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Conducting business in Southeast Asia – Networks are the key

Michael J. Solender, The Business Journals

Affiliating and managing key business networks are keys to doing business with ASEAN companies. Investing time and effort in the “right” networks is often the difference between success and failure.



For Western companies, conducting business with Association of Southeast Asian Nations (ASEAN)-based companies is all about understanding social, financial, supplier and other key business networks that form the backbone of the highly-connected economic infrastructure at play in the majority of the ten member nations.

This mandate is perhaps the most critical element to organizational success, according to George Haley, professor of marketing and international business at the University of New Haven and author of “New Asian Emperors: The Business Strategies of the Overseas Chinese.”

Haley says it is important to note that within the current composition of the ten-member ASEAN nations (it has changed and evolved since its inception in 1967), each country has a significant Chinese population, Chinese investment and resultant Chinese influence.

For example, Haley noted the Chinese represent 29 percent of the population of Brunei, yet control 40 percent of the GNP. They represent 2.3 percent of the Cambodian population and control 10 percent of the GNP. In Malaysia, Chinese represent 26 percent of the population and control 42 percent of the GNP, and in Thailand the figures are 11 percent and 33 percent respectively.

“The lesson here,” said Haley, “Is that in all likelihood Westerners doing business in Southeast Asia are doing business with the Chinese. It is important to understand the cultural and business ramifications of this.”



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The current ASEAN makeup includes Indonesia, Malaysia, Thailand, the Philippines, Singapore, Cambodia, Laos, Vietnam, Myanmar and Brunei. These nations represent a population of nearly 600 million people, or almost 9 percent of the world’s population. Their combined nominal GDP is more than three trillion U.S. dollars, according to a report by EC Europa.

To successfully do business with ASEAN countries, Haley said, U.S.-based companies need to understand that ASEAN economies are network-based as opposed to company-based.

Haley cited the well-known and often-studied experience of giant retailer Kmart’s foray into Singapore in the mid 90s as an example of an organization that failed to recognize this. He noted that the retailer’s failure to acknowledge and work through the vast network of suppliers and distribution channels embedded in the most sophisticated and economically advanced ASEAN nation directly contributed to their hasty retreat less than two years after entering the market.

Due diligence

“I recommend that Western companies conduct significant due diligence and very carefully cultivate relationships with the appropriate business and social networks,” said Haley. “The caution I offer up is while affiliating with a business network will lead to sharing alliances with those in the network, it will also lead to inheriting business enemies as well.”

Another contrast between Western and Asian approaches to entering new markets illustrates stark contrasts in how differing cultures set business expectations and approach risk.

“The type of research done in the West involves looking at market particulars, government regulations, models of successful businesses and then build business in the holistic image of what they have determined leads to success in that industry/country,” said Haley.

Chinese companies want profits and return on their investment even more quickly than US companies. However, their approach is much different than that taken in the West, and is in fact almost exactly the opposite. They put together an investment they feel they can afford to lose if their approach fails, but will not jeopardize their overall company’s health. They quickly enter the market and start filling in the blanks. They make assumptions based on the markets they are in, but they have not spent huge amounts of time researching and painstakingly evaluating on the front end.”

Haley said they take advantage of their relationships with their network members to operate successfully in the new business or region. They learn the market by operating in it, not by researching it first. There is often no differentiation between social, family and business-based relationships in this region, something to pay attention to in a locale where there is a vast number of family businesses, and family influence even within large multi-nationals. The importance of relationships is a concept Western businesses must grasp to be successful here.
