Seven Barriers to Successful International Business

For even the smallest companies global competition has become a reality and the ability to pursue opportunities in overseas markets is essential to long-term viability. Efforts begin with exploratory moves such as attendance at trade shows, where companies can become familiar with the market. If there appears to be a viable market with a place for the company, it seeks to find an overseas agent or representative to act on their behalf. If the business expands and customer service demands require, market entrants often seek distributor relationships, a more formal structure that may involve multiple relationships with distributors and warehouses in multiple countries. Depending on the complexity and scope of that network, the company may need to hire an individual whose job is to manage these relationships.

As success builds, companies often find that while their sales are growing, they are beginning to lose control. As new markets are added, new regulatory environments are encountered as well as new languages, new cultures and new challenges. It is at this stage that companies find themselves ready to consider a joint venture partner who can share the opportunities and the risks presented by new markets. Perhaps more important however than sharing the risks and rewards is the experience and knowledge of the country that your partner can bring to the table. A first-hand awareness of the culture, business practices, and regulatory environment is invaluable for the partner looking to do business in another country.

Negotiating Environment

Despite apparent similarities and a shrinking globe, some degree of culture shock is an inevitable part of doing business in a new country. Everything from language differences to new food, to conflicting business styles can make negotiations more difficult. Travel is of course an issue during the very necessary face-to-face meetings. No matter what, someone is away from home, often suffering from jet lag or a time change that can be disconcerting to even the most experienced traveler.

These time differences can effect even those negotiations that are not conducted in person. Mail, fax and telephone service that can be taken for granted in most domestic negotiations take on whole new dimension. Despite efforts to be accommodating, conference calls almost always take place outside regular business hours for at least one partner.

Styles of doing business are often quite different and can impact positively or negatively the outcome. For instance, most cultures are more formal in their business dealings than U.S. businesses, and conventions such as addressing a person by their first name – a friendly gesture in most parts of the U.S. — can be insulting to a person from a different culture. Indeed, just as greeting someone as “Mr.” or “Mrs.” can seem stiff, arrogant and, indeed, contrary to the evolving trend in the U.S. business culture, business people run the risk of being perceived as being too familiar to most of their overseas counterparts should they proceed too quickly to a first name basis. Even worse, would be to call Edouard “Ed” or Katherine “Kate” – it is simply not done.

10 Cultural Issues to Consider in International Deals

1. Negotiating Goal — Contract or Relationship?
2. Negotiating Attitude – Win/Lose or Win/Win?
3. Personal Style – Informal or Formal?
4. Communications – Direct or Indirect?
5. Sensitivity to Time – High or Low?
6. Emotionalism – High or Low?
7. Form of Agreement – General or Specific?
8. Building an Agreement – Bottom up or Top Down?
9. Team Organization – One Leader or Group Consensus?
10. Risk Taking – High or Low?
Cultural Issues

Most people in the U.S. are familiar with what can be defined as “New York style,” a style that implies speed, directness and often impatience. Indeed, while most experienced foreign counterparts expect that style it can be disconcerting at best to a businessperson from an Asian or European culture where it is common to show reticence to say or accept things that may be difficult.

Time is again an issue as well, with people from many nations needing to spend several months just to get to know the prospective party. This can be a frustrating experience for the typical American businessperson who wants to get the job done in a more “efficient” manner. Furthermore, emotions in negotiations can run high in nations like Italy while the Japanese tend to show little emotion. In either case, if the American businessperson is not familiar with the culture and he or she would not be able to interpret these responses, miscommunication is inevitable.

From a transaction standpoint, there are often significant differences as well. Perhaps due to a litigious environment, American contracts tend to be voluminous, addressing every detail and preparing for every contingency. In contrast, many Europeans often would prefer the flexibility that comes with a shorter, less specific document.

When getting to know a potential partner, it is also important to take a look at their business structure. Who is involved in the decision making? Top management only or is a consensus an important part of their culture? Does their style match yours? This can be an important issue for decisions that will require mutual consent. Consider, too, the risk-taking environment. There are countries and cultures where, under no circumstances, would they be associated with a failed enterprise. In these environments, profit is less important than a potential reduction in employee size – a belief that runs counter to many American companies who answer to their stockholders.

Ideology

Basic ideologies play a critical role in how negotiations are conducted. For instance, do the business people in your potential market(s) tend to be more adversarial in their negotiations or do they rely on consensus-building? Are communications complicated because decision makers deal through subordinates to express, generally passively, the position of the company? And, perhaps most important, it is essential to understand which ideologies are central to your partner’s business and personal life. That is, which positions are in fact negotiable and which are not. For example, a union environment is a reality in most European countries. In France, even the unemployed have a union. So, having a business or social conversation that is critical of unions is not only counter-productive but also potentially insulting as at least one of the attendees at the meeting is probably a union member. Without knowing what is or isn’t negotiable, you may well find yourself heading down very unproductive paths.

As important as understanding your partner’s ideology is knowing your own and how to communicate it while being sensitive to differences in beliefs. Avoid debates on ideology and deal with the reality of situations if this is a relationship you intend to pursue.

Imagine, for instance, a construction company interested in developing a relationship with a company in Germany. Like most construction companies, employment needs can vary and while one year you might anticipate needing 100 workers, in the next year, you might only need 50. In the U.S. the answer is typically to lay off unneeded workers until the work can justify their reinstatement. In Germany, on the other hand, the reality of the situation is that neither your partner nor the employee union is unlikely to accept this response. And while your arguments might be persuasive, debating the point is likely to only reinforce their image of “arrogant Americans.” An experienced local partner has dealt with this problem multiple times and, although the means may be different, the result will generally be satisfactory if you don’t impose your own methods on the matters’ solution.

Foreign Bureaucracies

In many countries there are well-established and accepted ways of doing business that are simply difficult and dangerous. “Silent partners,” gratuities, commissions and “joint ventures” are often a virtual necessity and make business deals in a particular country not only difficult but potentially illegal. It is useful to have an advisor knowledgeable in the inner workings of other nations to guide you in these areas.
Know the bureaucratic “line-up.” That is, know which agencies and bureaucracies you might have to deal with and, be prepared to deal with multiple bureaucracies as you establish and conduct your business. Understand too, that many sophisticated companies have spent extensive time working with one bureaucracy only to find out that it was not the one they needed to reach their goal. Or that the individual with whom they have spent hours has, in fact, no authority.

Foreign Governments

As much as people might complain about governmental interference in the United States, in fact, in many countries, the government’s influence on day-to-day business operations can be much more intense. For example, in some countries the government owns a “golden share,” that is, the government retains veto power over key transactions. In other countries, the government is intimately involved in the business every step of the way. And in other nations, socialistic traditions make the interface between the government and the company seem as if the two are almost one entity.

Even a relationship between a client and a lawyer in another country can be very different from the legal relationships to which American companies have become accustomed. Most companies are well-advised to used a U.S. attorney with international expertise to “manage” the international team. While the U.S. attorney may not be able to advise on local law, it is far more comfortable for a U.S. businessperson to know that their attorney thinks in a particular way, understands the client and his business, and, most importantly, knows the questions to ask of the local attorney and how to interpret the advice.

The local attorney can be viewed as the “black box,” — that is, the concerns and objectives of the company are packaged by the U.S. attorney and “fed” into the local lawyer’s office for processing and then is output to the U.S. attorney for interpretation to the client.

Currencies

While the European Community and the Eurodollar has taken out some of the currency risks, companies must still be careful. For instance, to compensate for the revenue that they used to charge for currency exchanges, many banks are now charging transfer fees. A joint venture partner should be able to assist in developing banking relationships that are in your best interest.

Counter-purchases are common in many countries as well. In these situations, there has to be an associated export for an import. That is, a foreign company may agree to buy a specified number of products but, in return, the seller must agree to buy, for example, a certain percentage of raw material from that country and to pay in U.S. currency. This is a common practice in large industrial transactions. For example, if your company is going to sell a ship to such a country, it may be necessary to purchase steel from that country or if that is not possible, to enter into a transaction with a third party to buy products using hard currency, whether or not related to your deal.

Instability of the Relationship

Typically, joint ventures are not, and are not meant to be, permanent relationships. Strategies, management, interests, business environments all change over time and these changes are often compounded and accelerated by the fact that two or more countries are involved. In addition, joint ventures are often managed by both partners – a situation that may be untenable as a long-term strategy.

In our experience, joint ventures are more appropriately viewed as an interim step towards a business entity that is 100 percent controlled by either one of the partners or, in some cases, a third entity. Thus, it is critical that both companies take a long hard, look at the relationship and carefully outline issues of control, make an effort to anticipate and predict the natural life of the venture, and make sure that the agreement includes a well-defined exit strategy.

For many companies, doing business overseas can be a profitable venture, leading to growth that might not otherwise have been realized. But it is also an area that
must be approached with caution, and with a team of advisors, both domestic and international — who understand the new terrain and who bring complementary strengths to the table.

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