

How China's Growth and Future Will Impact Business Development in the A/E/C Industry



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Will doing business in China make or break your firm? On the surface, the process of entering the Chinese market is no different than it is for entering any other new market. The challenge, and risk, lies in understanding and operating within cultural environments (social, business, and government) that differ significantly from those you may consider normal.

Many foreign investors feel Chinese architects/designers understand the needs of the local market yet lack quality control, exposure to international standards, and professional management experience. This creates an opportunity for foreign A/E/C firms to provide expertise on advanced building design concepts and technology.

However, U.S. firms still face stiff competition. According to recent Ministry of Construction data, of the 233 foreign design firms registered in China, only 10.7 percent were from the United States, 59.6 percent were from Hong Kong (many with strong ties to parent companies in the United Kingdom or Australia), 6.4 percent were from Singapore, and 23.3 percent were from other countries and regions.

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While it is difficult to provide current metrics regarding business opportunities within China, there are some specifics that can be referenced. According to the U.S. Commercial Service’s Service Market Report, the plan for total construction is estimated to reach 2 billion square meters each year (1 square meter = 10.76 square feet). By 2020, estimates are that China will have built 205 billion square meters of new housing. Construction spending is expanding at 25 percent annually. A November 2009 report in *ENR* states, “China will:

- “push the U.S. into second place as the world’s biggest construction market before the end of the next decade
- “remain dominant. Its infrastructure sector is expected to grow fastest over the decade, boosted initially by economic stimulus
- “overtake the U.S. as the largest construction market globally by 2018 and by 2020 the construction market in China will be worth an estimated \$2.4 trillion.”

Given these growth predictions, it is important to understand the various risks and considerations for doing business in China. Some of the most important follow.

The importance of relationships (*guanxi*) and face (*mianze*)

Doing business in China is about building mutual trust and benefit amidst establishing relationships with people. *Guanxi* (pronounced gwan-zhee) is everything. In a narrow sense, it means *relationship* or *connection* but in business can imply everything from *networking* to *pull*. *Mianzi* (pronounced mian-tze) is *face* or *social capital*.

In Chinese business culture, a person’s reputation and social standing rest on saving face. Face defines a person’s place in the social network and is the most important measure of social worth. Similar to the U.S. concepts of dignity and prestige, it differs in that the Chinese think of face in quantitative terms, not absolute. Thus face can be earned, lost, given, or taken away. If a Westerner causes the Chinese embarrassment or loss of composure, even unintentionally, it can be disastrous for business negotiations.

Negotiating Contracts

It is beneficial to bring your own interpreter to help understand the subtleties of everything being said during meetings. The best way to help avoid confusion is to speak in short, simple sentences free of jargon and slang. When preparing documents it is useful to prepare a reverse translation to help reduce confusion. Note that written contracts are secondary to personal commitments between associates. In fact, several trips to China probably will be necessary before the business arrangements are finalized since Chinese businesspeople prefer to establish strong relationships before closing a deal. With this in mind, keep your return plans flexible in case negotiations do not proceed according to schedule.

Getting Paid

Any sale is a gift until you are paid. This practical business insight is especially true for international transactions where the buyer and seller could be 12,000 miles away. While it is prudent to make use of the various credit-reporting companies active in China, you also should ask for trade references from U.S. firms that are easy to contact. It is important to recognize some significant differences in the Chinese commercial and banking landscape.

- China still has many state-owned enterprises, which can have a high degree of government involvement, potentially complicating negotiations and slowing the release of funds for a given contract.
- The banking system is not yet as transparent as in Western countries, which means you probably will want the active involvement of your U.S.-based bank’s international division to help you through hurdles.
- The private sector is still developing in China, so your buyers might not yet have the expertise to smoothly navigate China’s internal bureaucracy and regulations on such things as securing foreign currency for their transactions. The net result of these factors is that you could potentially encounter delays in payments regardless of the payment method used.

Protecting Intellectual Property

Since joining the World Trade Organization (WTO), China has strengthened its legal framework and amended its intellectual property rights and related laws and regulations to comply with the WTO Agreement on the Traded-Related Aspect of Intellectual Property Rights. Despite these stronger statutory protections, China continues to be a haven for counterfeiters and pirates. One strategy is to avoid the opportunity for the intellectual property actually to be disclosed rather than trying to control the people in possession of it. Generally, you should have non-disclosure agreements (NDAs) in place, but remember the huge hoops you will need to jump through to get any sort of recovery after a breach—if any recovery at all is even possible.

Another option is just to be very careful in what you present. Do not give away pictures, presentations, or drawings in meetings. If the client really wants more or if they want you to design it and

Useful Web Sites

American Chamber of Commerce, China
www.amcham-china.org.cn/

The Asia Society, fostering education about Asian cultures
www.asiasociety.org

Beijing Investment Promotions Bureau
www.investbeijing.gov.cn/english/index.do

Business-China, a China business directory
www.business-china.com

The China Business Network
<http://thechinabusinessnetwork.com/>

The China Business Review, official magazine of the US-China Business Council
www.chinabusinessreview.com/cbr/about.html

China Council for the Promotion of International Trade/ China Chamber of International Commerce
<http://english.ccpit.org/>

China Culture.org, a comprehensive Web site on history and culture
www.chinaculture.org

China Daily, China's English language daily newspaper
www.chinadaily.com.cn/

The China Economic Review
www.chinaeconomicreview.com/

The China Institute, Chinese business, culture, art, and education
www.chinainstitute.org

Export.Gov, help and guidelines for exporting to China
www.export.gov/china/

Law Info China, China legal information
www.lawinfochina.com/

Ministry of Commerce of the People's Republic of China
<http://english.mofcom.gov.cn/>

South China Morning Post, Hong Kong's daily newspaper
www.scmp.com/portal/site/SCMP/

U.S.-China Business Council
www.uschina.org/

Wall Street Journal's "China Real Time Report"
<http://blogs.wsj.com/chinajournal/>

Xinhua News Agency, China's official wire and news service
www.chinaview.cn/

they do not want to pay for it, then you have a decision to make: Is it worth the risk? If they really want it and they know they can't get it anywhere else, they *will* pay for it.

Market Research

Similar to most places, there are three types of clients in China: government, government/private, and private. The challenge is that, unless the entity is listed on a stock exchange, information is less reliable and harder to come by. It is best to attempt to get firsthand knowledge through relationships and introductions.

The Chinese rely heavily on relationships, and if you are introduced through a trusted person, then you and your firm can be trusted. When trying to get that first introduction, think about the rule of "six degrees of separation" where you are just a few people away from an introduction to the person you want to meet. Use social networking sites and industry associations to find someone who knows someone who knows the person you want to meet.

"The biggest specific difference between Western and Chinese business culture is in decision-making."

While the Internet is a useful tool for general research, it is not that reliable for specific project information. The good news is that all government projects must be advertised, so find the sites that list the type of projects your firm is interested in and monitor them for upcoming opportunities.

Decision-Making Process/Level of Collaboration

The biggest specific difference between Western and Chinese business culture is in decision-making. Quick decisions are alien to the Chinese. Rapid decision-making, incorporating quickly gathered and processed information, is a sign of an aggressive, highly competent manager in the West.

However, to the Chinese, haste is the sign of an idiot. The Chinese prefer to deliberate longer, even on decisions that might take Western managers five minutes. Discuss the issue, ask for feedback, and explain your decision's rationale. This way, the staff will be more accepting and respectful of the decision.

The Chinese want to be included in the decision-making process at a degree of collaboration that to a Western manager may seem unnecessary for relatively simple points but is important in this culture. They want to feel honored that you bring issues to them and ask what they would do. Even if you think it is a simple decision, mull it over and talk to them about it. The results (buy-in, compliance, good feeling) will be worth the extra effort.

Timeline to Success

Remember that the timeline to success in China can be relatively short (2 to 3 years) or it can be much longer (up to 10 years). It is not for the faint of heart—it takes a strong commitment to enter this market. Finding the right partner and developing relationships take time and cannot be rushed.

While anecdotes for both success and failure are plentiful, the key to success lies in proper prior planning and doing significantly more research and due diligence than might be required for entering a new market in your own neighborhood. Going in with a strong local partner can help. The first few times you are there, you're there to meet people and get to know about China—not to do a deal. The Chinese need to feel you are there to do something for them and for China before they will feel comfortable doing business with you. **m**

About the Author



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