



Understanding China:

How to Manage Compliant Meetings

IN 2016, CHINA OVERTOOK THE UNITED STATES AS THE LARGEST BUSINESS TRAVEL COUNTRY globally, with an overwhelming volume of domestic travel. This, combined with multinational organizations increasing their presence in this economic growth zone, reinforces the need to deploy effective spend management strategies to help mitigate risk and optimize return on investment. As with many regions, Meetings & Events is a primary sales and marketing investment that corporations make to grow revenue. However, Meetings & Events continues to be a category of spend that has yet to be consolidated and mastered by most organizations.

According to Transparency International's 2016 Corruption Perceptions Index, China scored 40/100, making it one of the highest risk countries to operate in across the globe. For many organizations and industries, the use of meetings and events in China as a means to facilitate non-compliance and fraud is a very real risk that can no longer be overlooked. Numerous corruption investigations by the US Securities Exchange Commission (SEC) and the US Department of Justice (DOJ) have focused on meetings and events, or travel and entertainment. High-end and luxury sporting events, with VIP packages facilitated through meetings and events channels, have also been scrutinized. While many organizations with successful meetings programs in other regions are beginning to recognize the risk in holding meetings and events in China, very few have yet to successfully mitigate this risk to achieve a program that is both compliant and effective. There are a number of reasons for this, including a gap in the core understanding of what the risks are, as well as how to design a process to mitigate such risks that is specific to doing business in China.

Other challenges facing organizations holding meetings and events in China include localization and deployment of a solution. Deploying a successful and compliant meetings program from end-to-end in China can be a daunting and overwhelming task, and, when coupled with resistance from those in the country, can seem unattainable. It is one thing to design and deploy a program, but success comes only with the adoption and ongoing operation of the program.

It is possible to operate meetings and events in a compliant way in China. You can put a program in place and begin to mitigate risk by following three basic steps: **Step 1**—Understand the risks; **Step 2**—Manage the basics; **Step 3**—Optimize and enhance.

Step 1: Understand The Risks

Most meeting owners and professionals are aware that operating in China has a high risk element. Following are three significant areas of risk relative to operating meetings and events in China.

Bribery and kickbacks: Meeting and event activities are at risk for being used as a form of bribery due to the nature of the activity. They represent an opportunity for the delivery of overly luxurious rewards and gifts disguised within a meeting or event. For example, if you fly a client, and a spouse or personal guests, first class to a 5-star resort to play golf but have no business agenda, calling it a “business conference” is an inaccurate representation of the activity. Events can also provide an opportunity to give excessive welcome gifts. Given that activities are often outsourced to agencies or third parties, employees may be able to circumvent their company’s internal compliance processes by submerging such inappropriate transactions within an overarching service bill, so as to not be clearly identified.

Third- and fourth-party money funneling: Similar to the above, most companies in China use local travel agencies or logistics partners to deliver services supporting meetings and events. Unfortunately, even today, the generally accepted practice locally is for an agency to invoice the client’s organization with one lump sum, lacking itemization or details. This lack of transparency means that the client’s organization has no line of sight as to what the agency, or a further third party of such agency, is spending on their behalf, creating the opportunity to disguise bribery and kickbacks and also enable money funneling. Client organizations need to be able to follow the money and match it up against each activity that occurs during a meeting. Historically, local thinking has been that the client’s responsibility ends when payment is made to the agency. However, the transfer of funds does not mitigate the organization’s responsibility for its actions and that usage of funds. This has been borne out by multiple SEC and DOJ investigation findings and fines issued in recent years.

Fake activities and receipts: A seemingly basic method of fraud, but one that is extremely prevalent in the meetings and events space in China, is the provision and use of fake receipts. It is possible to secure approval for a meeting and then procure a “reconciliation pack,” which has event budgets, contracts, receipts, and records for a meeting that never, in fact, takes place. Employees will then use the fake reconciliation pack to claim expenses, either directly or through an agency (which may or may not be colluding with the employee), to get reimbursement. Creating policy and processes for meetings and events in China with these risk factors in mind can help increase your ability to operate compliant meetings and events.



Step 2: Manage The Basics

Creating the perfect program in China can be a long process, taking up to two years for full program implementation. Following a step-by-step approach achieves control in stages. It also has the advantage of achieving change management. The main question is: what basic elements are critical to address in the early stages?

- 1) Know your activity:** The first step to control is to gain a line of sight into meetings and events activity. To make the correct strategic and policy decisions about the program, accurate data is critical.

As such, requiring registration of all meetings creates a foundation for managing meetings. The goal is to create clear sight lines and transparency into the activities and budgets proposed.

- 2) Know your providers:** It is important to note that in many situations, logistics agencies have been found to be complicit in corruption, so due diligence in selection and knowledge of your providers is critical. Also, local offices of clients in China often have upward of 25 logistics agencies that support meetings and events, with some larger operations having over 70 suppliers. Such a wide supplier base makes it difficult to know your providers and weakens control. However, moving to one supplier is often challenging in China due to resistance and geographic spread.

To help mitigate risk, review and perform due diligence on existing vendors, working to narrow the list to five or so preferred vendors, and then direct all activity through them, with allocation by business unit, meeting type or geography.

- 3) Control the money:** Ultimately, the risk in China within the meetings category is controlled by the funds behind the activity. As such, institute a policy that all meetings-related travel and expense claims above a certain amount cannot be submitted unless the activity has been registered via the meetings request process and has secured approval. Eliminate the use of cash wherever possible and require original receipts for all transactions.

While these steps alone will not achieve a full-blown meetings management program, they will be a starting point to build on and will have an immediate and measurable impact.

Education and communication is critical as you begin this process. In this space, simple email communications do not suffice. Employees must have clear guidelines available that are accompanied by training and follow-up. A basic “Dos & Don’ts” summary on the company portal can make a big difference to drive the message home with employees.

Step 3: Optimize And Enhance

Once the basics are developed, the more complex aspects associated with managing meetings can be identified and deployed, including: comprehensive third-party oversight and monitoring; business self-tests; robust cash management; electronic banking options; sourcing consolidation; contracting terms/conditions; supplier consolidation; and, internal and external audit review.

Over the past few years, some organizations have taken these risks so seriously as to completely ban meeting and event activity in China, a move that in some industries has created irreparable harm to the business. Avoid this extreme step with a successful meetings management program, starting with risk awareness, managing the basics, and a dedication to program success.

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