer, Ford Motor Company. Before joining Ford, he held senior manufacturing and operations roles at TWR Group Limited, AutoNova AB and Rolls-Royce and Bentley Motor Cars Limited. He qualified in Manufacturing and Mechanical Engineering in 1987 and completed a post-graduate qualification in Management and Project Management at Salford University in 1996.

All decision making is influenced by relationships, more than perhaps we wish to acknowledge. Communication is critical to any relationship, and it is hard to over-communicate. To communicate effectively with business contacts in China, you must meet in person and develop a relationship. This should include sharing data openly before meetings, and recording and sending back understanding of agreements. Use both formal and informal means to clarify understanding.

Respect is critical and treating people as equal partners is essential. I have seen a level of arrogance by established Western companies towards China as a result of the market being less mature. This is a mistake: it is about the people not the market and the people are highly motivated, proud, highly educated and entrepreneurial.

Do not assume Western norms are Chinese norms. Be open. We have to learn to work in their market: it is not for the Chinese to change to enable us to be successful in China.

Trust is something that takes time to build. Spending time together builds trust. Since working at McLaren, we established a wholly owned subsidiary in 2013 and developed a network of twelve retail points. We are still working with the partners we started with in 2013 and have strong relationships with them.

Face to face meetings were critical to build this understanding and trust. Chinese and Western partnerships are all recent and the cultures and industrial histories are very different. You must spend time building the relationship first and then from that a partnership can develop.

The luxury supercar market in China is relatively young and highly volatile. It is responding to changes in Government direction at short notice and is also subject to short notice legislative changes that can seriously impact the business.

Sir John Holmes

Former diplomat

Sir John Holmes was educated at Preston Grammar School and Balliol College, Oxford. He joined the Foreign and Commonwealth Office in 1973 and served in a wide range of diplomatic roles in London, Moscow, Paris, New Delhi and Lisbon. In 1995, Sir John joined Prime Minister John Major in Downing Street as his Private Secretary (Overseas Affairs) and diplomatic adviser. He continued this role with Prime Minister Tony Blair from 1997 to 1999, becoming at the same time Principal Private Secretary. In 1999, Sir John was appointed as the British Ambassador in Lisbon, moving to Paris as Ambassador from 2001 to 2007. He then served as UN Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator (2007-10), before taking over the post of Director of the Ditchley Foundation (2010-16), and becoming Chair of the Electoral Commission in 2017.



My experience at the UN showed me how clever China and the Chinese can be in choosing which persona to embody. They can portray themselves as a very powerful, rich country, which should be listened to, taken seriously and given more say in the world, or they can play the opposite card: China is still a poor, developing country not looking for a major role in the world. The subtext of this is often, 'don't ask us for money. It's the role of Western countries, much richer per capita, to take responsibility on the global stage'. On one hand they're – rightly – very proud of what they've achieved in terms of economic prosperity and the development of infrastructure. At the same time, they are reluctant to take a bigger role in the world and shoulder responsibility for things that don't directly affect them, in the way that Western countries have over the last 50 years – for better or worse.

China will gradually learn that there are certain moments when they have to take a stance on the world stage. For example, China had an interest in the oil pipeline between South Sudan and Sudan. During a conflict a few years ago in which the oil stopped flowing, China had arguably the most influence in both countries and the most to lose. However, because they were not used to involving themselves in the negotiations and diplomacy of other countries, they were very reluctant to take a stance or mediate in any way. It was an interesting lesson, which I think showed them they can't always stand back when things get complicated abroad.

Gradually, China is coming of age as an international player, but it is sometimes reluctant to play the game. If you look at the Chinese behaviour on the Security Council, they are a more responsible actor than, say, Russia. For example, they are involved with some UN peacekeeping, and not always automatically negative about the ideas of others. However, they are not taking the positions that many Western countries have in the past 50 years, because of our belief that we have a wider responsibility to fix problems and stick our

necks out even when our own interests aren't centrally engaged. They are moving in that direction, but extremely cautiously.

You have to be fairly tough with the Chinese and call them out when you think they're wrong. How to deal with the Chinese is a long-standing argument, often debated while I was at the Foreign Office. China experts always tended to say that you had to be very careful because the Chinese were proud and sensitive, for example about their history and position in the world, and needed to be understood and treated cautiously. While you should never ignore expertise, I think this sometimes translates into giving them too easy a ride. I don't think you should be afraid to express your view, albeit in a polite manner, and stand up for your own beliefs. It's a mistake to hold back because you're thinking about trying to curry favour with the Chinese for commercial reasons. That's a short-term view which the Chinese themselves won't take seriously.

When working with China, you have to recognise the role that the state plays. Even though your Chinese interlocutors are likely to be extremely intelligent and very knowledgeable, they are not operating in a free society as we understand it. This is not only true in relation to state operated enterprises (SOEs). Even when you are dealing with companies which appear free to do business in a very commercial way, the state and the party will probably be involved somewhere, and things will never be quite as straightforward as you think.

To combat this, you must be aware of what might be going on behind the scenes. Be conscious that you're dealing with a system that doesn't operate in the same way as your own. This doesn't mean you can't do good business in China. Having said that, some Western businesses that I've seen go to China have been blinded by the 1bn+ market. I'm not sure how many Western companies have made a lot of money in China. They tend to end up sharing their technology and of course have to give leadership of their JV companies to the Chinese. So often they do not do as well as they hoped.

The Chinese want foreign investment but they will naturally be inclined to use it for their own interest. This may be changing as they develop their own commercial know-how and technology, but over the years they have had a reputation for trying to exploit the technology of others.

Be careful what you're agreeing to when doing business with China. Your interlocutors will be smart and well organised. They will probably have a clearer idea of what they want to get out of the negotiation than you do.

You need to be aware of the risks of information loss while in China. Don't take your normal phones or laptops to China: take clean versions with nothing on them.

My advice to the Chinese doing business with the West would be to be prepared for a much greater diversity of interlocutors than you are used to, in every possible way: levels of education, interests, governmental involvement. I would also suggest being less suspicious than they tend to be in thinking there is a national agenda behind everything. That's how they've been educated, so understandably that's what they see, but they need to recognise that most private businesses in the West don't operate like that.

Jean Jameson

CEO, Hampton Group



Jean has over 28 years of experience in business engagement between the UK and China. Since joining Hampton Group in 2012, Jean has been a core member of the management team driving the transformation of the organisation into a leading strategic consultancy and investment business specialising in UK-China cross border transactions.

Jean has led some of Hampton Group's largest international projects including the Chinese Olympic Committee's 'China House' at Olympic Games in London, Sochi, and Rio, and the UK-China Business Leaders Summits in 2014 and 2016. Recently she has been instrumental in the success of the Duke of York's Pitch@Palace initiative in China.

Prior to joining Hampton Group, Jean was responsible for the Secretariat of the 48 Group Club - the first ever foreign business organisation to support the new China since 1954.

Since I moved to the UK from Shanghai in 1990, I've witnessed changing attitudes in the British business community towards China and the Chinese. In the early 90s, few people had been to China, they were very few Chinese working in the UK, and very limited information about China in mainstream British media. I had a mixed reception when I started work at a manufacturing firm. Some colleagues, very politely, asked me if my family had a TV or a fridge. Others were less kind, calling me a country bumpkin because they believed China was a backwards third world country. They had no idea that Shanghai was – and is – a thriving international metropolis. Since China opened up to the world 40 years ago, there is better understanding on both sides. However, there is still a limited grasp in the UK of how Shanghai is symbolic of the reality of the changes in China during the past four decades, and how China, with almost a quarter of the people of the world, has modernised at a speed and scale that is unprecedented in human history in just over 40 years.

Even 20 years ago China was seen as the workshop of the world. Yes, there are a lot of suppliers in China but China is upgrading its manufacturing industry, its technology, and its innovation. It is moving up the value chain.

The way we educate people on UK-China business relations is flawed. I've studied in both countries and in the UK a large proportion of the reading list is by non-Chinese authors. Therefore, the knowledge you amass is second hand; which is no substitute for direct engagement.

In negotiations, do your homework and don't underestimate your Chinese partner. They probably know more about you than you do about them. Respect their culture: never criticise a Chinese person in front of their team. Your relationship will be over if you make them lose face in front of their peers. Don't let your emotions take over. I was once in a negotiation that had been going on for several days and, in frustration, a European banged his fist on the table. This was insulting and the Chinese team stood up, left and would never come back.

Know exactly what you want from negotiations. Sometimes people need a bit of help to work out what they really want. One client was explaining to me that he wanted to help his region to trade and promote bilateral ties in sectors like education and tourism. It was not clear or specific. We discussed this, and I realised that what he really wanted was a Chinese company to invest in his region. Then we had a clear goal to work towards.

You cannot underestimate the difficulty of a language barrier. In English, there is one word for 'no'. In China, 'no' can be said in many different ways. You need to understand what each of these mean. It is crucial to grasp that individually and collectively, Chinese people think differently from their counterparts in other nations. This difference stems from the evolution of Chinese culture that goes back five thousand years. It reflects the depth of Chinese culture, the longest continuous civilisation in the world.

Trust is the foundation of any successful business relationship, regardless of nationality and industry. Any fear and suspicion we see between China and the UK is because of a lack of knowledge and understanding. This is not surprising, given China's unique culture, but you must try to see their perspective. Understanding their concerns and what they want is half the battle. But it is the most difficult part. As Hemingway said, the best way to find out if you can trust someone is to trust them. This is not always easy.

Suwei Jiang

Partner, China Business Group, PwC



Suwei's primary role as the Partner of China Business Group at PwC UK is to assist UK and Chinese companies to make cross-border investments and achieve potentials in their chosen target markets, including greenfield investments, acquisitions, partnerships and financing. She specialises in cross border M&A, investment in China, formulating international strategies, and multilateral cooperation with China in the Belt & Road Initiative. Suwei is a Chartered Accountant and she is a fluent English and Mandarin speaker.

The single biggest leadership challenge in doing business with China is a fundamental lack of understanding on both sides. For instance, over the past few years, the Belt & Road Initiative (BRI) promoted by China has presented potential significant long term opportunities for UK companies to work with China in the BRI territories. I run China masterclasses and workshops with our client base, usually with the NED community or at board level. The majority of participants at these events do not understand BRI. On a strategic and commercial level there is a real ignorance around these possibilities, a lack of appreciation for them, and a knowledge gap about how to keep up with the fast-moving nature of the market. All this is before you even consider practical and logistical details like operational, cultural, social and financing issues.

On the other side, the Chinese have to learn to deal with the strategic and commercial rationale of the UK market. The overseas expansion journey for the majority of Chinese companies is a relatively recent phenomenon. Therefore the Chinese company leadership and management teams still have a lot to learn about overseas markets and need to gain a deep appreciation of what their global strategies should be and how the overseas parts could fit in with their domestic story.

The media have a role to play in this lack of understanding. UK media coverage of China (e.g. BRI) is quite limited: often it is quite negative and biased. Our EU neighbours like Germany have more positive coverage and factual assessment of the Chinese opportunities, for instance, what BRI brings to the German business community. This

enables people to make informed decisions. That's why a lot of German businesses are ahead of UK businesses in their participation in BRI.

UK government and businesses are potentially missing a huge opportunity around future economic cooperation with China. We have a fairly large and mature domestic market, and pre-Brexit we have a large market at our doorstep which is – seemingly – logistically easier to deal with than China. Therefore, historically a lot of UK companies have not put a huge amount of focus on the China market. We are so myopic about Brexit and what might happen in a no deal situation that we aren't really looking elsewhere. This is actually perhaps the right time to engage more with the China market and leverage that in our negotiations with the EU.

The pace of operation in China can often catch out UK business leaders and the seeming lack of flexibility from UK businesses also perplexes the Chinese. Over centuries the UK has developed frameworks, guidelines and processes for getting from A to Z in business. China has done a lot of catching up over the past 40 years, and hasn't been afraid to take shortcuts to get to their target markets and reach goals. From a UK perspective, this speed and lack of processes can be confusing. A UK business leader may believe they need six months for negotiations, but if the Chinese only has patience to wait a month, the UK will lose out. Equally the Chinese may also lose out on opportunities overseas where they try to cut corners and struggle to deal with processes and standards they are not familiar with. I believe both sides have a lot to learn to try to find an effective way of working together to achieve common commercial objectives.

The China market rewards commitment, loyalty, trust and understanding. If you don't have a significant level of commitment to the market, the market won't have that level of commitment to you. My clients who are most successful in China are those whose top management take a real interest in the country. They visit every month; they immerse themselves in the market; they build relationships; they understand the challenges and opportunities. Then, there's a halo effect: suddenly they have people surrounding them in China wanting to help them to be successful. Conversely, I've seen many companies, especially larger ones, trying to remote control China. I've had clients who have had operations in China for over a decade but the CEO or Chair may have never visited the country: the closest they've got is Hong Kong, but that is a very different place to mainland China.

My best advice for clients having their first discussions with potential Chinese partners or going to China for the first time is to unlearn everything they think they know. I tell them to be open minded and really listen to the other side, to see from their perspective. Only then do they open their ears and minds to what is really being said. Otherwise, I often find that UK and Chinese partners are running on parallel lines: they can see each other but their paths might never cross.



Joanna Lavan

Founder & Managing Director, ConnectChina

Joanna has been involved in international trade for over 30 years and has more than 19 years' experience in China. Joanna's first step into China began in January 2000 running a project called 'ChinaVentures'. She was responsible for bringing the first trade delegation to Hangzhou from Leeds City Region in June 2000 and thereafter organized at least three delegations each year to Hangzhou until the project end in May 2004.

ConnectChina Ltd is an international business consultancy specialising in China & Hong Kong, which was established in 2004 and opened their Shanghai office - ConnectChina (Shanghai) Co Ltd - in May 2014. ConnectChina provides business support services to help both public and private sectors in the UK (& overseas) develop trade and investment opportunities with China. Joanna is former Vice-Chairman of The 48 Group Club, founder Member of the China Advisers Network, Visiting Fellow of Leeds University Business School, Graduate & Fellow of the Institute of Export.

Before doing business in China, read Sun Tzu's the Art of War, written c. 500BC. The Chinese are brilliant negotiators, a skill that has been developed over centuries, and will always ensure they have the final say. Understanding these different negotiation techniques and processes is important. For example, if you are in discussions with a Chinese person and they say 'yes', this may well mean that they understand, but not necessarily that they are agreeing.

Seating arrangements are important in China. We will always brief our client that the representative from the Chinese side who sits in the middle seat at the table is the most important, even if they don't do any talking.

The Chinese are great hosts, and they extend this beyond a 9-5 business culture. If they see the potential for a business relationship with someone, they will give up their weekend to show them around the city. As a visitor, you'll be expected to embrace the eating and drinking culture, attending banquets and accepting toasts. You may well find yourself invited to a karaoke night.

There is a lot to be gained - commercially and culturally - from engagement with China.

We do a lot of work with Chinese and UK government delegations looking for strategic partnerships between cities. For example, Liverpool has been twinned with Shanghai for almost 20 years, and Leeds with Hangzhou for the past 30 years. Both have a number of exchanges, cultural activities, and trade missions across different sectors.

These kinds of relationships are often about positive commercial outcomes and encouraging inward investment.

There are many cities that could be twinned strategically because they are home to the same industry sectors and have similar motivations. Both Bradford and Qingdao have relationship with a big film metropolis, so have offices in both cities and work together on projects and for funding - a boost to both economies.

When using a translator or interpreter remember that Chinese is a similar length to spoken English.

If your business counterpart speaks for five minutes and the interpreter gives a 30 second version, you're not getting the full picture. If you don't know your translator very well, make sure they know they can tell you any negative responses as well as positive ones because traditionally the Chinese don't like to give bad news. Finally, for obvious reasons, make sure you have your own interpreter.



Sherry Madera

Special Adviser for Asia, the City of London

Sherry Madera has been the City of London's Special Representative for Asia since January 2017. Her role aims to enhance the City's comprehensive and sustainable engagement with its Asian partners. Previously, Sherry was Minister-Counsellor and Director at the British Embassy in Beijing. Prior to working for the UK Government, Sherry was an investment banker specializing in public listings, venture capital and mergers & acquisitions with companies such as CIBC, Telia, China Mobile, Wireless Facilities, Global Crossing and IDG Ventures. She also was an entrepreneur who founded, built and exited several financial, technology, telecommunications, internet industry startups including AwayPhone, Ionic Advisors and Luckywu.com.

It's easy to mis-read the signs. In meetings with Chinese counterparts, particularly if you're a novice, it can be remarkably difficult to know if things are going well or not, and sometimes this can be the root of all misunderstanding. I myself have come away from a meeting thinking we'd made serious progress, only to learn via back channels from Chinese colleagues that in fact it's going nowhere. As someone who has lived in China for three years and worked with Chinese businesses for nearly two decades, I still find myself wondering at times if I'm ever going to get that right!

You have to look for the nuances, even when - as is so often the case - you're working through a translator. If you hear a senior counterpart ending a meeting with the warm words "this is a very fruitful relationship and Mr. X will follow up with you to find out more", it's easy to interpret that as a strong positive: good mood, a named contact, next steps. But Mr. X might well be the most junior person around the table, and the offer of follow up could simply be made to avoid a direct negative.

Take a view of the whole meeting. The words may be warm, but what's the substance? Were there any focused questions from the other side about your proposal or about next steps? If the questions weren't there, or if they were off point, that is a clear message in itself. The whole meeting is likely to have been staged to make the foreigners feel respected, but with no intention to transact.

It's the third or fourth meeting that counts. In many countries, the biggest hurdle is getting that first meeting, and you can be reasonably sure that if someone will only give you time in their diary if there's a realistic prospect of doing business together. In China it's relatively easy to get that first meeting, but very much harder to turn it into a commercial relationship. The first and second meetings will be about sizing each other up: however good they seem, it's not worth mobilizing resources at this early stage. It won't go further than this unless either they have a real interest, or you are so senior that you can't be put off. In the latter case, it's a pleasant but total waste of time.

If you're still getting a warm response by the third or fourth meeting, it's time to think seriously. Where in the West you might agree a specification, table a solution, and move swiftly to a negotiation, in China the first step is always about building the relationship. All those meetings are about listening to questions, feeling your way into the relationship, building trust. For example with the deal between the London and Shanghai Stock Exchanges, in theory this could have been a simple deal around a technology fit. But in practice it took a seriously long programme of relationship building before the deal could be done.

Social time matters everywhere in the world: in China, it matters more. If they invite you to dinner or lunch, don't hesitate or wonder whether it's the right thing to do. Just go. It's the most fundamental time for building relationships. Again, tune in to the nuances. The words spoken almost casually as you wait for the elevator together leaving your restaurant at the end of the meal may well be the closest you hear to a statement of the true intention. Of course, if you live in China, this social dimension takes on a much stronger character. Being able to say "see you at x or y event next week" puts you on the inside in a way that's invaluable.

Don't assume that we see collaboration in the same way as the Chinese. Misunderstandings of this sort can go badly wrong. I can think of a technology collaboration where the clear intent, legally agreed, on both sides was to develop a technology advantage in labs in the UK, and exploit a market for this in China. That's exactly what happened - but the Chinese side took a product to market, while from the UK perspective the whole project was still in R&D. Immediately the UK partner starts complaining about standards of quality and robustness being by-passed, and inevitably about IP infringement. The Chinese side states that this was collaboration where we all knew we were in the business of commercialising, our actions were completely in the spirit and letter of our agreement. In China it's possible to take a particular geography or city, launch a product to a customer base of a couple of hundred million, use that experience to perfect the product, and then take it nationwide, with minimal commercial or reputational risk attached. The UK sees the whole innovation and productisation cycle as being far more linear and controlled. The need to be extremely clear at the beginning of such collaborations cannot be underestimated - for the UK side it was 'unthinkable' that their technology could be rolled out to consumers

at so early a stage, while for the Chinese side the UK's resistance to fast experimental roll-out was equally incomprehensible. Making sure you question, understand and resolve the assumptions underlying any agreement is vital.

There are no short cuts in China. Even if you have a limited amount of time and you are on a mission to achieve a defined relationship or commercial or diplomatic outcome, it can't be rushed. If you go in with the expectation of a quick result, the likelihood is you will not achieve your aim. In fact the more explicit you are about being in a hurry, the less likely you are to get anywhere.

There is a stock of goodwill and positive relationships built up over time, which we need to learn to be able to draw on. In an area like Financial Services, a lot has been invested in bilateral relationships over a long period of time. You as an individual with the current interests of your own business front of mind may think you need to stand on your own two feet in China - but you will achieve much more if you explicitly draw on and trade off relationships which have been developed for and on your behalf. Those relationships create a climate in which you can thrive. When President Xi came to the UK in 2016 he articulated the concept of a 'Golden Era' in the relationship. Interestingly, the Chinese ambassador to the UK continues to use the language of the 'golden era' frequently. It's very hard to find anyone who will tell you exactly what this means. Preferential treatment? Best friends? First among other groups? An open door for businesses to obtain licenses? The answer is - who knows? These grand strategic statements like 'Golden Era' or 'Belt & Road' have what can only be described as a deliberate vagueness about them: they are a green light for dialogue, for relationship building, for business to make of them what they can. We need to recognise and use this halo effect, while at the same time understanding that Brexit has raised a question mark for the Chinese. The 'golden era' halo has not been switched off, but neither are the Chinese actively reaching out to make suggestions based on it. China respects strength, the ability to convene, the ability to influence, which historically the UK has commanded to a high degree. The erosion of these through the Brexit process may be a blip or it may be a permanent loss: this is wait and see time from a Chinese perspective, as it is for many of our international trading partners.

December 2018 should have seen the 10th annual UK-China Economic and Financial Dialogue, an event traditionally co-hosted by the UK Chancellor and the Chinese Vice Premier. It didn't take place, nor has a new date been fixed. Brexit uncertainties, transatlantic trade tensions, and perhaps the tone of some of the UK's diplomatic moves in relation to China all seem to have contributed to this postponement. Those diplomatic signals may not be the most headline-grabbing from a western perspective, but there is frequently a sense from the Chinese side that the UK, along with other international voices, tends towards public grand-standing on some issues: the themes of IP, human

rights, and increasingly the way we represent the UK on South China Seas issues. In my experience the Chinese react fairly well to issues being raised behind closed doors in private discussions, but react extremely badly to anything that looks like public shaming. One of my great Chinese friends told me the traditional saying - 'If you're going to have a row with your wife, go and do it quietly in the countryside, not shouting it out on the city streets'. When in September the UK sailed a sizeable warship close to some of the most disputed islands in the South China Seas, there was an extremely negative reaction from Beijing. There is tolerance around the handling of sensitive subjects in private, but very little tolerance of public slaps.

Outbound FDI strategy from China is changing fast. Three or four years ago, it was all about SOEs and private companies making 100% acquisitions, fuelled by a pile of cash and a high profile 'go global' policy from Government. Bringing out the value of those acquisitions post-transaction is never easy, and the cultural gap amplifies that. Today, it's more about taking a stake, particularly in innovative and technical businesses. There's a strong initial investment with an aim to ratchet that up over time, a commitment to retain the brainpower and knowledge, and a desire to bring some of that back into China. The corporate finance logic of Chinese firms is rapidly maturing along these lines, moving from what could have been interpreted in the past as 'smash and grab' acquisitions to long term, financially stable strategic partnerships. The negative narrative we've heard a lot in the West about how Chinese businesses come over here, buy it up, take the innovation, squash the competition, and embed 'Chinese spying' no longer holds water even if it may once have had some validity. By taking minority stakes, Chinese investors are putting themselves at risk – they need those businesses to succeed in their own right. That's a completely different strategy and it is rapidly growing pace.

Managing Partner Private Equity

The following interview is with a senior Chinese businessman who preferred to remain anonymous. He is a managing partner of multibillion-dollar international private equity fund focussed on China.

The primary challenge for the West when doing business in China is to find a capable and trustworthy partner. I am not referring to a business partner here; they must be a friend – we call them ‘business friends’. They could be an intellectual, a reputable government official, or someone in a completely different business field. The key thing is that you have a friendship and that they are capable, with the right social resources for your needs.

This is especially true if you want to do transaction-based work, although investing in long-term relationships with China is much wiser and ultimately more profitable. They will be able to help you get what you want in the short term, but you must be aware that you are borrowing their credit. Chinese partners will do business with you because of your friend’s endorsement. If you don’t deliver, you’ll damage their credibility.

It takes – at a minimum – three years to create your own relationship like this. In these three years, it’s better not to be doing business. Just spend time helping each other, exchanging information, socialising together in each other’s countries, focusing on building trust. Then you can ask them for help.

Trust is so important in China because our business world is not ruled by law. Our legal and regulatory frameworks are not as solid as in the West, so business contracts and practices are not fully protected. In the West, as long as you have a tight legal contract you can sleep well at night. In China, if your counterpart breaks your contract, there is no guarantee that the regulatory system will be able to protect your interests. Instead, you need to rely on the character of the person you partner with: it’s like a marriage.

Conversely, business in the US is much more straightforward. If you have a competitive advantage and good products, you can approach any American business to partner with. This wouldn’t work in China even if you had a cutting-edge product. Europeans are similar

to the Chinese in that relationships are important and strong hierarchies exist. The Chinese and Europeans should learn from the US and be more open and straightforward, while Americans might try to be more sophisticated and considered in building relationships.

This difference is why European car manufacturers – Audi, Mercedes Benz and Volkswagen – were successful in China before the Americans. The Europeans understood relationship building, whereas when General Motors' Chinese negotiations weren't agreed after a couple of months, they left. They then learnt from the Europeans, began building relationships and set up a JV in China. They rebranded the Buick as a car for the young middle class and it has been a huge success. But they were only able to do this because they spent so much time researching the Chinese market and building relationships with local partners.

In China, government still plays a prominent role in business. Whatever company you're dealing with in China, you must investigate their relationship with local government and central government regulators. If your partner doesn't have a good relationship with local government or with regulators it will be very difficult for them to succeed. This is especially true in the current environment.



Andreas Pfisterer

**Senior Executive Vice President, TDC NetCo
and member of the TDC Group Executive
Committee**

Andreas has more than 22 years of international experience in telecoms, business technology and operations with clear focus on shaping and driving transformational change and generating impact and shareholder value. He has been SEVP at TDC NetCo since August 2018, previously acting as SEVP at TDC Operations as well as Chief Information & Technology Officer. Andreas holds a MSc in Economics and Business Administration and in Computer Science. Previously, he held management positions in a number of the largest European IT and telecom businesses as Telefonica Germany, German E-Plus, Dutch KPN and Swiss Sunrise Communications, previously owned by TDC.

Be humble in your dealings with China. China is one of the big ancient civilisations with more than 3,600 years of written history with a rich and profound culture, including its traditions, heritage and arts. Personally, I found that Western countries and companies doing business with China all too often seem to perceive China as slightly inferior rather than a partner on a level footing. However, the development of China in the last decades from an agricultural to a rich industrial country is without equal.

In the past, China has been seen as the extended workbench of the Western world. Some of my peers in the industry still consider Chinese companies as suppliers of cheap labour and copy-cats of comparatively simple products.

Things are changing and China has now become the secret source of power and innovation in the digital area. Everyone looks to the US and Silicon Valley for digitisation and innovation, but tend to underestimate that a lot of innovation, for example in technology and artificial intelligence, is happening in China, especially in areas like Shenzhen. We have a lot of exposure with digital companies based in or originating in China, and the innovation happening there is at a far greater scale and higher pace of adoption than in the Western world.

But for Europeans, Silicon Valley feels much closer than China so they continue to travel there and look to California for innovation. I go to China on a regular basis each year and every time it looks different. You need to visit the country and the Chinese companies you're working with and see how innovation is implemented in real life. Seeing and understanding that first-hand is completely different to hearing or reading about it. If you want to build a strategic partnership on a level playing field with a Chinese company you need to go there and invest time, especially in building relationships.

Guānxi, meaning relationships, are much stronger than any contract you might negotiate. You'll never be able to put every eventuality in a contract – especially if you're developing a long-term agreement – so your continuous investment in the relationship will help you overcome the challenges you are likely to face. Develop these relationships by investing time in them. Start by putting a project in place to build mutual trust and relationships, and to help you understand the cultural differences. Show appreciation for the culture: go to China; meet their team; give them an opportunity not just to present to you, but also for you to present your western background to them.

You are very unlikely to sit in a meeting and negotiate with a key decision maker. The Asian culture has an element of face saving, so a lot needs to be pre-syndicated and pre-aligned before you bring an agreement to the decision maker in the organisation.

You must assume that all decisions are ideally made by the company's headquarters, which are usually in China. Even if you have a local organisation to start negotiations with, all the decisions are very likely to need – at the very least – approval by the headquarters in China.

The Chinese are eager to learn and understand best-practices. For example, a major Chinese technology company hired IBM consulting to help them mature as a Chinese company on a global scale. They took western advisory consulting to mature their processes and organisational structures, which allowed them to grow to a company with almost \$100 billion revenue.

Helmuth Rohregger

CEO, GKN Driveline



Helmuth is CEO of GKN Driveline, having worked with GKN in various roles for over 20 years. Between 1999 and 2001 he worked Shanghai as Deputy General Manager of Shanghai GKN Driveshaft. This was the leading automotive supplier for Driveline system, a Joint Venture company with major shareholders GKN and SAIC. Between 2005 and 2009, he was responsible for Asia Pacific & Japan. During this time, the China business expanded significantly and plants were built in Wuhan, Chongqing and Changchun. Today the Joint Venture SDS represents a 10billion Yuan business with more than 40% market share.

China is the master of the 10-year plan. Chinese businesses all have long-term plans in place, which inspire the full commitment and dedication of the leadership team. In China, when there is an approved plan, the time for debate is over and the focus is execution. The new Daxing International Airport in Beijing will be built in four years. This is phenomenal when you consider that construction of just Terminal 5 at Heathrow took six years (not including the nine years between submission of the planning application and construction beginning). In Europe, all too often there is too much debate, taking away energy from a project and slowing down its execution. That's why China is developing so incredibly quickly, and why it will soon be the world's biggest trade market.

I believe this long-term vision comes from the top: from the very governance of the country.

China's leading party is a constellation of top business leaders, who all understand how to run a business and the importance of a masterplan. They then push this attitude onto industry. For example, they can take an overview of the economy and decide where and on what technologies the nation should focus. 20 years ago, when I started working in China, I saw the Chinese recognise that their capabilities in the automotive industry were far behind other nations. The country's leadership understood that if they wanted to be a major player in this space, they needed to align with the best and instructed major companies to quickly build joint ventures with Western companies. They built 50:50 JVs, allowing the Chinese to retain control of the commercial functions of the company and its (largely Chinese) workforce, and to retain an equal power on the board. This long-term vision is why China is now the biggest player in the global automotive market.

In tandem with this is the continuity in leadership of Chinese organisations. Unlike the UK, the top leadership of a company does not change very often. This allows leadership to be selective in the right way, giving them time to build teams and execute their plan.

The Chinese are fantastically dedicated: both to achieving their goals and targets, but also to keeping the customer in mind and, ultimately, to making money. They will never say no; their mentality is that nothing is impossible. This posed quite a challenge when I started

working in China. If I asked my team for something I would assume they were doing it, but it was only when I checked that I realised they hadn't understood or didn't know how to do said task. However, mostly this manifests in dedication and speed, and it is a completely different attitude to that in Europe.

I learnt a great deal during my time in China, when I didn't have a lot of senior leadership experience, by observing how my boss behaved to get things done quickly. I saw how tough leaders were if their teams made mistakes, but also how protective they were of their business and their people. On one occasion, we had a quality issue with a product. There was no question that anyone would go home. We worked all night to solve the problem so we could show the customer that we'd found a solution the next day. It really showed me the dedication and loyalty that teams had to their business; it also showed me that in the moment when things go wrong, as a captain you stay on the vessel.

China's leaders are absolutely fantastic negotiators. They can deal with chaotic situations because they make quick decisions, they are incredibly tough, and they have the best tactics. One of the most successful examples of game-playing I saw was around confusing suppliers. As a foreigner arriving in China, when you don't speak the language or understand the company hierarchy, it's difficult to know who you need to engage with to make a sale. Often, several different people on the Chinese side would have meetings with the visiting supplier, leaving them confused about whether they'd spoken to the right person, uncertain about whether they'd made a sale, and willing to negotiate. The Chinese will also have strict internal targets that they won't deviate from. If they are aiming for a 20% discount, they'll spend as long as it takes to reach this agreement.

The other tremendous asset China has is its population. In a country of over 1 billion people, there are huge differences between provinces. Cities in the east and the west have completely different skills and behaviours. This must be carefully managed, but the power of people should not be underestimated. In Europe, if we have an issue, we debate about it and then dedicate one person to solve it. In China, they dedicate 10 people. They learn from each other, and they learn quickly; if one solution doesn't work, they do something else and solve the problem quickly.

The Chinese have a fantastic curiosity for the world. When I started working with China it was very difficult for the Chinese to travel unless you were a top leader or could prove you were going abroad for training. Because we were a JV, we could bring Chinese employees to Europe or Asia for 6 months. You wouldn't hear much from them while they were here, but they would extract a great deal of information from us. They learnt a lot about business culture: how to industrialise business processes; how an organisation should work; how it should be structured. Now, I see a second generation of students who have studied outside of China returning to the country. They are combining their modern business training with their experience of Chinese culture to get the best out of both worlds. We would benefit from this process being reversed: Western people going to Chinese universities and learning skills in the many areas where China is more advanced.



Angus Slater

Managing Director, Bupa, Hong Kong

Angus has been Managing Director for Bupa in Hong Kong since November 2017. Prior to this, he had been leading the Bupa Global Asia Pacific region, as well as maintaining his role of Sales and Commercial Director for Bupa Hong Kong. Before moving to Asia, Angus was Marketing Director for Bupa Global based in London. Angus has extensive international experience and has held senior leadership roles with Vodafone and Accenture.

The Chinese are masters of planning for the long term. A good example is the Greater Bay Area initiative, which plans to integrate Hong Kong and Macau with nine neighbouring urban areas - including Shenzhen and Guangzhou. The initiative will allow these regions to take the lead in different roles: Hong Kong in financial services, Shenzhen as a tech and industrial centre, Guangzhou as a hub for trade. Bringing governments together to co-operate on ideas like mobile call roaming throughout the region and investments in transport and healthcare will maximise opportunities. Considering the initiative is backed by the central Government, it's likely the implementation in the coming years will be smooth.

A business deal with any degree of risk requires a solid relationship with your potential partner. Invest time in building these relationships, whether this is spending two years building trust with your counterpart, as I have done, or ensuring you spend the first five minutes of a meeting on small talk, establishing common ground and common interest.

Realising that business in China is more about relationships than contracts unlocked my ability to be effective. A contract tends to play a less central role after it is signed than the relationships between the two sides. For example, I once negotiated a complicated business contract in minute detail over many months. However, once it was signed it then took two years to really build the relationship and establish the open dialogue and trust we needed to be an effective team.

When doing business in China, be aware that the drinking culture is alive and well.

Victories are celebrated with lots of alcohol and there can be an expectation that you will go drinking at the drop of a hat.

In terms of communications, telling stories works well. Telling a story where something has failed in another context works very well. Telling a story where a Western business has failed – and what lessons were learnt – is even better!

Very often senior level meetings are a form of theatre. Decisions are rarely made in these meetings: you need to do your groundwork in advance with junior members of the team before a recommendation will be made to the decision-maker. Don't present anything new expecting a decision straight away; decisions need to come to the leader from the bottom-up. This is similar to the culture in Japan. The Japanese have a phrase for this: 'nemawashi' - which is the process of a plant binding its roots to the earth to develop a firm foundation.

Dress codes are changing and becoming hard to predict. Sometimes the more successful and senior a person, the less they will adhere to traditional dress codes, which makes it hard to know what to wear to a meeting. There are also regional differences in cultural norms, including style of dress, formality, and work pressure levels. I've worked with various presidents and CEOs of companies who arrive in immaculate suits and behave very formally, and I've known brokers who employ 100,000 agents who turn up in a tracksuit. Once I was working with a company in China that we had a long-standing commercial relationship with. I visited their impressive new office in Shanghai, sat in an enormous board room where I was served drinks by white-gloved staff, and the President sat opposite me and said they had no money to invest. Clearly that relationship needed work!

Phil Swash

Former Director and CEO, GKN Automotive



Phil has over 35 years of experience in global companies, starting out as a mechanical apprentice before spending over 25 years in senior leadership, transformation and P&L roles. He has particular expertise in aerospace and automotive industries, leading global industrial operations. Phil is recognised by everyone who has worked with him as a business leader truly committed to talent development and diversity.

He left GKN PLC in May 2018 where he was a Director and CEO of GKN Automotive which had revenues of over £5bn and a hugely successful £1bn joint venture in China. Phil is a Chartered Engineer of the Institute of Engineering & Technology, a Fellow of the Royal Aeronautical society and Honorary Fellow of Liverpool John Moores University.

Be prepared to commit to a business relationship with China for a very long time. They are often thinking 50 or 100 years into the future, whereas in the West time scales often aren't talked about – and if they are it's on a completely different horizon.

Be clear, bold and direct in your negotiations. Avoid obscure hints or suggestions. It's a very British trait to try and couch everything in lots of nuance, but this is unhelpful when dealing with the Chinese. Being too veiled and too complex doesn't end well: you will frustrate and confuse them. That's dangerous because they will be keeping their options open and negotiating with multiple partners simultaneously, as we would be. Once you've made an agreement, be prepared to move very quickly, especially when dealing with private companies. In breathtaking time you'll have a new factory and a thousand employees.

Personal relationships have to go hand in glove with business relationships. Relationships are important everywhere in business, but nowhere do they mean more than in China. You may be able to build a deal out of a business synergy but if you want it to flourish you need to invest and commit an immense amount of time in building relationships. You have to work at understanding and appreciating their culture. Physical energy is a big part of this: you might have a long flight and go straight into meetings, then your Chinese hosts will

want to see how you perform over dinner. It is important for them to try and see the real you. They'll toast to you and hope that, with a few glasses of liquor, you let your guard drop and your emotions show a little more. You should also be prepared to stay in China for a few days – the macho Western 'in and out in a day' attitude won't work. Having said that, I can honestly say that some of the strongest friendships I've developed in business have been with Chinese people. Once I'd put the effort in, I felt I got more out of those relationships than any others.

The Chinese still really value presenting to local communities, regional leaders and all of their partners. While it might be uncomfortable as a Westerner to speak to very large numbers at staged events, it's very important. Saying a few well-considered thoughts, such as respecting the contribution of the local community and the government will go down well – even if the audience doesn't understand you. On that note, learning the odd Chinese phrase is useful.

The closer your relationship is, the more tactile the Chinese become. For example, over a business dinner a loose and cursory handshake is one thing. If it's a real relationship, their other hand will be on your shoulder. Once, after a JV meeting, I was walking with a Chinese GM and he suddenly held my hand. It felt quite strange, but it was a sign of friendship and he wanted to talk about something important.

You can judge the Chinese level of interest in the relationship by the length of meetings and their level of preparation. If they want to do something with you, they will give it proper time, be well-prepared and suggest dinner afterwards. If the meeting is brief, they are being polite but they are not serious about doing business with you.

There is an enormous difference between doing business with people in different parts of China. In Shanghai, many people will have been to Western business schools and understand Western business models. In the north, they are more familiar with industrial manufacturing and are not so well aligned to business. You don't have to know 100 years of local history in depth, but you have to understand where a person is coming from geographically and culturally.

Mike Wang

Partner, King & Wood Mallesons



Mike joined King & Wood Mallesons in 1999. He obtained his LL.B. degree from Fu Dan University in 1999, and was admitted as Chinese lawyer in 2000. He is proficient in Chinese and English. In 2014, Mike moved to the King & Wood Mallesons London office to be responsible for the cross-border deals from China to the EU. In the past 4 years, Mike has participated in many cross-border projects on behalf of Chinese investors. At the same time, he has been working for various EU clients with their investments in and business expansion to China. The cases handled by Mike on behalf of Chinese state-owned enterprises, listing companies and other private companies, include but are not limited to, areas of real estate, energy projects, digital games, online financing, automobile manufacturing, and football clubs.

Conducting business between China and the rest of the world creates unpredictability in terms of reaction and the real meaning behind work. There are many reasons for this: relationships, systems and processes are different, so this sometimes manifests in accusations of a lack of transparency. Language is a barrier; we may not express ourselves as we mean to when using translators or interlocutors.

Although China has opened its doors to the rest of the world for the past 40 years, the Chinese have only been actively moving outside of China to set up entities and do business for the past 10-15 years. This means China's business relationships with the rest of the world only have a short history, and neither side has had time to understand the other's customs. For example, in China, directly saying no to people you like is considered impolite. Therefore, if someone you have been in discussions with does not respond to you, it may be because they believe this to be less rude than explaining why their response is a negative one.

On a legal level, in the UK, a company's shareholders, directors and management team are relatively independent. Each party has their own authority. This system has been gradually developed, based on more than a hundred years of history. In China, for example, lots of

private companies are still owned and operated by the founders. The founder might also be the Chair of the board of directors, and the CEO, directly in charge of daily operations. These three roles are, to some extent, blurred and this can make Western investors confused as to who they should engage with.

These difficulties are why we developed the ‘3W’ scheme, to help clients achieve success in cross-border projects. Most institutions or individuals in cross-border markets have realised the discrepancies that result from different cultures, laws, and practices, but now know how to deal with these issues — through increased communication, and being more understanding and tolerant. However, more skills and tools need to be used.

1. What to do:

We provide a pre-deal training program to both sides so that they can understand each other, as well as post-close training so that both sides may find a friendly way to settle potential disputes.

2. Who to do:

In projects where KWM works for Chinese investors, KWM’s UK partners are responsible for communication with UK their local counterpart, while bilingual lawyers work directly with Chinese investors.

3. When to do:

Timing of actions is a critical issue in many projects. It is important to remind clients of potential risks and difficulties in cross-border deals as early as possible, to prepare the post-close integration plan in advance of closing of the deal, and to deliver training progress on UK law and practice to the China management team in China before they move to UK.

My main piece of advice for someone moving their business into China is that they will need a local partner. Initially, people tend to want complete ownership of their enterprise; they think this is easier to manage. However, China is a different business world and a different legal environment. Without local support your business growth will be very slow and you will find it difficult to succeed. Running a JV or having a local partner will have its own difficulties, but that is the only the way to do it.

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Reaching out to China

1. Power, Perspective, Personality

What really works for business leaders in political engagement

2. Not Shaken, but Stirred

The Ten commandments for leaders in tough times

3. Seven Types of Confidence

4. Quick Quick Slow

How the best leaders balance short and long term perspectives

5. What motivates leaders: hoping to rise, or fearing to fall?

6. Three principles of *authenticity*

7. The Future Leader

8. Global Talent in UK Leadership

9. The Future of Jobs: Luddites vs. Autopians

10. Reaching out to China

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