Many hats

Conversations that matter for non-executive directors

Why we struggle when it comes to Asia

It seems that most Australian businesses are still asleep at the wheel when it comes to Asia.

A new study has revealed profoundly low levels of Asia capability on the boards and leadership teams of our biggest companies.

Only 19% of directors and 14% of senior executives have the knowledge, skills, networks and experience required to be effective in Asia, according to research by PwC, AsiaLink and the Institute of Managers and Leaders.

It's a sobering reminder of how ill-equipped our businesses are to succeed in the largest economic region in the world. And it's another warning – in a series of warnings – that Australia is at serious risk of sitting on its hands while the Asia opportunity passes us by.

Mike Smith, former CEO of ANZ Bank and Ming Long, former Group Joint MD/CEO of Investa Property Group, recently discussed the implications of the findings for Australian businesses and how companies can build Asia capable leadership teams at a PwC Many Hats event. Here we capture some of their discussion.

Q: The study found that ASX200 directors were more Asia Capable than their senior executive. Why do you think this is?

It's quite a worrying finding – the feedstock is going the wrong way. It may have something to do with the fact that the current pool of executive talent, having grown up over a period of prosperity, had less incentive than their predecessors to expand overseas. And of the few that have gone to Asia, many have stayed. The key question is: 'what should we do about it?'

Another concern is the way recruiters often play down Asia experience. We've heard of a case where an executive with 20 years Asia experience returned to Australia and was told by a head hunter that his CV had too much about 'Asia', and he should take some of it off. We're not going to see an improvement in Asia capabilities if companies don't value Asia experience.

"If you look at the very successful Pan-Asian companies, they look at investments across Asia with a very long time horizon. They look at the network benefit in financial services, in transport, in professional services, but we discount this. We have a short-term versus long-term perspective on strategy. Investors are only interested in the short term."

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Q: What does Asia think of Australian executives' Asia capabilities?

This is a question we need to be asking. In fact, Asian business people have trouble answering it themselves. They ask: 'Is Australia more western or is it more Asian?' It's important that Australian executives make a deliberate effort to adapt when doing business in Asia. And while our executives tend to travel well, we do often have an inflated view of our contribution to the region. Asia would like Australia to engage more, but they don't really care if we don't. We, on the other hand, do need to care.

Q: Why is it that Australia appears to have lower Asia capability than comparable countries, such as Germany or France, considering our geographic location and trade flow?

A lot of it has to do with the background of the companies. Germany and France, for example, have tended to trade in services, such as engineering, and value-added goods, whereas we've focused on bulk commodities. Another reason is that in the EU, there's often greater coordination between government and business. In Australia, the government might host a trade mission, but then companies are often left to do their own thing.

Q: Why do some companies have export success in Asia while other's don't?

It depends a lot on the nature and culture of the company. Westfield, for example, is comfortable with traditional markets and have had a great deal of international success without going into Asia. But then take Visy: they too are US-centric but were also open to Asia and have done well there.

The reality is that very few Australian companies have been successful internationally, and there have been many failures. Perhaps this has left some scar tissue. However, the good times in Australia are coming to an end, and it's only going to get more competitive in the decades ahead.

Q: There's still a huge 'risk umbrella' around Asia, and no-one wants a failure on their watch. How do boards get the confidence to invest in the region?

The greater risk is that we sit on our hands while the opportunity passes us by. In other words, the lack of risk appetite is going to be the bigger issue in the future. If you look at trade flows and the size of our economy relative to the rest of Asia, we've got to look further afield if we want to continue to find growth. Also, the pace of change means the jobs of the future will be very different from those of the past. It's not just the impact on business; what does this mean in terms of work opportunities for our kids? The task for boards is to ask: 'can we afford not to invest in Asia?'

Q: But how do we address the investment community, which often marks companies very harshly when it comes to Asia?

The problem around expectations on returns is a very significant issue. Analysts are looking at six-month returns, but in Asia, that's nothing. To build a business in Asia takes time. The fact that the media appears obsessed with the views of sell-side analysts does not help. While returns from an Asia investment could dilute earnings in the short to medium-term, they may be highly positive in the long-term. We really need to address this fixation on short-termism.

Some leaders are showing the way. Recently, the Chair of BlackRock, Larry Fink wrote to CEOs of the companies in which their clients are shareholders, asking them to articulate their long-term strategy for value creation. For Australian companies and their boards, long-term value creation must include some consideration of Asia.

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