While Asia offers many opportunities for New Zealand companies, new entrants must be adequately prepared to take advantage of Asia’s developing and maturing markets. These markets have developed rapidly as a result of three decades or more of rapid industrialisation. Income levels have risen in tandem with growth and consumption patterns have developed similarly. In many cases, markets have become more demanding and place great importance on product or service quality, cost, timeliness and presentation. Importantly, Asian markets usually function in complex social networks, of which an understanding of and access to are essential for business success. Cultural identity, recognition of client status, traditions of gift exchange and other distinctive regional practices are often intertwined with “Western” business behaviours. Successful entry into Asian markets requires an effective understanding of these market characteristics. Many New Zealand companies have achieved that understanding and have carved out a significant presence in the region. Others have not, sometimes despite multiple attempts.

In 2001, the authors undertook a project in conjunction with Asia 2000 and Trade New Zealand, to investigate the key success and failure factors for New Zealand and Australian companies operating in Asian markets. This
investigation focused on an interpretation of published case study materials and an assessment of the Asian experience of selected companies. It included a comprehensive survey of New Zealand and Australian source material relating to market entry into Asia. About 1200 references were reviewed, of which only a small percentage were relevant, and even then, the relevance varied significantly. In order to supplement the case study material and provide further insight, an assessment of the actual experience of selected New Zealand companies was also undertaken. The identification of success factors and the problems that New Zealand and Australian companies encounter in Asian markets has immediate relevance for New Zealand corporate strategy. This article presents a brief summary of our findings, emphasising particularly the importance of cultural factors in market entry.

**PREPARATION: THE INITIAL BUSINESS PLAN**

A range of contingent factors needs to be considered carefully before entering Asian markets. These include political stability, government regulation, market opportunities, mode of entry and culture. Analysis of market intelligence and research will allow decisions to be made about mode of entry. Entry options exist across a wide spectrum, for example, from the establishment of a trading agency to the construction of a green-field plant. For many New Zealand operations, entry into regional markets initially tends to be by means of a sales strategy, perhaps using agents, or by a joint venture arrangement. A joint venture arrangement is often considered to be one of the most important components of success within Asian markets and may be a legal requirement within the host country. Selecting the right local venture partner is critical, as it can help reduce political risk and provide in-depth, country-specific knowledge. Importantly, a joint venture arrangement opens up social and commercial networks, supplier and subcontractor relationships, and provides access to marketing and distribution channels.

What each partner brings to the joint venture arrangement needs to be carefully considered: capital, executives, buildings, equipment, workers, raw materials, network of personal contacts, and skills and expertise in different areas (for example, sales/marketing and engineering). Companies must understand which of their assets are crucial at any given stage of the joint venture arrangement. For example, at some stages in joint ventures, labour force development in terms of training and quality production may be paramount. At other stages in different operations, correct choice of technologies has been foremost in management thinking. At still other stages, market understanding may be central to successful market access.

Also, joint ventures will usually involve at least three active parties: two (at least) business partners and an often-unconsidered third party, the management team within the joint venture operation. Involvement in a joint venture requires a clear understanding of the roles and expectation of all three parties and, importantly, a clear sense of how these roles and expectations shift over time.

Three companies operating in Asian markets provide the following insights into the preparation of market entry.

First, the John Holland Group, operating in Asia since 1972, outlines the following reconnaissance as essential before entering the Asian market: “Firstly, senior management should immerse themselves in the target area to obtain a total understanding of the target market and its culture. Secondly, in order to take into account the real difficulties of the Asian market, all budgeted timeframes and cash requirements should be multiplied by a factor of two. Fourthly, the appropriate financial commitments should be sought from the company’s bankers” (McKeon and Dias, 1995: 13).

A second case study examines the strategies of Leighton Asia Ltd, a subsidiary of Leighton Holdings
of Australia, in entering Asian markets and offers the following insight:

1. “Enter the market on soft-dollar/low-risk contracts that allow necessary knowledge and expertise to be acquired before progressing to hard-dollar/high-risk contracts.

2. Localise the business by assimilating local culture, people and organisational identity. Combine this with significant company autonomy to target opportunities unique to each market.

3. Ensure that the overseas operations are adequately resourced and capitalised. This includes reinvesting profits from Asian operations back into the business to support the establishment of new markets.

4. Ensure ongoing communication, liaison and reporting controls are maintained between Australia and Asia including frequent travel for senior managers between operations.

5. Proactively look for opportunities including those that could be achieved by the formation of joint ventures for larger, more complex projects” (Knightley and Holt, 1997: 32).

One interviewee (interviewee No.2) in a New Zealand-domiciled company experienced in the Japanese market, advises: “It is absolutely essential that you spend a lot of time preparing yourself. Second issue, credibility. A person who goes to Japan has to have their own credibility as an individual. The company needs credibility and your product needs credibility and underlying that are long-term objectives and commitment. Homework is one big word in Japan. The other is commitment and that means with personnel and money, and it is expensive. It’s homework, it’s commitment and time within the country that is really important. I have certainly seen a difference between Australia and New Zealand in one aspect. Australians are prepared to send in people and they will surround an issue. They will go in and say I don’t just want to go in and see what the distribution and product acceptance is like. I need to surround it and that means related industries, what government departments are involved … give me a jigsaw and put it together. And that is one thing Australians do better than New Zealanders.”

These examples show that the preparation for market entry must take into account a range of new, often challenging circumstances that may not apply in the same way in the business environment of the home economy. There are some key generic elements in such preparation – an excellent grasp of local culture, the establishment of credibility in the networks of the target markets, proper resourcing of market entry (including the choice of appropriate personnel), and clear channels of communication between the home base and target market.

RELATIONSHIPS AND BUSINESS PRACTICES

New Zealand companies operating in Asian countries face many intangible cultural barriers that limit understanding of, and access to, Asian business networks. Central to doing business in Asia is the importance of building interpersonal relationships that extend beyond the exchange of transactions and involve trust and confidence. Why relationships play such a significant role in successful business practice in Asia is complex. One explanation suggests that social structures and, hence, social attitudes and expectations still owe much to pre-capitalist social relations, now brought into contact with a “modern” industrial world. Religious traditions, such as Confucianism, are also invoked. The family and its trust relationships are thought to sustain these traditions. Clearly, they are
traditions that permeate behaviours beyond the world of business and, as such, require new entrants into the local business world to reflect not only on core business relationships, but also on the wider social interaction in which business practice is located.

Two important characteristics of these relationships are a demonstration of a long-term commitment to the market, company and individuals, and recognition of the importance of personal involvement and reciprocity.

In order to demonstrate a long-term commitment and gain a comparative advantage, companies need to build and nurture a strong relationship network. The example of *guanxi* in Chinese communities provides an excellent example of the importance given to relationships in the wider region. Guanxi is a Chinese term referring to “personal and interpersonal relationships or connections among people and places high value on network, trust, commitment, favour, mutuality, reciprocity and long-term benefits” (Chadee and Zhang, 2000: 130). Guanxi is transferable from one person to another and can ultimately lead to a network of relationships. Therefore, a single gatekeeper may provide multiple contacts within government and business organisations. Successful guanxi are usually built over time and depend on complex feelings of mutual trust, respect and commitment. Once strong, they are resilient, but they are also fragile when under construction.

Establishing firm relationships of reciprocity is an all-important factor when operating in the relationship-based system. This can occur as a result of gift giving (and owing) and the receiving of obligations and favours. Within many Asian societies, the rituals of gift giving and entertaining are central to building relationships. They are seen by many as a source of comparative advantage for companies operating in these markets (Martin and Larsen, 1999). Foreign companies are divided over the idea of giving gifts. Some view the custom as a form of bribery and refuse to participate; others over-emphasise the gift giving and wining and dining elements of the guanxi relationship. A representative of one New Zealand company cautions against the moral obligations of over-commitment to reciprocity: “You have to be aware that there are gifts, special weekends … and that one day your chips are going to be called in and you are going to be morally obliged to do something” (interviewee No.2).

**BUSINESS NETWORKS**

Network identification, establishment and maintenance, in both political and business circles, are usually vital components of success. In most Asian countries, formal and informal networks provide vital access and intelligence. They operate on the basis of trust and reciprocity, and in many countries constitute a formidable barrier to market success if business networks are not well understood. To be used to advantage, they must be sustained.

Networks in Asia can take years to build up and many foreign firms find it “difficult to operate effectively without the insider status which comes from links with government, leading business families and heads of large company groups” (White, 1993: 34). Establishing networks is not an easy process and “some New Zealand companies had returned to Asia for four or five years on end without much success” (Thomson, 1995: 47).

Networks are fragile when developing. Take, for example, the case of a US firm that had placed significant effort in building networks with a powerful Asian business partner. Well down the track and nearing success in terms of high mutual regard, the presidents of the two companies met to seal contacts at the highest level. During that meeting, the president of the US company absent-mindedly began to pick at his teeth with the business card of his opposite number. On that one action, construed as the height of rudeness, turned the future of the relationship. The relationship was not sufficient to overcome the perceived insult and was subsequently terminated (interviewee No.3).

Companies need to develop networks in the Asian country (in addition to taking advantage of their
own networks) because quite often “you can have a common problem and as a foreign company you might be the last to know. Credit is an example. Who is credit-worthy and who is not? In Japan, if you do a credit check and just use the public documents, everyone is credible. But are they? How do you find out? You have to develop a business network” (interviewee No.2).

Networks open to firms include specialist agencies such as New Zealand Trade and Enterprise (formerly Trade New Zealand), which will carry out research, often including “on-site” assessment of networks and opportunities. Business associations such as New Zealand-China and Chamber of Commerce and Industry offer similar opportunities. On occasions, the Asian immigrant community in New Zealand has provided an initial point of access to the region. “People should not be backward in talking to their own country’s government because they have diplomatic standing and that means you may get to see people you may otherwise not be able to. Use them. Use them wisely. They are not to do your footwork. They are there to step in on an issue” (interviewee No.2).

CULTURAL AWARENESS WITHIN THE BUSINESS MANAGEMENT ENVIRONMENT

The single greatest barrier to business success in Asia is often defined as the one erected by culture and this was evident in a number of case studies. Knightley and Holt (1996: 38) suggest that “success in cross-cultural management cannot be assumed unless one learns, or at least is aware of, the hidden unwritten rules and assumptions of the cultures one is interacting with”. Companies must recognise that business practice in Asia is fundamentally different from New Zealand and Australia and that an understanding of culture is essential to business success. Such an understanding should encompass, but is not limited to, management strategies, employee recruitment and staffing, an understanding of communication and language, and sensitivity toward local culture.

Management strategies

Depending on the entry mode, appropriate human, technical, financial and information resources will be mobilised. The main areas of decision-making will be the choice and make-up of the management team, appropriate technological sophistication (if production is a factor), financial provisions, and market and risk assessment. Evidence suggests that many firms fail to recognise the need for sufficient dedicated resources to meet the demands made by entry into regional markets. Companies should realise the importance of sending senior members of staff not only to negotiate business, but also to staff the overseas operation. This is due to the importance of status and hierarchy within the Asian culture. To ignore status or show disregard for appropriate titles may cause considerable affront.

Employee recruitment and staffing

The balance of expatriate and indigenous staff will be a challenging strategic issue. The potentially complex implications of sending employees offshore should also be noted. Human resource strategies for complex, often alien labour markets will be required. For example, in contrast to the Western practice of careful monitoring of employment levels, Chinese partners (often under pressure from local government agencies) will often push for seemingly excessive staff levels and include redundant or unqualified people. Fletcher Building described its experience of managing a joint venture entity in China (Datong Steel) as a “nightmare, an absolute nightmare. We had 3000 staff there at one stage;
similar mills elsewhere in the world had 1200”. The joint venture partner was the city government which was ultimately responsible for the city’s unemployed. City officials threatened to enforce environmental issues if the workers were dismissed (interviewee No.1). In contrast, Singapore is generally more in tune with Western employment expectations.

While some foreign companies in Asia advocate employing host-country nationals educated outside of Asia, this may not always work to the company’s advantage.

“Your belief by employing them [nationals educated overseas] is that you get both the Western education understanding and the local knowledge. Our marketing manager was a young lady educated in Australia who went back with all the so-called Western theory. That was even worse. They are trapped in a no man’s land. They had knowledge of the West, knowledge of China, but couldn’t actually live in both worlds” (interviewee No.1).

When recruiting staff in an overseas country, Luo (1988: 158) offers the following advice:

- Avoid taking too many employees from a single source, as this can heighten the risk of hiring a lot of people who will reinforce similar bad habits.
- Practice patience and flexibility when looking for high-quality personnel.
- Resist pressures by Chinese authorities to overhire.
- Find a local confidante among the local managers who has experience in dealing with bureaucracy and is trustworthy.
- Mold the right individual according to the needs of the company.

Understanding of communication

Expatriates need to learn the nuances of communication. “General communication is expressed more indirectly than what they are used to, requiring the need to read between the lines, decipher the subtleties and understand their meaning” (Callaghan and Holt, 1996: 56).

For an Asian to admit that he or she cannot understand what is being said may involve a loss of face. No indication may be given that the Asian counterpart doesn’t understand what is being said and instructions can consequently be ignored simply because they were misunderstood. In order to allow for this, the speaker must make sure s/he speaks with great clarity and precision. Misunderstanding can also occur because of different cultural assumptions. “For example, when facing some performance or operational problems or mistakes, Thai verbal communication is at times bordered by a smile or laugh” (Knightley and Holt, 1997: 38). It is generally important for Asians to retain “face” and expatriates may often need to ensure this. “Indeed … it is advisable to help Chinese colleagues out of an embarrassing situation that they themselves have caused, in order to avoid them losing face with you” (Atkins, 1996: 508).

The role of translators is important. When the discussion involves an interpreter, there is the added factor of the interpreter’s perception of both the question and answer and the translation of each. Successful business communication comes down to: 1) communication skills; 2) personal relationships; and 3) an understanding of when to use straightforward speech. Candour may be considered respectful in some cultures, but insulting in others. Its acceptability may also vary with the depth and resilience of a relationship.

Sensitivity toward local culture

Companies and individuals should develop an awareness of, and display sensitivity toward, the local culture. Leighton Asia has strategically used visible signs of culture such as feng shui symbols (red roses, lion ornaments, etc) in offshore offices. Colours used for office decoration sometimes reflect the local culture: green and red in Hong Kong, white in Bangkok and pastel blue in Australia. A senior manager notes: “The use of these objects in this office shows my respect for Chinese beliefs and traditions. Far from being decorations, these items reflect a willingness to accept the significance of local custom and culture. I believe a good leader is
one who shows respect for the values and beliefs of his staff and the wider business community” (Knightley and Holt, 1996: 30). In addition, consultation with a feng shui master contributed to the design of a new corporate logo.

One interviewee cautions expatriates against making the mistake of trying to be Asian. He recognises that while one needs to assimilate, one is not Asian and that within Asia there is an appreciation of other cultures. “Be courteous, recognise points of sensitivity. They will recognise yours in turn, but in the end they are people who want to do business and that is what will draw you together. You have a common purpose” (interviewee No.2).

Business infrastructure

There are many complexities associated with operating in Asia’s business environment. Bookkeeping traditions illustrate these complexities. Typically, debtor ledgers in New Zealand have one-, two- or three-month columns. In China, New Zealand companies have encountered a one-, two- or five-year debtor system. Problems arise because “paying debtors is irrelevant when everybody owes everybody. The principal shareholders in most of the businesses are, of course, the cities and the reason for being in business is not to make money, but is social, to ensure people are working and there is enough money in the community to pay for food. A very different rationale” (interviewee No.1). Bartering, still very much part of some Asian societies, adds a layer of complexity to business operations. “How do you value barter? How do you record barter? How do you actually hold the product you don’t need until you locate the one you do? A logistical nightmare” (interviewee No.1).

While one New Zealand company’s policy in China was that as a corporation it would not be involved in gift giving (aside from some very small gifts), bribery was still occurring in the corporation without it being aware of it. A delivery boy who owned an expensive condo was receiving money for notifying the bank manager when money was going to be deposited. The bank manager himself received goods and money from the creditors by promising them they would be paid first as soon as the money was deposited (interviewee No.1).

Cultural identity, recognition of client status, traditions of gift exchange and other distinctive regional practices are intertwined with Western business behaviours. Successful entry into Asian markets requires an effective understanding of these market characteristics.

BUSINESS NEGOTIATIONS IN A CULTURAL CONTEXT

Credentials must be established before entering into the negotiation process. This can be done through relationship networks or formal introductions by embassy and New Zealand Trade and Enterprise staff.

Companies must be well prepared and know their position before entering into negotiations. Attention to detail is a must, as is knowing your counterparts and their social standing (interviewee No.1). Be prepared for negotiations to take days – even “simple” negotiations over price can prove to be a time-consuming process. Asian negotiators are far less concerned with the pressure of deadlines than their Western counterparts (Clarke and Davies, 1992). “It is important to remember that the Chinese partner’s managers will have to be able to demonstrate to their supervisors that they have managed to move the foreigners from their starting point to another position closer to that of the Chinese position” (Atkins, 1996: 508) and, hence, it is important to always leave room to move when negotiating.

“How do you value barter? How do you record barter? How do you actually hold the product you don’t need until you locate the one you do? A logistical nightmare”
A team approach to negotiation is strongly recommended. Different members of the team can be assigned different roles so the authority of individual members (and the appearance of team cohesion) is not undermined. It is important that when complications arise, team organisation does not break down, with members attempting to out-argue their negotiators. In particular, the Japanese can feel threatened by an aggressive approach (Clarke and Davies, 1992). During the negotiation process, continuity of contact is essential in order to develop and nurture the relationship. Avoid publicly embarrassing anyone and causing a loss of face. In the negotiation situation, it is important to realise that the top man is often concealed and appears to be on the sideline of discussions until final approval is needed.

In the case of China, for example, ethnic Chinese experienced in negotiations can provide a valuable insight into the process. “The ability of the overseas Chinese to bridge the gap between Western and Chinese business cultures is demonstrated in the growing numbers being chosen by Western companies as members of their negotiating teams and as managers of their China business activities” (Blackman, 1997: 97).

Non-verbal behaviour is frequently important. Under the team approach, an individual may well be assigned to analyse non-verbal language: “They [Australians] ‘do their shirts’ because they do not understand the way in which the Chinese make use of silence during negotiations. The Australians, uneasy with silence, think that they have upset or annoyed the Chinese because the Chinese are not responding to their (counter-) offer, when in reality they are thinking about what has just been said. Then the Australians forget whatever game plan they had, and stumble in, giving away a negotiable item far too early in the negotiations” (Atkins, 1996: 509).

SUMMARY

The literature search and interview programme identified a number of key success and failure factors for companies entering Asian markets. Some of the key factors common to successful companies include:

- Identification of correct market entry strategy.
- Identification of a target market segment before entering the market.
- Communication with other companies that are successfully operating in the market before, and during, the initial stages of market entry.
- Ensure that exit rules are written at the same time as the joint venture is being established.
- Adaptation to, and respect for, the culture.
- Flexibility in accommodating one’s business partners.
- Employment of local indigenous staff.
- Employment of staff with linguistic skills.
- Utilisation of Asian people located in the home country.
- Recognition that investments are for a long term and that a company will not make a profit quickly.
- Companies must have an Asian focus and become domiciled there.
- Obtain insider status.

These factors are essential to establishing successful business operations and the inability to achieve success in these areas can contribute to failure. Business failure is often attributed to companies seeking to implement arbitrarily a Western style of business operation.

Key problems include:

- Failing to put into place effective management structures.
- Poor labour productivity.
- Miscalculation of reserves.
- Unavailability of raw materials.
- Battles over, and differences in, managerial control.
- Mutual mistrust and cultural misunderstandings.
- Operational problems (difficulties in communicating, slow bureaucratic decision-making, unsuitable staff).
---

- Trying to rush into the market too quickly without doing appropriate research or paying due diligence.
- The belief that the market is there for the taking because you have a product that is good enough. This is not necessarily the case.
- Failure to acknowledge soon enough that the company is not succeeding in the Asian market and should exit the market.

One striking conclusion of the project was that there is relatively little useful case study material readily available on the performance of either New Zealand or Australian companies in Asia. Another obvious conclusion from this project is that entry into Asian markets is challenging. But careful, properly resourced strategies, patiently introduced and, importantly, properly monitored, do succeed.

This is an important message from the case studies captured by this project. Tired “war stories” about failed entry attempts must be tempered by a more balanced account, which embraces success following carefully prepared entry. The Asian market is challenging, but offers tremendous opportunities for the well-prepared new entrant.

---

**REFERENCES**


---

Christina A. Stringer  
LECTURER  
Department of International Business  
The University of Auckland  
E-mail: c.stringer@auckland.ac.nz

Nigel Haworth  
PROFESSOR  
Department of Management and Employment Relations  
The University of Auckland  
E-mail: n.haworth@auckland.ac.nz

---