

# Winning in Asia

*Creating long-term value*

A SPECIAL REPORT



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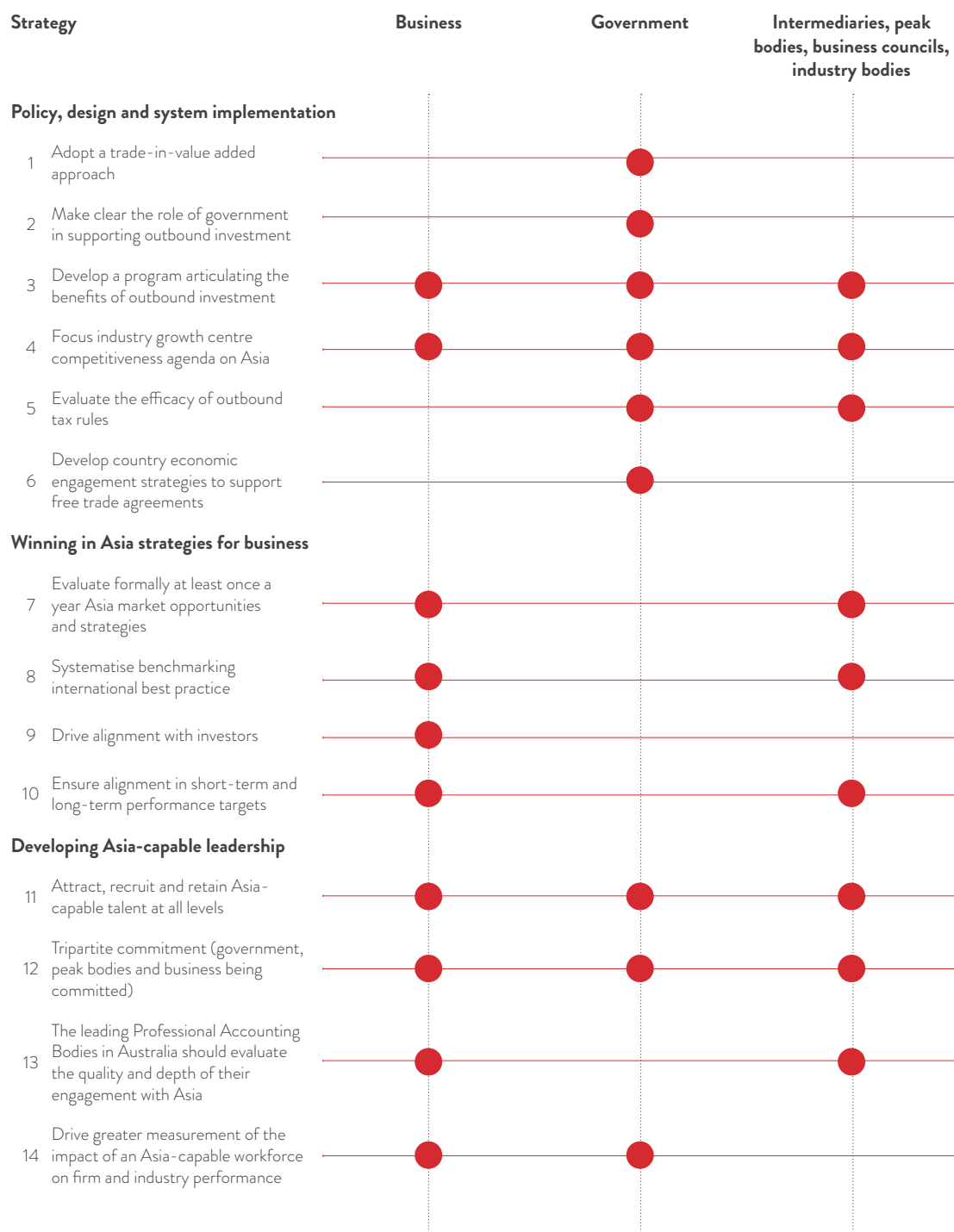
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# A STRATEGIC APPROACH TO WINNING IN ASIA

The strategies in this section provide an overall approach to winning in Asia. These strategies should be read in addition to the very specific strategies in the previous two sections (applying to board and senior executive capabilities and external affairs).

**FIGURE 32.** A strategic approach to winning in Asia



### 1. Adopt a trade-in-value added approach

The section on **‘Does offshore expansion lead to superior returns?’** highlights that there is still significant untapped potential in Asian markets for Australia’s services sector. As efforts are made by policymakers to facilitate more services sector engagement with Asia, consideration should also be provided to how trade data is captured and reported.

Trade data currently reflects the performance of the Australian export economy in direct export terms. Services exports do not currently reflect the value of services embodied in the production of commodities and products. It also does not include foreign affiliate sales of Australian companies. As Australian companies transition towards the delivery of a range of services to Asian economies, it will become increasingly likely that they will deliver services through their subsidiaries in offshore markets. The need to be close to the end consumer in the services sector will drive the offshore presence of Australian businesses delivering the services. In the absence of a trade-in-value added approach these offshore foreign affiliate sales will not be captured in Australian trade data.

### 2. Make clear the role of government in supporting outbound investment

As reflected in the section on **‘How the best ‘win in Asia’: Business models from companies succeeding in Asian markets’** the most successful Australian companies in Asia (across sectors) invest significant capital to establish an on-the-ground presence in host markets. Our consultations revealed a lack of understanding by business of the role of government in supporting outbound investment. Historically, the Australian Trade and Investment Commission (Austrade) has focused on Australian exports, international education, tourism and inbound investment.

More recently, the explicit reference to growing outbound investment from Australia to India in the India Economic Strategy to 2035 has raised the importance of outbound investment being actively facilitated by Austrade and the Department of Foreign Affairs and Trade (DFAT). Recent bespoke trade missions to India for Australian superfunds, facilitated by DFAT and Austrade, signal the Australian Government’s support of outbound investment. Both DFAT and Austrade have excellent networks and market knowledge which together with the ‘badge of government’ would be invaluable to Australian companies seeking to invest in Asian markets. Their roles in supporting outbound investment should be made clearer to business.

### 3. Develop a program articulating the benefits of outbound investment

Our consultations revealed the highly politicised nature of outbound investments. This should be systematically addressed to facilitate the growth in offshore revenues and returns of Australian companies. While most countries actively seek to attract foreign investment into their markets, there is less open support for the idea of outbound investment. There is an often-stated view of governments that the capital of domestic companies should be invested in the domestic market rather than in offshore markets. This is seen as enabling home country jobs and economic development. The deployment of capital in the home market rather than offshore is also seen as beneficial in delivering more stable returns in an environment in which there is greater institutional and regulatory certainty for local capital providers. Governments also often prefer onshore capital deployment

to generate new assets, capabilities and taxes. However, these arguments can prevent high-quality opportunities in offshore markets being pursued: in particular those opportunities that offer scale, a superior return on capital, and global talent to be secured.

As the World Bank highlights, “there is growing evidence that outward foreign direct investment (OFDI) can increase a country’s investment competitiveness, crucial for long-term, sustainable growth”<sup>59</sup>. The World Bank sees OFDI as “a natural extension of export promotion”<sup>60</sup>.

We recommend a coordinated approach to advocating to the community the benefits of outbound investments to selected Asian markets that are critical economic partners of Australia. This is also critical in ensuring our relationships evolve to genuine engagement which comes from committed capital and ‘boots on the ground’. Our Asian partners – in particular in South-East Asia, India and China – are actively seeking and expect foreign capital to flow to their economies from their relationship with Australia. Australia’s superfunds are often of great interest to our partners seeking long-term investments, in particular for infrastructure development. Educating the community of the benefits of investing Australian capital in Asian markets would make it less unpopular in the local context.

### 4. Focus industry growth centre competitiveness agenda on Asia

Industry competitiveness is highly dependent on workforce skills. **‘Match Fit 2.0: Creating Asia-capable leaders’** highlights the acute shortage of boards and senior executive teams that are Asia-capable. The six industry growth centres are central to Australia’s global competitiveness. As part of boosting sector productivity, we believe that following the lead of MTPConnect, each growth centre should develop and implement a comprehensive program of work related to Asian markets. MTPConnect has been exceptionally active in leading Australian medtech and pharma companies to pursue market opportunities in South Korea, India, Singapore, China, Hong Kong and Indonesia. Food Innovation Australia Limited (FIAL) has also been central to Australian food exporters being internationally competitive.

We recommend that our industry growth centres place the key markets of China, Hong Kong, India, Indonesia, Singapore, Japan and South Korea as a focus in their program of work. In addition, we recommend that following the lead of MTPConnect, they develop a qualified database of Asia-capable board members and senior executives in their respective sectors.

### 5. Evaluate the efficacy of outbound tax rules

Our consultations for the section on **‘How the best ‘win in Asia’: Business models from companies succeeding in Asian markets’** revealed that tax considerations were not immaterial when considering doing business in the region. In particular, the inability to pass on offsets to Australian shareholders for foreign tax paid is an impediment to securing support from investors. Australia’s controlled foreign company, transfer pricing, capital gains, interest, royalty and dividend repatriation rules should be considered in terms of their ability to support increased outbound investment. There should also be increased education of Australian businesses by the Big Four firms, the Tax Institute and peak bodies such as CA ANZ and CPA Australia of the tax risks in the operating environments in Asian markets.

## 6. Develop country economic engagement strategies to support free trade agreements

Our consultations for the section on **‘How the best ‘win in Asia’: Business models from companies succeeding in Asian markets’** revealed that the India Economic Strategy to 2035 had led to a significantly greater awareness of opportunities with an Asian market (India) compared to countries with which Australia had a free trade agreement only (e.g. Republic of Korea). We recommend that complementing the Australian Government’s highly successful track record of concluding free trade agreements (FTAs), should be publicly available country economic strategies for key economic partners. The India Economic Strategy to 2035 was developed while FTA negotiations were still being undertaken with India. The strategy with India offers a clear blueprint of the major sectors and states with which Australia should pursue opportunities. It offers a fundamentally different value proposition to an FTA with India, which (should one be concluded) reduces barriers to trade and investment between the two countries. With the strategy in place the FTA is more likely to be utilised if concluded.

We recommend a comprehensive strategy for Indonesia – similar to the India Economic Strategy to 2035. This will complement IA-CEPA and enable Australian businesses to more deeply understand the opportunities with this critical market. We also recommend that similar to the India Economic Strategy to 2035, the strategy with Indonesia should have an ambitious outbound investment target.

## 7. Evaluate formally at least once a year Asia market opportunities

Our consultations revealed the extensive use of outdated anecdotes and sentiments on Asian markets in the Australian corporate sector. These are primarily centred on the challenges of doing business in the region, the perceived risks, and the inability to generate high returns. We recommend that ASX 200 companies and large private companies annually assess opportunities with Asian markets.

A senior leadership team committed to an Asia strategy is essential for organisational success. Our consultations have highlighted the challenges middle management often faces in securing senior leadership support of projects pursuing Asian growth. It is also essential that by reviewing opportunities regularly senior leaders rely on up-to-date research in informing their decisions to pursue or not to pursue opportunities.

The dynamic and high context nature of Asian markets requires annual assessments. It will ensure that the impact of the use of outdated anecdotes on doing business with Asian markets is limited. We recommend **Lendlease** as best practice in macro and micro analysis of market opportunities in Asian markets.

## 8. Systematise benchmarking international best practice

Our consultations highlighted that offshore expansion will become more likely once Australian companies start to embrace international best practice in organisational design and strategy. This includes best practice in technology adoption, management practices, governance, planning for the future of work etc. As Asian companies continue to grow and become globally dominant enterprises, it will become increasingly likely that Australian companies will partner with Asian companies in Australia, the host country or third markets. We recommend that on an annual basis ASX 200 companies refresh their library of case studies of best practice in Asian markets. This should cover innovation and new

product development, sales, marketing and distribution strategies, capital market developments (equity and debt), workforce development patterns, and management practices. The consistent growth in the number of Asian companies on Forbes’ annual listing of the world’s most innovative companies, provides evidence of the ability of these companies to generate a superior ‘innovation premium’ for their shareholders. Studying the underlying methodology for the determination of ‘innovation premium’ (using Credit Suisse’s proprietary HOLT methodology) is useful in developing an approach to generating superior shareholder value.

## 9. Drive alignment with investors

Our consultations as reflected in the section on **‘Engaging with investors’** have highlighted three aspects to best practice in investor relations. First, the need to articulate a clear, consistent and long-term strategy. Second, to not let investors determine your strategy but to use your strategy to attract the types of investors aligned to your strategy. Third, taking investors on an informed journey is crucial. For instance, annual tours of global operations is seen as highly effective in helping investors understand market opportunities.

## 10. Ensure alignment in short-term and long-term performance targets

Our consultations highlighted the need for there to be a strong mix of short-term and long-term incentives for senior management that was aligned with the objectives of the organisation. There was a recognition that short-term incentives were essential to meet quarterly, bi-annual and annual metrics. However, most of the companies we evaluated had long-term incentives comprising at least 50 per cent of the incentive structure. This balance ensured that these companies were better positioned to deliver long-term results from Asian markets.

## 11. Attract, recruit and retain Asia-capable talent

A consistent theme through all sections in this report is the need for Asia capabilities to identify, evaluate and execute opportunities effectively with Asian markets. Asia-capable talent is central to this proposition. We recommend a three-pronged strategy to identifying Asia-capable talent.

- **Work with the various business councils to identify networks of Asia-capable individuals:** The Asian business councils in Australia are a highly underutilised network of platforms. The Australia China Business Council, the Australia India Business Council, the Australia Indonesia Business Council, the Australia Korea Business Council and the Australia Japan Business Cooperation Committee all offer exceptional access to networks of professionals who offer the insights, capabilities and connections Australian businesses are seeking to expand into Asia. There is significant under-representation of the ASX 200 in the membership of these councils. This is often a first and essential step to committing to learning about Asian market opportunities, the critical role of government (in Australia and in the region), and best practice in winning in Asia. This approach complements in-house expertise and the use of consultants to advise on bespoke strategies.
- **Identify and elevate Asian-Australian talent:** More work needs to be done to identify and elevate Asian-Australian talent, including through initiatives like the Asian-Australian Leadership Summit (AALS) and professional groups such as the Asian-Australian Lawyers Association.

Australia's large and growing Asian-Australian community (over 12 per cent of the population) offers a significant pool of Asia capability. Companies should work actively to engage those individuals through initiatives like the AALS and professional associations. The AALS provides businesses with a unique opportunity to engage with exceptionally qualified Asian Australians, understand their perspectives, and create a market-leading strategy for diversity that includes Asian Australians. Representation at the inaugural AALS in 2019 revealed strong participation from universities, government, professional services firms, and community groups. Significant potential remains for greater levels of engagement by ASX 200 companies and large and medium sized private enterprises with the AALS in the future.

- **Collaborate with organisations like Advance, the Australian Chambers of Commerce in the region and executive search firms to leverage Australian expatriate talent:** Advance connects 'global Australians with one another and with Australia'. With the support of a powerful board, global ambassadors, corporate partners, sponsors, and patrons, Advance recognises and celebrates the achievements of global Australians<sup>61</sup>. Increasingly their focus is on Australian expatriates in Asia. As reflected in the section on 'Match Fit 2.0: Creating Asia-capable leaders', the profile of Melanie Brock (Global Ambassador, Advance) is a powerful example of the exceptional talent Australian expatriates based in Asia can offer. The Australian Chambers of Commerce across several Asian markets also offer connections at scale with Asia-capable Australian expatriates.

Our previous work in 'Match Fit: Shaping Asia-capable leaders' highlighted the critical role of executive search firms in informing board nomination committees of the value of this untapped community. This is still an early stage work-in-progress with much room for improvement.

## 12. Tripartite commitment (government, peak bodies and business being committed)

Our consultations revealed a strong appetite for coordinated action to shift the thinking of corporate Australia towards improved engagement with Asia. A transformation of the capabilities of board members will ultimately depend on significant

commitment from a range of stakeholders including corporate boards, government and peak bodies. Cooperation and cross-sector collaboration supported by the Australian Government will be critical in ensuring that the development of Asia capabilities becomes a strategic focus for boards.

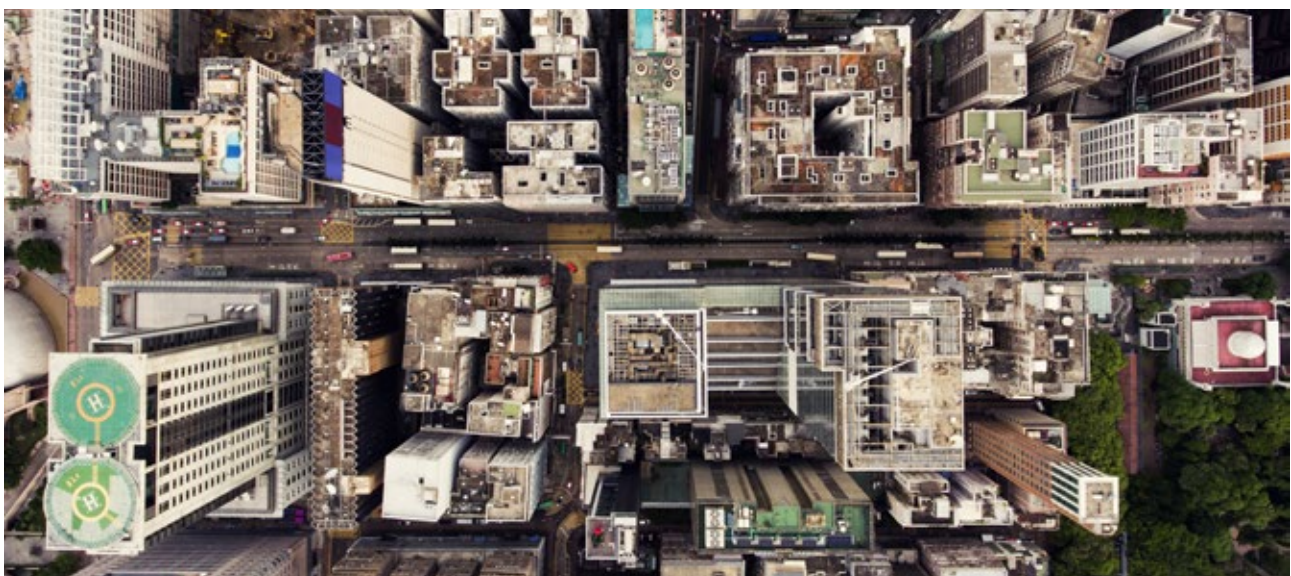
A multi-disciplinary approach could include initiatives aimed at monitoring progress of Asia capability in leadership, the creation of capability and development opportunities for business leaders, and a cross-sector campaign aimed at highlighting the business case and growth opportunities for Australian businesses. Building on these recommendations, the AICD and Asialink Business will work together to identify further opportunities to increase Asia capability on boards.

## 13. The leading Professional Accounting Bodies in Australia should evaluate the quality and depth of their engagement with Asia

The leading accounting bodies in Australia, CA ANZ, CPA Australia, IPA, and the ACCA are the conduits for future Chief Financial Officers (CFOs). CFOs play a critical role with capital allocation strategies which becomes even more complex when allocating capital in Asian markets and driving superior returns. These accounting bodies have deep connections and engagement with Asian markets. We recommend that these accounting bodies continue to evaluate all facets of their engagement with Asian markets from the quality of Asia related content in their programs to member engagement.

## 14. Drive greater measurement of the impact of an Asia-capable workforce on firm and industry performance

We recommend that organisations take a capability lens to engaging Asian markets. A capability lens suggests that key individual and organisational capabilities will be essential for success in Asian markets. We recommend that organisations determine a baseline score of the level of Asia capabilities in their workforce. Specific interventions across training, coaching and information should be made available to executives to improve their Asia capabilities from the baseline. Annual measurement of firm level Asia capabilities in parallel with performance in Asian markets will enable a robust evaluation of the impact of capabilities on performance.



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