

GOING GLOBAL

Seize your company's international opportunities.

by Mona Pearl

Without a doubt, the global recession is creating rough times. "Over the past year, we have witnessed an extraordinary contraction of liquidity in our economy," says Robert D. Billow, managing director of Billow, Butler & Company, a Chicago investment banking firm. "The reverberations throughout numerous industries have been massive and more widespread than many experts might have predicted."

At the same time, however, the recession also is creating opportunities for innovative, creative and forward-looking business leaders who are willing to consider international expansion; specifically, merging with or acquiring a foreign company as a growth strategy. Unfortunately, that thought is not even on the radar of most mid-market American firms.

Granted, international mergers and acquisitions are in a slump overall, but there is good news, too: Activity among middle-market companies is up. Despite this perspective, the U.S. continues to lag behind the rest of the world in this area. Why is this so? The U.S. has always led the world in entrepreneurship and future-oriented business innovation. What is the stumbling block when it comes to international expansion?

DUE DILIGENCE AND EXPERT ADVICE

Pursuing expansion and growth in the global market requires a whole new realm of due diligence and risk assessment. That's proving to be a significant

obstacle for most U.S. businesses. Acquiring or merging with a foreign company is much more than a business deal based primarily on the numbers. In fact, the numbers are generally known well in advance and rarely become deal-breakers. Rather, the critical issues in the due diligence phase — which even includes some aspects of valuation — are cultural in nature. Success in this area necessitates dealing effectively with differences in corporate cultures; maintaining employee, stakeholder and customer loyalty in a foreign company; and gaining an understanding of that company's human and business values.

International due diligence requires a company to go beyond traditional merger and acquisition (M&A) work and consider variables unfamiliar to most American businesspeople. It means obtaining relevant, detailed information and advice concerning the political, national, corporate and human culture of the target company. This is an area where doing things the American way just may not work. Ignoring or misunderstanding these issues can leave a company's M&A initiative dead in the water.

CULTURAL ISSUES

Most international deals fall through in the later, integrative stages of a merger or acquisition. Initial price negotiations,

while certainly important, are rarely, if ever, the primary reason for failure. More often than not, it is the cultural valuation of a target company that creates problems. Will its employees remain loyal? What motivates them? How about the customers? How will these issues affect operations and the business's future success?

Here are some fundamental guidelines to help prevent late-stage cultural problems from derailing an otherwise sound international expansion initiative:

1. Practice cultural due diligence. Determine how the target company operates in a broader, human-capital sense. How will customers and employees view a foreign

company moving onto their turf? What's the work ethic of its employees? How is productivity viewed, measured and maintained? What's the management style of its executives? Who are the company's main competitors? How stable is the political environment?

2. Make a strong commitment. Peter Drucker once said, "Unless commitment is made, there are only promises and hopes ... but no plans." Management must be on-board 100 percent — on both sides. Developing an international market requires enormous energy, knowledge, managerial buy-in and an understanding of business practices in other countries. Few, if any, companies have the resources to go it alone. They'll need a non-U.S. view of the world and the assistance of people experienced in global business transactions.

3. Be humble. The brash, pushy approach of the rugged American businessperson doesn't cut it in the global arena. Successful international business leaders possess a quiet, respectful humility combined with a passion for learning, understanding and practicing how people in other cultures live, work and like to be rewarded. Customers in different countries have unique ways of relating to products and services. Their lifestyles vary greatly, along with their values, priorities and buying habits. Savvy international businesspeople blend in and adapt to the cultural norms of whatever market they're serving. In this respect, cross-cultural or intercultural diversity as a corporate principle is an absolute requirement for business survival and long-term profitability.

4. Educate managers regarding cross-cultural communication. Research shows that communication between culturally different organizations often is plagued by prejudice and stereotyping on the part of the acquiring company's managers. Poor or insensitive communication between managers and the target company's employees can absolutely derail an international venture's success. On the other hand, with proper training, these problems can be minimized or prevented altogether.

5. Ask for help. Seek guidance from an experienced, hands-on international business expert — someone who thoroughly understands how to do business internationally and in that specific region. Such a professional should be keenly sensitive to the national and corporate cultures of both the client and target countries. For example, what does it mean when foreign business executives become quiet at a key meeting? Are they in agreement? Disagreement? Insulted? Trying to hide their laughter from you? How does the country's ethical system differ from that of the U.S.? Is corruption rampant? Will the U.S. entity be competing with businesses owned by relatives of the country's president? Although there are no guarantees in any business venture, the right international business expert can make a dramatic difference in one's overall success.

In the international business arena, the United States is playing catch-up with the rest of the world. American business people need to get in touch with their "inner students" and begin learning the rules of a brand-new game. Adopting a world-wide view will be a crucial skill for businesspeople as globalization continues. With the right attitude, it can be as fun as it is rewarding! At the very least, it is crucial to pay attention to these issues. Due to the rise of foreign-owned U.S. companies, American firms already are competing internationally — and many don't even know it!

ALERT: CHANGE YOUR MINDSET

The current global meltdown presents plentiful opportunities to gain market share for mid-market U.S. companies with vision, courage and a willingness to explore new territories (figuratively and literally). It's not enough to read books and gain second-hand knowledge about a potential international merger or acquisition opportunity. The greatest hurdle of all is changing the corporate mindset. Gaining the right mixture of confidence, analytic discipline and humility are not easy tasks.

Such a transformation means more than tweaking the corporate vision statement. It requires the invaluable insights of a business expert intimately familiar with the ins and outs of a country's business, political and human culture as well as a detailed global expansion plan. The process begins with unanimous commitment within a company to learn and to do whatever it takes to succeed, followed by the development of a global growth strategy.

It's a big world out there with lots of potential for businesses with a keen entrepreneurial spirit. Much like a novice surfer, newcomers often feel intimidated by the endeavor. But by studying what successful international businesses do and following the advice of an experienced professional, you can catch the wave, too. *USA*

MONA PEARL is founder and COO of *BeyondAStrategy*, based in Chicago, and a contributing editor to *U.S. Business Review*. For more information, call 312-642-4647 or visit www.beyondastrategy.com.

