

15 January 2014

The art of the ASEAN deal

Michael J. Solender, The Business Journals

Understanding, developing, and cementing relationships, networks are keys to success.



It was 1994 when retail giant Kmart left the Singapore market, only two years after an entry that was accompanied by great fanfare and expectations. Stymied at every turn by smaller, less capitalized (though better connected) competitors, the Goliath retreated with an expensive lesson about one critical component to success in Southeast Asia.

Relationships and networks are the key to business success in Southeast Asia, no matter who you are or what your pedigree is, according to George T. 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*.

Kmart's insulated network of suppliers and distributors may have served them well outside the Southeast Asian region, but were no match for the strength of the family networks and intricately connected supply chain of second- and even third-tier retailers that dominated the market. They eventually proved to be a choke point even for the venerable "800 pound

gorilla,” said Haley as he discussed the power of the network in the Association of Southeast Asian Nations (ASEAN).

ASEAN nations are an emerging economic powerhouse that has a combined nominal GDP of more than three trillion U.S. dollars, according to a report by EC Europa. The current ASEAN composition is 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.

Respect for protocol, norms

A healthy respect for protocol and cultural norms for the country where one does business are critical components to success, according to Dr. Karen Walch, a consultant and educator at the Thunderbird School of Global management.

“Some of the fundamental cultural misunderstandings come from cultural norms about hierarchy and seniority in ASEAN countries compared to the norm for equality in the West,” said Walch. “Following the protocol and customs is a good way to build trusting relationships in this region.”

Walch notes that the formality of involving attorneys throughout the entire deal-making process is often eschewed in ASEAN nations.

“It is useful to use legal advocates in later sequences of the deal, not simultaneous to developing a working relationship and broader understanding of the business arrangement,” said Walch.



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Oral agreements are highly respected and considered binding if there is a strong working relationship between the parties. However, it is increasingly difficult today with multinational negotiations to find a purely oral form of agreement. Therefore, when it is time to close a deal, it is useful to review the meeting minutes and record the agreement to clarify the understanding between the parties. It is also important for building the relationship not to have legal counsel, for example, dominate the initial business negotiations, Walch said.

Decisionmaking can be slow

Walch suggests that Westerners be prepared for a request for flexibility after a contract is signed since there are many unpredictable factors that can undermine the performance of contracts. She notes it can be useful to suggest problem solving and mediation clauses to manage disputes as they might arise rather than reverting to litigation as a solution.

Christina Fung of High Street Partners has worked extensively in Vietnam and Singapore. She also cautions that the pace of decisionmaking in ASEAN nations, especially in Vietnam, is considerably slower than in the West.

“Credibility is normally an issue. Westerners should be patient when it comes to negotiation, as Vietnam is a group-oriented society, and they need to consult with their group,” said Fung.

“The concept of face is very important to the Vietnamese,” she said. “It seems that Vietnamese in general do not like to do a lot of planning. If Westerners want to get Vietnamese to do advance planning, the Vietnamese may not like it. Business deals focus a lot on interpersonal relationships and Vietnamese’s first impressions. Since relationships are critical to successful business partnerships, Westerners should try to build good relationships based on both personal and business lines first.”
