The Mindset of Internationally Successful Companies



By Dennis Lee , Director, RSM Chio Lim, and Benjamin Kessler, Web Editor

Risk management for going global requires a delicate balance of detail-oriented preparation and openness to uncertainty.

Back in 2013, U.S.-based retailer Target had what many thought was a brilliant strategy for its first international expansion. By purchasing the leases of failing Canadian discount chain Zellers it could open more than 100 stores in the country within a matter of months. The expansion plan seemed straightforward but it didn't take long for things to unravel. The inherited urban locations turned out to be an awkward fit for Target's middle-class brand positioning, while the company's hasty expansion left key supply chain issues unsolved, causing too many shelves to sit empty. By the time Target pulled out of Canada two years later, the venture had incurred approximately $2 billion in net losses and left nearly 18,000 people unemployed.

Cross-border deals are an **increasingly popular choice** for growth-seeking companies, but **failure rates** remain high and the fallout can be catastrophic. As the Target example illustrates, even the most successful firms are not immune; just ask **eBay**, **Starbucks**, and UK supermarket giant

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Tesco. Poor preparation, inflexible mindsets and over-reliance on historical tried and proven formulas all too often thwart internationalisation efforts.

The risk management aspects of going global was the theme of a recent **panel discussion** co-sponsored by **RSM Chio Lim LLP** (the Singapore arm of accounting network RSM International), and the INSEAD Risk Management Breakfast Series, in which panellists drew on their experiences overseeing successful (and not so successful) cross-border expansions. Here are their takeaways:

Does the opportunity fit the strategy?

Rationalising the business proposition should begin well before any contract is signed. Managers must first answer the question, “Why are we going there?”

Dominique Lecossois, Distinguished Fellow at INSEAD’s **Emerging Markets Institute** insists that companies should only proceed if and when the answer is both compelling and in alignment with their larger strategy. If the strategic objectives don’t add up they should be prepared to turn down the proposal, no matter how alluring.

Robert Coles, co-founder and chair of the Centre for Alternative Leadership & Management, agrees. “Most companies internationalise on the back of opportunity rather than strategy…But if your objectives aren’t clear, one thing will happen, you’ll achieve the wrong objectives.” This is a fundamental error that many multinationals make. From time to time, businesses need reminders that the alignment of expansion plans with strategy and objectives has to take centre stage. Building and strengthening brand presence, pursuing sustainable growth and profits, and improving market share need to remain top of mind.

How well do you understand your new market?

Once management decides the opportunity and time are right, the next step is to become better acquainted with the culture concerned. According to Lecossois, even when working with a local partner, internationalising companies need to actively engage if they are to avoid bringing inapplicable assumptions into the new market. Moderator **Gilles Hilary** observed that in reality, there are very few truly ‘international’ companies; most MNCs have a particular culture that reflects the place they came from. This can be either a

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strength or a weakness when entering new markets, depending on how self-aware managers are, and how flexible they are willing to be while refusing to compromise on the essentials.

Being a cultural expert isn't required. The most important thing is to cultivate an open, empathetic attitude. Moderator Tay Woon Teck, a partner at RSM Chio Lim LLP, notes that this is a goal some Asian companies would do well to work towards. "In this region things are seen to be either black or white, good or bad, right or wrong. With international business, you need to understand the grey, and that is very challenging."

A certain amount of touristic zeal and wanderlust can also help bridge cultural gaps. "You have to develop affection for the country you engage in," Lecossois insists, adding, "You can't go to China or Indonesia if, in your mind, you already dislike the country, food, and people."

Does the local team understand your company?

With cultural due diligence done, it's time to scrutinise every aspect of the deal. Taking a highly detailed approach to structure and governance is essential to the risk management process. When companies lack the vision or the patience to hammer out a workable deal, failures can occur, as Lecossois illustrated when describing a company he worked for which rushed into a 50/50 joint venture with a Taiwanese firm. "No one had control, and it became very ugly. We eventually had to withdraw from the country, it was a failure."

Another pertinent risk management concern is that internationalising will cause a company to lose control of its essential identity. This is where leadership is truly put to the test. According to Coles, "It's not a full-time job to go around waving a mission statement". Leaders must enter into close collaboration with overseas managers and partners to ensure core values and identity attributes are upheld. At the same time they must not give in to the temptation to become a long-distance micromanager. "You need [your partners] to be entrepreneurial about establishing the what, how and why of your business, not defining it", Coles said.

One danger of an internationalised workforce is the formation of cliques based on cultural identity. Left to their own devices, employees may come to identify more with their cultural clan than with the organisation as a whole. Managers must take the time to ensure that there is cross-border cohesion

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among the workforce, and that employees are working productively in teams that cut across cultural lines. Again, there is no substitute for a highly detail-oriented approach.

Be prepared for uncertainty

The need to internationalise successfully has become even more urgent with the onset of the digital revolution. Before the internet, a young company's stumbles were hardly visible outside its local environment. Today the moment your website goes live, you are a global business in a very real sense; although you may not feel it until you get that first perplexing email or phone call in a foreign language, and by that point it may be too late. Before you press play, make sure the current face of your business is the very best one you can present to the world.

In the end the inexperience of today's digital startups may be their greatest advantage from a global perspective. With no historical successes to make them complacent, they're forced to become comfortable with uncertainty and ambiguity from Day One. That's a mindset Coles identifies as central to any successful cross-border expansion: "You never know everything you need to know, but you have to make decisions anyway. Until you can do that, it's unwise to go into an environment you don't understand."

Conclusion

The rapid pace of change in the global economy, compounded by the impact of disruptive technologies, makes it imperative for any serious business to undertake some form of internationalisation. However, before jumping on the bandwagon, know what you are there for, be flexible and understand the new market and its people, and finally, accept the notion of having a flexible mindset towards change. To draw from a famous quote from George Bernard Shaw, "Progress is impossible without change, and those who cannot change their minds cannot change anything."

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