

# e-Management Digest

A collection of management articles for the aspiring managers

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*This Management Digest is prepared for the aspiring managers as an update to what they already know. This newsletter is sent monthly to members of the Hong Kong Institute of Marketing and delegates following courses provided through Consort Management Consultants Ltd.*

CHINA MARKETING

## The Law of Direct Sales

Before the 1990s, multi-level marketing was unheard of in China. Since then, the industry mushroomed and attracted a small army of recruits, many of them victims of layoffs by bankrupt state enterprises. Some recruits were even prepared to spend their life savings to acquire personal and home-care products they could then sell on to friends and neighbours, by going door-to-door or organising gatherings.

At first, the central government probably welcomed the phenomenon as a way of relieving unemployment. But direct selling firms grew beyond logic with many black sheep in many camps. The idea of multi-level marketing caught on and many people, hoping to get rich overnight set up pyramid schemes, which had become an alternative name to direct selling. And indeed, as soon as deposits were collected from the salespersons, the company owners disappeared during the night.

In April 1998, the government had to ban direct selling. Even the likes of Amway, Avon and Mary Kay had to suspend operations for a time, causing more trade friction with Washington. Then, some dodgy entrepreneurs fled rather than obeying the order to reimburse customers. Customers then, in addition to making complaints about exorbitant prices and poor quality, caused civil unrests in many locations.

Subsequently, foreign enterprises lobbied the government heavily to be reprieved. The government then agreed and allowed some foreign-based firms to continue the business, subject to strict limitations.

However, the firms had to change their traditional business model by setting up shops and having their salespersons signing employment contracts. The salespersons would be remunerated on their personal efforts rather than their team's results, so as to avoid the business from degenerating into pyramid scams. The change was a complete departure from the direct selling or multi-level marketing concepts in America and other countries. But business did not seem to be affected by the change.



China was most concerned of the 'upline-downline' commission structure of multi-level marketers. If remuneration is made to team-work instead of basing it on personal efforts, they could pose a risk to social development, corrupt practices and national security.

Now, China finally implemented its first direct selling laws on December 1, 2005. The regulations are quite different from those in most countries, partly because person-to-person sales networks – which if



uncontrolled – would upset the nerves of the government.

There are stringent requirements for market entry: companies must have a minimum registered capital of 80 Million Yuan – to limit the field to larger players. Moreover, firms have to make a 20 Million Yuan collateral deposit to protect customers in the event of default.

More importantly, the ‘upline-downline’



commission system will be abandoned and there are also legal limits of how much a salesperson can take as commission – a maximum of 30% of their personal sales (this would be 50% in other countries). The ‘agents’ will be employees and they themselves are not allowed to employ their own teams.

The new legal requirements will put direct selling or multi-level marketers to test. They are radically different from the original concept, but it seems that so far, their businesses in China continues to be thriving. The difficulty in recruiting sales agents is probably the only limiting factor for business growth.

*(Horace Wong, Hon. Secretary HKIM  
based on materials from The Standard and US News)*

CORPORATE PLANNING

## Chinese Priorities

Hill & Knowlton's recent annual global survey of senior executives' views on managing corporate reputation reveals

some interesting differences in attitudes towards recognising the importance of corporate reputation, corporate governance and Corporate Social Responsibility (CSR) among business leaders around the world. This is particularly the case between Chinese chief executives and their counterparts in the west.

The survey found that, while Chinese CEOs recognise the importance of corporate reputation, their priorities are noticeably different from their colleagues in the US and Europe. Chinese CEOs believe that strong corporate reputation is a tool for a company to enhance its brand name, to develop strategic partnerships, to recruit and retain talents. In the West, CEOs are more concerned about the impact of corporate reputation would have on stock prices or the ability of the company to withstand a crisis.

Chinese CEOs are more concerned about relations with government than with investment and industry analysts.

They may see product and service issues, unethical corporate behaviour and criticism from the media and customers as major threats to reputation, but they are less worried about risks of disasters, litigation, criticism from non-government organisations than their western counterparts.

87 per cent of the Chinese CEOs surveyed believed that CSR contributes a great deal to a company's reputation. This is a higher proportion than that of North American CEOs, but lower than that of their European equivalents. It was thought that CSR would help Chinese CEOs to enhance



brands, build favourable media coverage, improve recruitment and staff retention. On the other hand, CEOs in the west see CSR as important in helping companies to withstand crises, enhancing stock prices and increasing sales.

To a large extent, the above findings are reflections on the CEO's personal experience and cultural background. For example, lawsuits are less common in China than in the west, so CEOs' priorities there are different. These findings, however, would add another dimension to international manpower/placement planning for multinationals. So, Chinese multinationals operating in developed nations need to increase their awareness of the need for risk management and develop a better appreciation of the business and institutional environment of host countries. Equally, HR practitioners from western multinationals working in China would have to understand the priorities of Chinese executives and adapt to the local operating conditions there.

*(Adapted from People Management  
10 November 2005)*

MANAGING INNOVATION

## Strategies for Leading Innovation

Innovations in all sectors rely on the inspiration, creativity, skills and knowledge of whole groups of people but business leaders play the most important role of all, according to a recent report

Leadership for Innovation, published by the Advanced Institute of Management (AIM) Research and supported by the Chartered Management Institute (CMI) –

shows that the relationship between leadership and innovation is a complex and critical one.

The report provides a framework that companies can use to understand how leadership and innovation interact. The research found that to be successful innovators, companies must learn three important leadership lessons:

- Leaders at every level of the organisation make innovation possible in two ways. As motivators, they inspire employees to innovate. As organisational architects they create the context or environment in which innovation can occur. In other words, companies must provide the environment for innovation within their organisations.
- Innovation comes in different types. It can be incremental, through simple product modifications, or radical, such as creating a new product. It also goes through distinct stages: the exploration phase, where the creativity happens; and the exploitation phase where the commercialisation takes place. Each type and stage of innovation requires a different type of leadership.
- The way organisations develop, support and reward leaders must be tailored to the type and stage of innovation the



leader is responsible for. AXA Insurance Ireland identified innovative ideas can be developed by 'new creations', 'elimination of activities that does not contribute', improvement of existing products', or 're-using success stories'.

(Adapted from *Professional Manager* July 2005)

LIFE STYLE

## Summing up Happiness

'All work and no play' will not only make Tom a dull boy, it is also against the desire for a stress-free life. Dr. Cliff Amall, a psychologist at Cardiff University has developed a formula for an enjoyable long weekend:

$$\frac{C \times R \times Zz}{(Tt + D)x St + (P \times Pr)} > 400$$

Dr Amall says that you need to balance the number of hours you plan to spend packing, travelling, sleeping, and enjoying cultural activities. If the resulting number is higher than 400, you are guaranteed a perfect break.

In other words, for a 72 hours long weekend break:

- Travelling time (Tt) and Delays (D) should not be more than 7 hours or 10% of the total time, and Stress (St) no more than 5% of the total.
- Culture (C) and Relaxation (R) should make up 60% of your weekend, and Sleeping (Zz) 25%
- Packing (P) and Preparation (Pr) should not be more than 3.5 and 7 hours respectively.

For fun or for serious research work, this formula is all very complicated science. Trying to work it out would only add stress

to our lives, but the idea is simple. A happy weekend should be one where we can relax and participate in leisurely cultural activities with little travel time and preparation work. However, the chores of visiting relatives, manning children and watching TV repeats have been excluded.

The formula was developed in conjunction with www.hotels.com.

(Adapted from *Professional Manager*, November 2005)

## To all our Readers

Have an enjoyable festive season!

Management Digest Editor

ENGLISH

## Words Worth

WRONG	RIGHT
× She <b>not only made</b> her own dresses but also her own hats.	✓ She <b>made not only</b> her own dresses but also her own hats.
<i>Positioning of 'not only' and 'but also' should be the same (i.e. immediately before the object or main verb etc)</i> <i>Compare: 'He injured not only his shoulder but also his elbow'; 'He not only injured his shoulder but also hurt his elbow'.</i>	
× <b>Not only</b> I passed the test, but I also got a prize.	✓ <b>Not only did I</b> pass the test, but I also got a prize.
<i>When <b>not only</b> is used at the beginning of a sentence, the subject and the auxillary verb changes place (as in the question form): 'passed' becomes 'did I pass'.</i>	
× <b>No sooner</b> we had arrived than it began to rain.	✓ <b>No sooner</b> had we arrived than it began to rain.
<i>The structure here is like the 'not only' example above. When the sentence is started by '<b>no sooner</b>', the subject and auxillary verb change places.</i>	

