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International Business: Choosing Compatible Foreign Partners

Starting or expanding a business presents obstacles and opportunities at almost every turn. Aside from business planning, financing, distribution channels, and day-to-day management needs, partners need a relationship of trust and mutual accountability. Consider any number of partnership difficulties, which stretch back so many years it can be difficult to determine legend from the truth. Starting with Cain and Able and progressing through the wild ride of Steve Jobs co-founding Apple, departing, and then returning, partner due diligence is critical to the long-term success of any business relationship.

Obstacles are compounded when taking on partners abroad. Of course, there are additional cultural and geographic challenges. Advances in technology, logistics, and communication have led to globalization, adding a new fold to the fabric of a business relationship. That leads us to a critical question: How does one determine the compatibility of potential foreign business partners? We have identified six key compatibility factors:

1. Skills and Abilities
2. Shared or Complimentary Goals and Objectives
3. Integrity
4. Accountability
5. Cultural Competency
6. Understanding of Legal and Regulatory Environment

1. Skills and Abilities

Whether business partners share complimentary or supplemental skills and abilities, the success of any venture is grounded in the fundamental skills of the individuals. International relationships often require a multitude of incremental skills from all members to address the cultural and distance challenges. Communication and cultural knowledge are two such skills.

Communication. Partners must have and develop communication channels that cross borders and cultures with ease. Additionally, effective communication must be integrated into the operating standards of the business.

Cultural Knowledge. It is crucial that partners have developed skills in their own culture, but also be able to leverage and rely upon the cultural knowledge and skills of their foreign counterparts to ensure assimilation and acceptance into the new market.

2. Shared or Complimentary Goals and Objectives

Having a common vision and strategy is important within any organization. When conducting business with foreign partners, there are additional geographic and cultural challenges to achieving an aligned vision. Organizations must not lose focus on aligning and communicating shared goals and objectives.

Shared goals are important in order to identify, communicate, and address challenges and opportunities.

3. Integrity

Too often domestic partners have relied on the integrity of their partners only to later discover actions or situations created by the other party or parties led to a significant setback for the business or, in extreme cases, total failure.

It is essential to comprehensively review and understand the potential business partners' character and background. Once the partnership is formed, effectively monitoring your business partner will be limited by time and geographic distance. Thus, due diligence on the front end is even more important.

When considering a partnership with someone outside of your existing business relationships, a comprehensive background check is critical.

According to Terri Shepherd, CEO at Capture Research, "When you're dealing with an international focus on any transaction, conducting a thorough background search is a critical piece and sometimes can be challenging.

"Every country is very different regarding access to court and legal records. Some countries actually prohibit access to criminal records. On top of that, there are international laws such as FCPA (Foreign Corrupt Practices Act) that may also apply, which can ultimately restrict the search. This can be very concerning, since you would never know if your potential partner has a criminal background.

"Besides the legal and court records, we find media searches to be helpful, especially if you are concerned about their reputation. Before you dive into a new venture in a foreign country, understand what information is required, and what information is available. Use every tool possible to assure you are doing business with a reputable, ethical person or company."

4. Accountability

Mutual accountability must be a shared principle and all members of the organization must be held accountable. This is particularly important considering the geographic distance involved in international business relationships. There are a variety of stereotypes and legends surrounding the work culture of individuals in any number of countries. Whether true or not, there is one obvious truth: individuals in other countries work differently than those in the United States. It's important to have a thorough understanding of the culture and work habits in the other country but maintain accountability standards that are equal across the board.

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Shared accountability can also be impacted by cultural differences. The definition of a commitment varies (verbal versus oral; written contract versus handshake) from culture to culture. Misunderstandings about these subtle cultural differences can adversely impact an enterprise, both financially and regarding trust among partners. Accordingly, a focus on understanding, teamwork, and accountability should play a major role in the enterprise.

5. Cultural Competency

American investors and managers are often underwhelmed by the performance of foreign counterparts in areas such as productivity, speed to market, and a variety of other traditional United States business metrics. We find that American investors and managers tend to create budgets and milestones based on our own business perspective.

A major flaw in this approach is the lack of participation in the process by the foreign employees in determining those budgets and milestones. Very often the lack of cultural considerations is left out of the process when budgeting from a single perspective. It's important to instead lean on local management and employees to help determine how reasonable goals and milestones are perceived by the local workforce. Modifications to technology or labor deployment may be necessary to satisfy the needs in the United States. Remember, it is likely that local personnel can assist and educate their counterparts on what motivates and drives employees.

6. Understanding of Legal and Regulatory Environment

International and local laws can differ significantly from those in the United States. What is the rule of law in the United States may have no bearing in another country. Ownership, employment, and other contracts represent a area of great concern when entering into a new enterprise. Local legal advice cannot be overlooked to ensure the desires of each party are carried out.

Furthermore, legal entities, tax rules, and ownership configurations must also be provided significant oversight. Differences between tax laws in the United States and throughout the world can create an additional tax burden that can diminish or eliminate profit.

Conclusion

Proceed with caution and take the time and effort necessary to ensure compatibility of personality, style, and fundamental beliefs about the conduct and rewards of business. Use the best technology and modern methods to comprehensively check the background of your potential partner or investor. Finally, seek experienced and professional advice to put your new enterprise in the best position to succeed.