

Using your intelligence

Mark T Townsend examines the importance of business intelligence and due diligence in assessing risk in emerging markets

In 2003 UK exports to China rose by 29% according to the Office for National Statistics. When these figures are viewed in conjunction with China's astonishing 9.1% annual rate of GDP growth in 2003, they undoubtedly presage greater trade and investment with one of the world's fastest growing economies. However, this blue sky scenario masks significant risks for companies new to international commerce. As with the gold rush, corners will be cut in the pursuit of profits, setting the scene for casualties in commercial relationships and losses in investment and reputation.

Small steps

Before entering any new overseas market, it is vitally important to carry out an evaluation of the risk, using proven business intelligence methods. This includes an analysis, often referred to as PEST, which examines

the political, economic, social, technological and legislative environment. In countries and regions such as China, CIS, the Middle East, and Russia, standards of corporate governance, transparency and intellectual property protection are evolving, but are often lower than the UK. In key growth areas, such as financial services and telecoms where the UK has global expertise, it is important to assess what protection will be granted in the local marketplace. Additionally, local law occasionally makes it difficult to disengage from commercial agreements when formalised.

It does not end there. It is equally important to carry out an integrity check on the proposed business partner and examine their relationship to the local business environment. Consider the accuracy of any claims relating to reputation, business performance, or influence and review the company culture through an analysis of the ethics of key executives. Then examine financial statements with an emphasis on the non-disclosure of any pertinent information. As has been frequently been the case in Russia and the CIS, this research could mean uncovering links to organised crime, corruption and money laundering.

The increase in the regulatory burden on UK companies is evidenced by the proliferation of corporate governance initiatives. Recent research by KPMG suggests that UK companies are struggling to get to grips with the impact of recent initiatives. Of the FTSE 100 companies polled, 44% stated they were yet to fully comply with the provisions of the Higgs recommendations, a full year since the launch of the revised combined code.

In addition, recent changes in procedure by the UK's official export



Examine the political, economic, social, technological and legislative environment

credit agency ECGD now require executives to attest, as part of the terms and conditions attached to cover, that neither their company nor any of their affiliates, including employees, are or have been engaged in corrupt practices.

Many UK companies are also likely to be affected by the stringent laws which have been enacted by the US in an effort to reduce corruption and money laundering. The US has extended its legal reach by updating measures contained in the Foreign Corrupt Practices Act (FCPA) and recently through the introduction of the Patriot Act.

The provisions of the FCPA stipulate that US parent corporations may be held liable for the acts of foreign subsidiaries, and the provisions also apply to foreign firms or persons while in the US. The Patriot Act was formulated in response to the terrorist attacks of September 11, 2001 and, among other things, regulates the activities of US financial institutions in their relations with foreign entities and individuals.

Plans are nothing; planning is everything

The necessity to mitigate risk is often overlooked at the early stages of new market development, particularly when competitive pressures dictate the necessity for quick decisions. Instituting a business intelligence strategy and incorporating it into the planning process will ensure authoritative information is obtained about a market and an intended partner. This will not only prevent expensive commercial errors but will also eliminate the chances of being associated with an unethical business.

There is no single template that fits all markets, and there is heightened risk in all international trade. Different markets will require different judgments, and it is important to take into account divergence in culture, both business and social when planning a market entry strategy.

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CASE STUDY

A UK company wished to increase its presence in the Middle East and focus its regional presence through a key joint venture agreement. As part of its evaluation, a short-listed local company indicated it had strong links to the Government, a management structure to adequately implement the company's plans and the financial resources to achieve these objectives.

Upon closer examination it was established that these claims were exaggerated. Additionally, evidence of previous financial mismanagement indicated inexperience with respect to corporate investment. These findings were used to assist the UK company in their negotiations in achieving a successful outcome.