

# MEDIA RELEASE



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## **Australian firms do business by the seat of their pants in China**

Australian businesses frequently initiate ventures into China without a clearly established business plan or strategy Deakin University researchers have found.

In a survey of 40 large (including blue chip), medium and small Australian organisations which aimed to identify the hurdles Australian businesses face when internationalizing to China, Deakin academics Dr Jane Menzies, Dr Mona Chung and Professor Stuart Orr found less than half (18) had any form of a business plan.

“Many businesses start their operations in China on the basis of opportunities presented to them by associates, contacts, client or suppliers,” Dr Menzies explained.

“The risk with this approach is that businesses, as the research found, fail to plan or prepare for their business ventures” “As a result they may not have the best understanding of the environment, and have the possibility of underestimating the costs of establishing a business in China and go from one strategy to the next, often by the seat of their pants. For small firms with high resource constraints these can be the factors which determine if the venture succeeds or fails.”

Dr Menzies said the Chinese Government’s policies, rules and regulations affected the way in which operations were established in China. “This bureaucracy can present significant barriers (and sometimes opportunities) for the businesses, they also influence the entry modes that Australian businesses use,” she said.

Dr Menzies said the Australian government assistance (Austrade) was found to be helpful in setting up the business, with the most valuable support being assistance with introductions and business leads. Chinese government assistance was also seen to be important for initial and ongoing support of the business, especially in areas where the Chinese government saw the business to make a contribution to the development of China’s economy”.

“Unsurprisingly, the participants found the level of intervention in their business from the Chinese government to be much higher than they were used to in Australia,” she said. “This led them to place a high value on relationships with government and understanding who the influential players are.”

Dr Chung said respondents found the cultural gap between Australia and China greater than expected.

“Communication and relationship building become key issues for senior managers in developing and controlling their business in China,” she said.

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Dr Chung said survey participants distrusted using the legal system to pursue cases in China and made little use of contracts to formalise business arrangements.

“They quickly come to rely on relationships to facilitate business,” she said. “The legal system is perceived to be rapidly changing, and as such businesses find it difficult to keep up with those changes. “If they have to deal with the legal system they use a local legal service in China who has representatives that are both bi-cultural and bi-lingual to advise on relevant legal matters.

“Businesses are not confident about Intellectual Property (IP) issues in China and take various measures, including holding technology back in Australia, to protect themselves.”

Dr Chung said the survey participants also had difficulty in recruiting appropriately skilled staff for their businesses -- and then retaining them.

“The rapidly increasing wage conditions and high levels of employee mobility in China makes staff turnover extremely high,” she said.

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## **Further information:**

*“Doing Business in China: How Australian companies make their decisions when entering the Chinese market”*. The report is available on the website [www.deakin.edu.au/dbs](http://www.deakin.edu.au/dbs)

The research covered a variety of industries including manufacturing, consulting and business services, building, construction and engineering, education, government services, finance and insurance, resources and mining and other industries.