



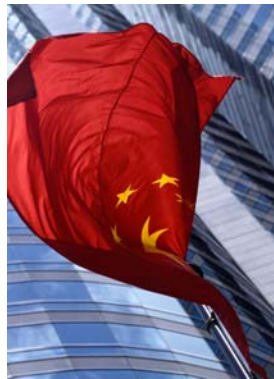
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"PEELING THE ONION - Part 9"



Managing your China business under SARS

Severe Acute Respiratory Syndrome, or SARS, needs no introduction. Its effects however upon your business and ways of managing your business in the current SARS environment do, for growing the Onion must go on!



The SARS Business Environment

Those of you living in China are only too aware of the basic facts regarding this apparently new and deadly strain of the influenza virus. Thought to have originated in Guangdong last November, as of April 28th, SARS had spread to more than 25 countries, killing more than 300 people and infecting more than 5000 others worldwide. China has been the worst affected area with well over half all reported cases. The World Health Organisation (WHO) warns that SARS

could be a massive global threat. The potential economic reach of SARS was demonstrated at April's trade fair in Guangzhou. Last year, more than 120,000 visitors attended the fair, the majority from outside of China, and they signed deals worth in excess of \$16 billion. This year, the trade fair, say observers, was "effectively dead."

SARS has already started to dominate your conversations and perhaps affected the way you travel to work each morning, but how does all this affect your business activities in China? Does SARS represent a legitimate risk to your business activities in China? Unfortunately the answer is yes. So far SARS has battered Asian economies, forcing governments to cut growth forecasts, and hit swathes of business from retail to airlines to tourism. The Economist recently referred to the disease as "a plague on all our businesses." A survey in the US showed that sixty-one per cent of businesses were banning travel to Asia. The business travel industry will almost certainly not recover until 2004 or even later.



SARS in perspective

There's no denying SARS is a serious threat. However, let's get things into perspective for a moment. A great deal of coverage has been afforded to the business implications of SARS in China and Asia as a whole. For all the hype however, very little is known about the long-term effects of this virus. Some business people say the extent of the economic damage done by SARS has been overestimated believing that the international news media gives the impression that it is worse than it actually is. True, the mysterious illness has disrupted global business plans and jeopardized the health of thousands of small businesses in Asia. Initial findings however suggest that SARS is less contagious than influenza, and hundreds of thousands of people around the world are killed by flu every year. These facts need to be taken into consideration before boarding the next plane out of China.

The chances of contracting the illness in the general population are extremely low. Even in a city like Beijing, with a relatively large number of reported SARS cases, considerably less than one per cent of the population has fallen ill. Not that SARS shouldn't be

given some cause for concern. SARS is not going to wipe out mankind altogether, but at the same time it does represent a new emerging epidemic disease with no cure that may not be brought under control any time soon. Although the number of deaths attributed to SARS is tiny – the death rate among those infected is about 5%, according to the WHO – no one knows how many will eventually become sick and die. It is quite possible that SARS will never be completely eradicated but will become a preventable, containable and treatable disease.



Managing your business under SARS

Whether you have made the decision to stay and weather the storm, both financially and medically, or you have decided that it might be safer to let your Chinese partner or employees handle things for the time being whilst you sit out the crisis back home, there are a number of considerations for effectively managing your China business under SARS. According to Russell Brown, Managing Partner of LehmanBrown:

“Companies need to act quickly to dispel fears amongst stakeholders through effective communication, contingency planning and provision of precautionary and corrective care, whilst maintaining business control and being realistic in revising budgets and cash projections”.



Communication

To begin with, it's important to make sure that all your company's staff are well informed about the risks of SARS. Managers should arrange a briefing outlining all the facts about SARS, most importantly including the symptoms. In a crisis situation, knowledge dispels fear. In turn, all personnel should be well

informed about the natural ways of combating illness. Encourage all staff to maintain good hygiene levels and wash their hands regularly. Conserving a good immunity system by maintaining a healthy, balanced diet, is critical.

It is also very important that you communicate swiftly and properly with other stakeholders such as clients and suppliers, especially if they are outside of the 'SARS areas.' They should be informed and updated on the position of your company and how it may affect them. Make sure they know what steps you have taken to prevent SARS and deal with its effects. Most of all, keep your lines of communication open.

Head offices need to be apprised of the 'post-SARS' reality. Some media reports, including many overseas stories have stoked panic and created false perceptions. Your colleagues outside of China certainly need reassuring that everything is under control and adequate steps have been taken to secure the future of the company's China venture.

A central purpose of your communications will be to manage the associated anxiety attendant with SARS. Currently, fear of the disease is being driven more by uncertainty than by an understanding of the actual magnitude of the risk. You are in a position to help your clients and staff assuage their anxiety. Your response now could have a strong impact on your customer relationships in the future.

Above all, you must resist the urge to crawl into a shell and try to ride out the storm. Skillful communication with your customers, your staff and your key stakeholders will reinforce your commitment to mutual success. As Christopher Millward, CEO of Millward Consultants, points out, "In a culture of fear and uncertainty, voices of clear-headed reason command respect and trust."

In preparing and implementing your communications during these sensitive times, experts stress transparency, credibility and empathy. It is important that you are as honest and open about what measures you are taking and why you are taking them. Remember, communication is a two-way process: ask your customers and staff what you can do for them.

Millward adds, "No one expects you to cure SARS. However, your customers, both internal and external, do need the assurance that you are doing whatever you can to ensure their safety and success."



Contingency

Once your stakeholders are aware of the basic facts, it is important to put in place a contingency plan, should a member of staff fall ill or one of your stakeholders who have contact with your staff fall ill. This might include calling for all other staff to re-locate to another building, moving to rotational shifts, organizing the diversion of telephone calls and arranging for the disinfection of the office. If the need to evacuate and disinfect the office should arise, then it's essential that all important files and documents are backed up and stored safely. Quarantining of staff during the SARS incubation period should be part of the policy, in which case provision should be made for them to work from home.

Staff should also be given clear instructions on what to do if they develop SARS-like symptoms. Ensuring that all staff are immediately aware of what they must do in such a situation might help to curb the spread of the virus to other staff members and stakeholders. Establishing a clear line of communication is also important for reporting necessary information such as employee contact details and local hospital addresses and telephone numbers.

Information technology and infrastructure are two further key areas that require contingency planning. Imagine your building being quarantined and no one being able to access email, files, faxes etc. Danny Levinson, Chief Operating Officer of Xianzai Ltd., advises:

"Make sure the general manager or office manager and at least one other vital technician has access to everything, including passwords, in case of emergencies. Also remember to store data off-site in at least one other place. Depending on the amount of data your organisation creates, you may want to replicate your data hourly, daily, or weekly - and make sure individuals with laptops replicate their data to file servers at least once a week."

The above preventive measures are designed to manage the risk to the business and the stakeholders in the unfortunate circumstance of someone catching SARS.



Care

Precautionary care measures can be taken to help staff maintain good health and cleanliness. Companies should consider distributing vitamin tablets, such as multivitamins and vitamin C, or even fruit. After all, a healthy workforce is less likely to contract SARS or any other illnesses, this in turn increasing productivity. Disinfectant should also be provided for the cleansing of hands and the face. Since according to WHO, SARS can live outside of the human body for up to three hours, it is essential to wash one's hands after touching a taxi door, money or a lift button. It might also be time for companies to review their employee insurance policies to ensure they are providing adequate cover.

It's important to make sure staff members follow company policies and procedures. According to Jeremy Perks, a senior consultant with IWNC:

"Beyond making sure that companies have the right rules in place, a key role of the HR designate is to make sure that they are being enforced and procedures followed. In my experience, where problems have arisen, it is not because of a lack of rules, it has been because individuals have not obeyed them."

Corrective care should be provided to anyone unfortunate enough to contract SARS. The company should ensure that they have been provided with proper medical care, communicate with their family and provide assistance wherever possible. Employees will very closely examine a company's effective response and actions in dealing with such a crisis, assessing their claims to be caring employer. Such perceptions can make a big difference to a company's image for a long time to come.



Control

Maintaining an atmosphere of business as usual might prevent a bigger crisis. A move last week by the Japanese car manufacturer, Toyota, to pull its foreign staff from their Beijing office is a move mirrored by many other companies with foreign staff in the panic-stricken city. If you or one of your company's executives have made, or are thinking of making, a similar move then there are a number of considerations that need to be taken into account. Weathering this storm might prove to be the making or breaking of foreign companies operating in the already tricky Chinese market.

There are serious ethical issues to be considered when sending foreign employees home while still expecting your local employees to turn up to work for business as normal. This could lead to resentment from local staff, resulting in the resignation of valuable members of staff and seriously damaging the reputation and future development of the company in China.

Who is watching your company's accounts whilst your CFO is lounging in self-imposed quarantine back home or on a beach in Hawaii? The protection afforded by sending key foreign personnel home needs to be viewed in the light of how effectively your business can operate in their absence. There are confidentiality issues to review, who will manage or take charge of cash, sign cheques, pay payroll, update budgets, forecasts, prepare monthly, quarterly statutory and HQ reporting.

The decision to send staff home should not be taken lightly. It is necessary to consider all the options, from both a medical and business point-of-view. If your company does decide to send key members of foreign staff home then you might consider bringing in outside management. Bringing in outside management, whether to replace senior management temporarily in their absence or bringing in a professional firm to provide oversight or help conduct essential re-calculation of forecasts and budgets, makes sound business sense.



Cash

As the old saying goes, 'cash is king.' The SARS outbreak has led many Asian governments to considerably cut growth forecasts for 2003. Your company should do the same, and assessing the financial impacts of SARS on your company's business is vital. The re-calculation of your company's forecasts and budgets in light of the effects of the recent crisis is necessary, especially considering that the long-term impacts of SARS are likely to be felt at least

until the end of 2003, and more likely well into 2004 as well. The re-calculation of budgets will undoubtedly lead to a more cautious approach to business actions, an essential part of managing the risk imposed by the economic fallout of SARS.

Such projects are the foundations for cash flow projections. Both SARS and the war in Iraq have combined to cause a colossal slow down in the global economy. 'Debtor days' have increased in many companies causing them to react by increasing their 'Creditor days.' For a large multi-national in China, the worst-case scenario might be making a call to HQ requesting extra cash. For SMEs however, the current crisis combined with a more cautious approach and reduced business operations could spell disaster. Companies should consider bringing in professional assistance for the collection of debts or for outsourcing of receivables management.

Make sure you plan ahead well, as short term as necessary for the business you are in. Any modifications to estimated budgets and future planning should be communicated to head office well ahead of time so that adequate adjustments can be made to their own projections and strategy.



Conclusion

When describing the plague of 1348 a famous Italian scholar wrote, "Those in the town fled to the villages. There was such a fear that no-one knew what to do." In some ways this situation mirrors what we've seen so far, especially in Beijing. Since one's susceptibility to illness increases in proportion to one's anxiety levels, managing anxiety is vital. Panic should be obverted and stakeholders given enough information for them to make informed decisions.

There are some companies cashing in on SARS, which just goes to show the versatility of entrepreneurs in Asia. Hong Kong has seen a proliferation of designer, Hello Kitty and colour-coordinated facemasks! A vinegar bar in Shanghai has started producing spray-able white vinegar cans that supposedly prevents the spread of the virus. In Beijing sales of turnips are rising since it's believed they prevent infection.

For the rest though, if you have not implemented the above-mentioned measures then you should do so immediately so as to ensure the future growth of your Onions!

Michael Pennington, LehmanBrown, Shanghai

"Peeling the Onion" is a series of newsletters designed to assist in the financial and accounting control of your China operations.

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