



Vetting Your International Partners & Personnel: Due Diligence in China

CONFERENCE ON CORPORATE ESPIONAGE & GLOBAL SECURITY: Protecting Your Business Interests

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What does GLOBIS do?



**Global
Business
Information**

- Business Credit Reports
- Due Diligence
- Debt Recovery
- Enterprise Databases/Lists
- Market Research
- Entry Strategy
- Industry Research/Data

Fortune 500 quality at SME prices
in standard American English



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Overview

- **Level the playing field by learning the unbiased facts about companies in China – answer the question, do you want to do business with this company or person *before* you spend time or money on them.**
- **Collecting information lowers your risks, gives you a leg up in your negotiations, and can help you identify a scam before you fall victim to it.**



Applications – why do I need this?

- Due diligence and business intelligence collection is used by large and small companies to determine whether they want to do business with a company or individual by gathering objective information about the company from a source beyond the one being reviewed.
- This info can be valuable at different levels:
 - Granting credit to a buyer
 - Locating & Qualifying/Vetting suppliers, partners, personnel, and acquisition targets
 - Learning about the competition
 - Confirming whether a company is legitimate



Warning Signs of a Chinese Scam

- **The Chinese company contacted you off the Web.**
- **They have “Import/Export” or “Trade” in their name.**
- **They want to conduct a very large volume of trade.**
- **They insist your senior executive travel to China immediately to sign the contract with them in person.**
- **They request money prior to the trip to pay for a reception in your honor, and/or, once in China, they request money or goods to grease the wheels with local officials.**
- **They have been in business for less than one year.**
- **They can provide no verifiable references.**

ACCESS TO CORPORATE DATA IN CHINA

No	Item	China
1	Company Name – English	◇
2	Company Name – Local Language	✓
3	Registered Address	✓
4	Registered and Paid-up Capital	✓
5	License Number & Types	✓
6	Registered Business Scope	✓
7	Directors/Owners	✓
8	List of Shareholders	✓
9	Detailed Financial Statements	✓★
10	Change of Company Name	✓
11	Litigation & Court Records	✓
12	Bounced Check	✗
13	Charges/Mortgages	◇
14	Fixed Assets (Land & Building)	✓



What can I do to research a company?

Before visiting them, qualify the companies!

- Google the fax number, not just company's name.
 - If it shows up with negative info, STOP all communication with them!
- Outside China, Google "business registration" and the country or State (US) – you might find free or very inexpensive official company registration info when you search under the company name.
- Always separately confirm any registration documentation received from the company in question.



What *should* I do to research a company?

- **Always** order a report on the company.
 - “Freshly investigated” is best.
 - Subscription services like Skyminder.com.
 - The US Commercial Service’s ICP report (<http://www.buyusa.gov/midwest>).
 - One-offs and custom questions like Glo-bis.com.
- Standard credit report contents include:
 - the registration details, show their ownership, what type of company, litigation record, last 3 years financials, references, recommended credit, trademarks/patents, etc.



How to obtain reliable background information on Chinese customers and/or suppliers?

All consulting services are not equal!

- Make sure they have third parties investigate the companies they recommend, and aren't just suggesting someone's cousin, etc.
- When ordering a report, decide whether you want the company to know they're being investigated – some DD companies can be discrete.
 - In China, to 'save face,' you may use the excuse it's company policy, and/or your legal team requires 3rd party investigations.



China Credit Particulars

- **The credit environment is still very new in China**
 - Chinese companies are not even used to getting credit from other Chinese companies.
 - Even if the references are positive, Chinese still consider the level of 'relationship' with each company/contact in the company to be the most important determinant as to whether they will be a good business partner – just because they paid someone else doesn't mean they'll pay you on time.



What other types of low level due diligence might help me?

- Be sure your first report includes reference checking (will probably be on clients/suppliers within China).
- Order reports on the other companies associated with the main directors/shareholders.
- Order reports on their affiliates worldwide.



Free (or Subsidized) Research

- Governmental (or similar) organizations

- *US Export Assistance Center*
<http://buyUSA.gov/>
- *Foreign Embassies and Consulates in the US*
http://dir.yahoo.com/Government/U_S_Government/Embassies_and_Consulates
- *American Chambers of Commerce Abroad*
<http://www.uschamber.org/chambers/default>



Free Research (continued)

- Associations and Organizations

- *Trade/Industry Associations*

- *The Federation of International Trade Associations (FITA)*

- <http://fita.org>



Vetting Personnel in China

- Resume inflation is wide-spread in China
 - Make it clear from the beginning of the hiring process you will be vetting the candidates' CVs.
 - Confirm the educational institution/degree.
 - Confirm the past positions/duties.
 - Check the references.
 - If the individual has a Chinese passport, he/she does NOT have a criminal record.
 - PRC ID numbers reveal the location of birth, DOB, and sex of the individual.
 - The Chinese character name & DOB should be sufficient to run a background check.



Conclusions

- If you've already spent more than a few hours researching a company yourself, you would have saved money by purchasing a report on them & would also be confident the info is unbiased.
- Chinese companies work with such low margins, they cannot withstand a market slowdown for long = make sure your info on them is current, especially in these tough financial times.
- Knowing how much credit you can grant a buyer in China might mean you make the sale instead of your competition.
- Revealing a scam before you're a victim saves you time, money, and perhaps even your company.
- Vetting personnel before hiring them can help ensure they have the proper qualifications and integrity required.



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