Lessons in Overseas Business
{Name}
{Course}

It does not take an article or a detailed case study to realize that doing business overseas presents more than a few challenges. The examples of Star TV and Siam Canadian, two very different companies, show that there are many ways to face those challenges. Recognizing a challenge and successfully overcoming it, however, are two very different things. The case study of the Siam Canadian company and the article “Distance Still Matters” teach us two very important lessons about doing overseas business. First, overseas business is affected by a complex mixture of culture, governance, economics, and the practical problems of physical distance. And second, there is no one philosophy or method of decision-making that every company can apply all the time, because the factors that affect business and markets in foreign countries – or anywhere, for that matter – are constantly changing and evolving.

There are very few comparisons between the experience of Star TV and that of Siam Canadian in the Asian marketplace. Besides the obvious difference in their business sectors, they differ in scale, the basic way they do business, and in their relationship to their customers. Star TV is a large company which is essentially importing a product into Asian countries, while Siam Canadian is an entrepreneurial firm brokering exports. Star TV’s focus is only in one direction, on its target market, whereas Siam Canadian must focus equally on its relationships with its overseas buyers and Asian producers. Yet despite their differences, they face the same challenges in understanding how business is done in foreign countries.

The article “Distance Still Matters” by Pankaj Ghemawat (2001) uses Star TV as a basic example of how the usual method of analysis of foreign markets – the Country Portfolio Analysis – has critical shortcomings, and then goes on to make a strong case in favor of the CAGE Distance Framework. The Ivey School case study of Siam Canadian (1997) exposes some of the missing pieces in the CAGE framework, and perhaps inspires an even greater skepticism of the CAGE framework because the story of Siam Canadian predates Ghemawat’s argument by four years. It’s not that the CAGE framework is wrong – it isn’t – it’s that the CAGE framework only repeats fundamental ideas that have been known for years by people successfully doing business overseas (APM, 1997). And while it does a very good job of considering the complex factors of distance, it completely ignores the element of time which, as the Siam Canadian case shows, is a critical factor.

Time is the one factor which has seemed to guide Siam Canadian’s decisions to expand into new countries more than anything else. In Vietnam and Burma, the company judged there was a limited window of opportunity for a business of its size to enter the market before being shut out by larger firms. (Ivey, 1997: p. 4 & p. 8) Certainly, even Siam Canadian’s owner Jim Gulkin recognized that time was not as critical to larger firms, so the fact that this aspect is missing from the CAGE framework is not necessarily an indictment of it, provided it is discussed only with respect to large companies. For a smaller company – which one would assume are far more numerous than large ones – it would be important for them to realize that their tool box is incomplete if the CAGE framework was the only thing in it.

Time plays an important role in understanding and dealing with “cultural distance” as well. Even though Mr. Gulkin had lived in Thailand for a number of years, spoke the language, and presumably had a firm understanding of the people and culture, he found it difficult to establish the relationships he needed to break into the Thai market (Ivey, 1997: p. 2). Other expat businessmen agree that the business culture in Asia in particular is built on personal relationships, and that it sometimes takes many years to find acceptance (APM, 1997). The business culture outside of Asia is different, of course; but since Ghemawat chose to use Star TV as an example, he ought to have at least mentioned this characteristic of the world’s largest market area.

Even after these relationships are established, the conventional wisdom among most successful businessmen is that the best way to maintain them is to localize the business as much as possible (APM, 1997, and the Financial Express, 2005). The CAGE framework only offers a rational way to look at new markets, not solutions to the problems those markets present, which is another way in which it is incomplete. Siam Canadian by its very nature works closely with local people, and so has an advantage over pure outsiders like Star TV; even so, when Mr. Gulkin decided to expand into Vietnam, he partnered with someone who understood both Siam Canadian’s business and the Vietnamese culture, and the implication is he would not have been as successful if he had not done so. Star TV, apparently, could have benefited greatly by adding locals to its team, people who could have told the network’s managers what people in Asian countries actually like to watch on TV.

The CAGE framework is decidedly better than the old Country Portfolio Analysis, and any company that does not u se it as the starting point for its decision-making process for expanding into foreign markets risks the same spectacularly bad outcome as Star TV. But without the context of time, the CAGE framework is not as effective, or in some cases may not be effective at all. Siam Canadian combined the elements of cultural, administrative, and economic distance with time in making decisions, and was able to recognize “windows of opportunity”. Siam Canadian’s Vietnamese venture was begun within one of these windows, and at the time the case study was written, another such window was opening in Burma. By contrast, the reasons for Mr. Gulkin’s rejecting Indonesia and Malaysia, for example, were because in the former case the window of opportunity had not opened yet, and in the latter, it had already closed.

What the Siam Canadian experience illustrates is that the elements of distance in the CAGE framework change over time, and are interconnected in a more complex way than the framework suggests. The “communalistic” nature of Asian business is a cultural feature of societies with strong family traditions and an emphasis on personal connections rather than transactions (Ghemawat, 2001: p. 144). But the reasons for that are as much economic as they are matters of tradition; personal cooperation ultimately benefits the entire community, which is why Chinese immigrant businessmen have prospered everywhere (APM, 1997). The administrative elements of the CAGE framework simply reflect the cultural-economic makeup of the society; understanding one helps in understanding the others, but understanding all of them, how they are related, and how they change is the real key to success. That is why the most pointed advice from many experts in overseas business, particularly with regard to Asia, recommends that anything less than a five- to ten-year strategic plan is unrealistic, and that not recruiting local management intimately familiar with the business climate is unwise (APM, 1997, and the Financial Express, 2005).

Distance does indeed matter, and the CAGE framework helps point companies in the directions they should be looking to find the answers to the questions “Who?” “What?” “Where?” and “How?” But the CAGE framework does not offer much help with the question “When?” Basic science teaches us that movement is a function of distance and time; take one away, and movement stops. The same is true of business anywhere, and perhaps even more so of businesses who have to move a long way to enter overseas markets.

References

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