

Ready to Do Business in the East?

 by Div Pillay

Ready for Growth

Australian SME's connection with Asia has grown measurably over the last decade and will continue to grow through exports, imports, off shoring, joint ventures, mergers and acquisitions. Asia is ranked as the destination of choice for SME's.

In addition with Free Trade Agreements and business owner visas changing, Asian buyer interest is rising.

Are Australian SME's culturally ready to do business with Asia? Not yet. A collated Harvard Business Review (2015) reports that 70-90% of cross border deals fail due to poor cultural integration.

Improving cross-cultural integration is not as simple as undergoing training. Here are four practical insights from a cross-cultural business perspective, intended to raise awareness - the real work lies ahead in rigorous implementation.

1. Due Diligence

Global advisors in cross border deals, Pitcher Partners (2015), consistently communicate the message of doing due diligence planning. Expansion strategies (M&A, JV's and exports), efficiency strategies (off shoring and imports) and equity strategies (selling) all have their unique risks, compliance and legal activity when dealing across borders.

It is worthwhile seeking external support from a specialist on cross border deals rather than save this cost only for it to return in expensive problems later on. Engage an expert who has a track record of working with the Australian and Asian markets.

2. Commitment to the Asian Strategy

Austrade (in the Asialink Index, 2012), says that there needs to

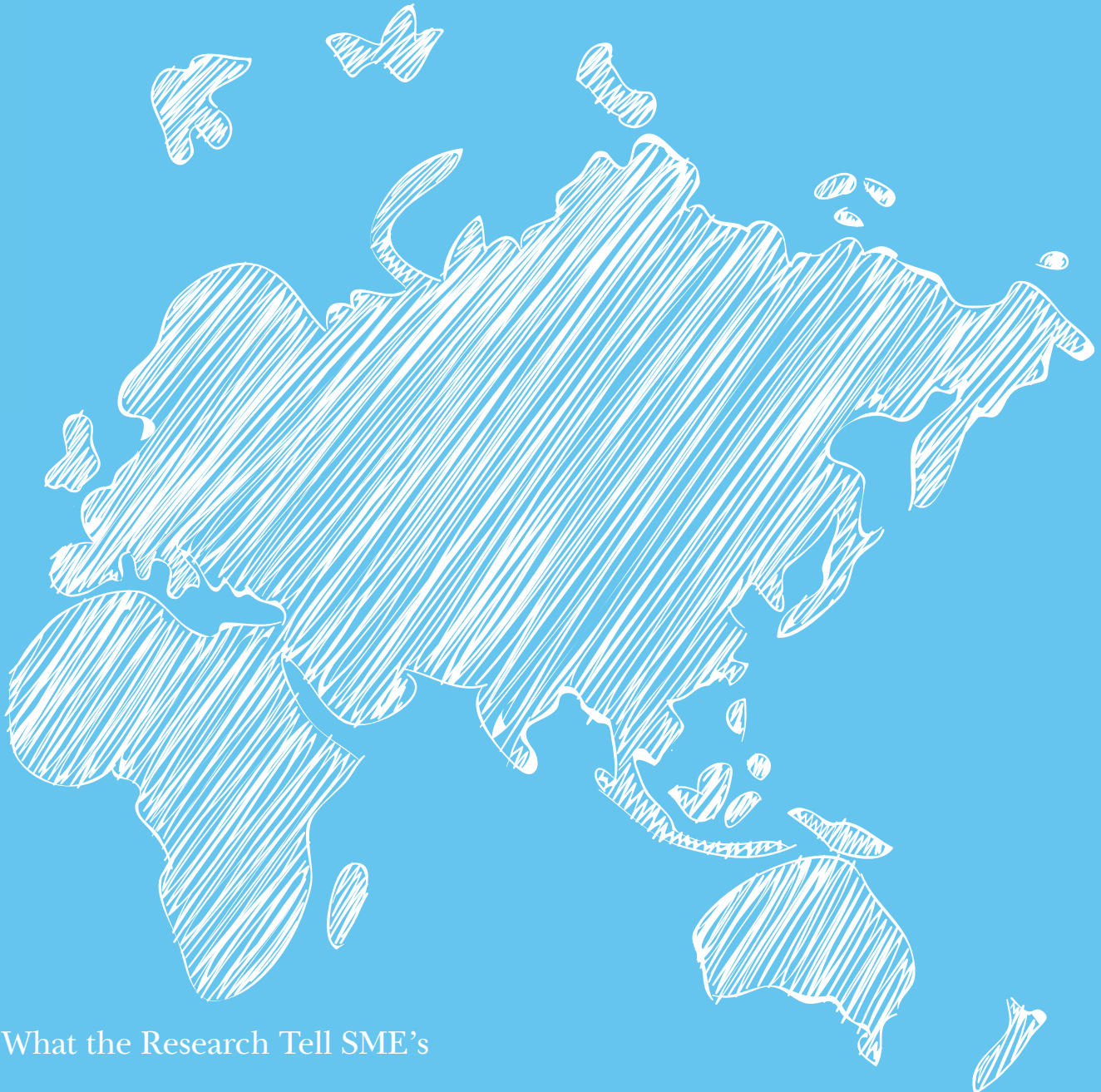
be a company commitment to creating, launching and driving an Asian Strategy. It is a long haul, distance relationship and it suffers all the pains of a romantic one. Committing to make it work in a long timeline is a key determinant of success.

Australian leaders need to recognise that they are partnering with a developing country, which means that this commitment is one of collaboration and development.

In the very early stages it is best to build in a buffer of time to partner with key stakeholders in Asia - to be able to input into their systems, processes, and people, even if they are the buyer.

A commitment to being open, flexible and co-creative is also important. Companies who don't inherently have this organisation culture will need to adjust for success.

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What the Research Tell SME's

Scancorp's 2015 prediction is that the Australian SME market will see a volume increase in SME businesses for sale. According to 2015 statistics, 80% of Australian SME's are owned by baby boomers aged 55-72, who are within reach of retirement, with decedents unwilling to take over these established businesses. According to the report, these are attractive deals for Asian buyers. It is tricky enough getting a business ready for sale domestically, imagine internationally? Due diligence is critical.



3. Cross Cultural Business Knowledge

The East and the West are vastly different in business culture, despite the digital age connecting continents. Most training programs highlight more national and social differences much like a travel guide: the food, the time zones, the environment, transportation, public holidays, and high level dos and don'ts in a business meeting.

While this is helpful it can be superficial. A deeper cultural knowledge (depicted in the chart below) is needed in a business context, acknowledging that these are of course stereotypical behaviours. The vast distance shown below between Australian and just two Asian cultures is the reason why this knowledge is so critical.

Using the chart below, here is a scenario. An Australian SME leader entering into a business conversation in India, would need to control their need to be task focused (e.g. going in with an agenda and an expectation of outcomes) and be open to building a relationship first with the leader in Asia who is hierarchically appropriate. Acquiring this type of knowledge is relevant to a business context.

4. Cross Cultural Operations Management

Many Australian SME and corporate leaders whilst engaged by the cross-cultural knowledge, do little to apply it to their business dealings. They run their meetings, negotiations, 'request for information', feedback sessions and other interactions more or less

the same as they do domestically. In the heart of operations is where being cross culturally ineffective can cost time and money.

The solution lies in planning communication strategies through a cross-cultural lens, starting with the end in mind. If agreement on a business plan is the goal, then activities like engaging the right hierarchy of Asian partners early on, socialising the main ideas well beforehand, getting key champions on board who will influence the decision and building in a buffer of time will be well worth the effort. Presenting a business plan and asking for a spur of the moment decision on a conference call would be futile. Implementation of cross-cultural knowledge in a business context is often the missing ingredient in cross border deals.

Mini Case Studies

An Australian Investment Firm

This firm off shored back office functions to India, and for almost two years had no verbal contact with their vendor partners, preferring to deal mainly via emailed instructions.

The Australian leader found interacting with the Indian team cross culturally frustrating and operationally pulled away the contact.

The result was that the offshore team was underutilised, for those two years.

This leader was coached within a 90 day period using the Cultural Map to understand the cultural differences and then to implement activities like 'a daily five minute touch-point call' and weekly dashboard to show capacity.

The relationship built progressively over 90 days. Currently more work has been scoped to offshore to this now, trusted partner.

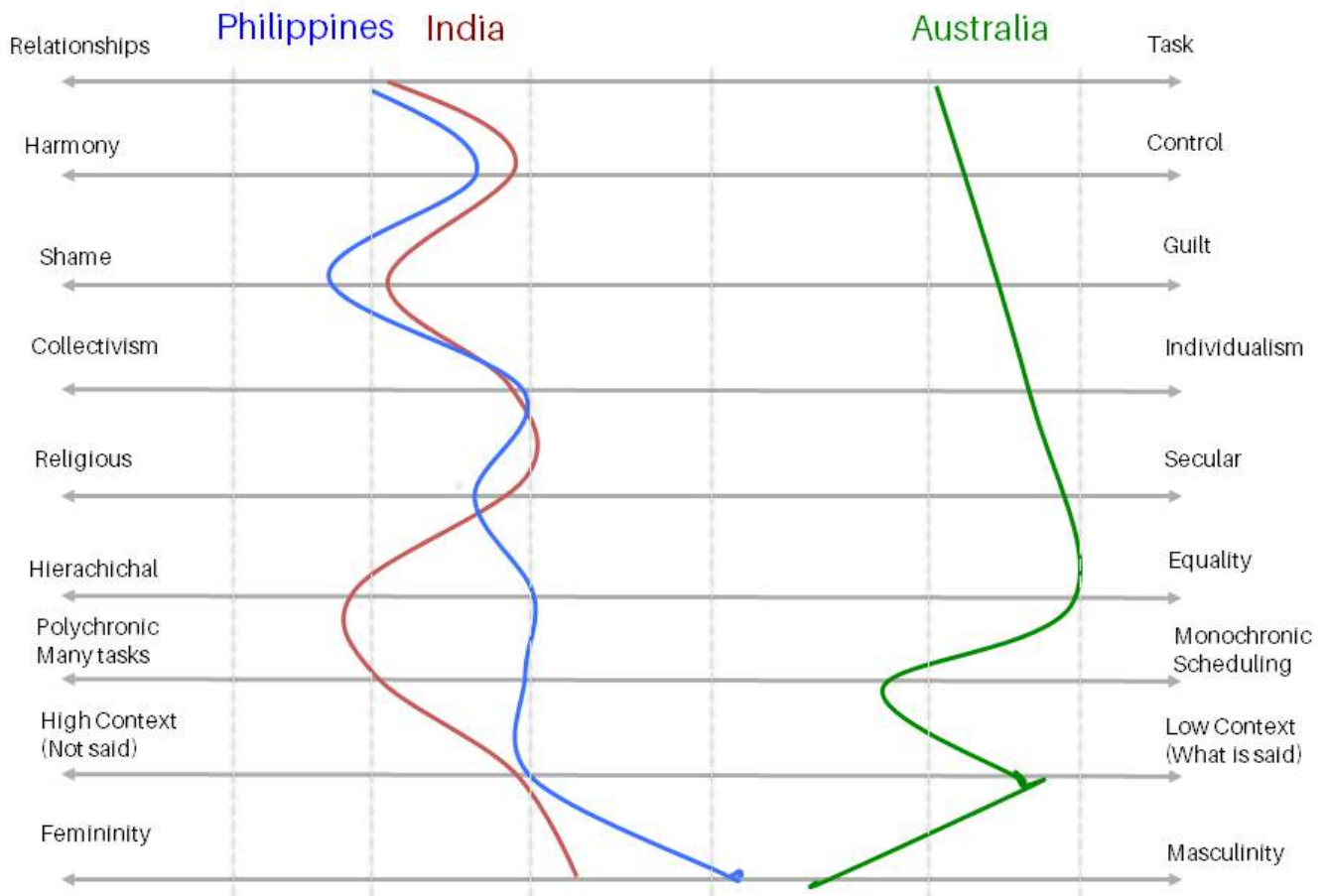
An Australian Engineering Services Firm

This engineering services firm has won a number of clients in India

but not without cross cultural challenges: different expectations on outcomes and time lines, Indians being too transactional and highly theoretical without practice-based solutions.

The Director overcame most of these by being visible, budgeting for monthly trips and being open and educative. This leader prioritised the relationships over the task initially which created strong partnerships - this foundation has enabled this firm to be the preferred supplier for high profile projects.

Dimensions of Culture



Sources:

Dr Asma Abdullah (1992), Tom Verghese (2006). Collated Harvard Business Review Report (2015) "Why up to 90% of Mergers and Acquisitions Fail". Rohini Kappadath, Pitcher Partners (2015) "What the Indian Budget means to Australian investors", Sky Business News. Scancorp's Outlook for Australian SME Divestment, Mergers and Acquisitions (2015) Asialink Index 2012 "SME Engagement with Asia". Abdullah, A. (1992). Going Global Cultural Dimensions in Malaysian Management, Malaysian Institute of Management, KL. Verghese, T. (2006). The Invisible Elephant - Exploring Cultural Awareness.



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