



GROWING KNOWLEDGE ECONOMIES

Insights for Australian Professional Services in Asia

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Foreword

I am pleased to present this report, *Growing Knowledge Economies: Insights for Australian Professional Services in Asia*, by Asialink Business and commissioned by Austrade with support from the Department of Industry, Innovation and Science.

Australia may be regarded as part of the Asian region but this does not guarantee access to every opportunity on our doorstep. Australian businesses must compete to succeed in some of the world's biggest and busiest marketplaces.

As part of their research, Asialink Business' researchers interviewed senior representatives from more than 30 law firms and management consultancies with a presence in Asia who shared their insights about doing business in Japan, Korea, Singapore and Indonesia.

The study profiles these four key markets for Australia, highlighting their important differences as well as their similarities.

Asialink Business also conducted a survey of more than 50 legal and management consulting practitioners, drilling deep into the issues that can contribute to the success - or failure - in these markets.

They reveal details about the key professional capabilities and qualities valued in these highly competitive environments and reflect on how well Australian businesspeople 'play the game' in Asia.

Australia is known for its strengths in resources and agriculture but around 75 per cent of our GDP is services. That's where the next wave of opportunity is for us, especially given the high demand for a range of services in Asia.

To fully capitalise on this opportunity, a revolution in Australian business practice is required. The findings of this report, for example, strongly support the case for businesses establishing a physical presence in one or several Asian markets.

The signing of Free Trade Agreements with Japan and Korea, coupled with advances in digital communications and growing air transport connectivity provide new, cost-effective channels to servicing markets comprised of billions of people.

The Hon Steven Ciobo MP
Minister for Trade and Investment

Executive summary

Asialink Business was commissioned by Austrade, with support from the Department of Industry, Innovation and Science in 2015, to conduct a pilot study to investigate the opportunities available to Australian legal and management consulting firms in Indonesia, Singapore, Japan and Korea, as well as to understand key factors to successfully take advantage of these opportunities. This pilot study looks at the key drivers of these sectors and markets, and identifies potential commercial opportunities that exist in which Australian firms' capabilities are well suited to developing Asia's knowledge economies.

Asialink Business researchers interviewed more than 30 senior executives of 16 Australian law firms and 18 management consulting firms with operations in the four markets. Participants discussed challenges in these markets and how Australian capabilities were perceived in their sectors. Perhaps not surprisingly, given the complexities of the four countries examined, the participants' experiences varied widely. In addition, more than 50 practitioners contributed to an Asialink Business survey, providing insights about key success factors, barriers to entry and market perceptions.

The report details the following key findings:

- **In considering where to do business in Asia, Australian firms should take advantage of recently signed free trade agreements, including KAFTA (Korea) and JAEPA (Japan), as well as longer standing ones such as SAFTA (Singapore).**
- **Australian firms should capitalise on their expertise and specialised experience in particular industries such as resources, minerals and agribusiness to gain a competitive advantage.**
- **The potential for certain markets to serve as a gateway to further business expansion across the region should be considered when selecting where to first establish in Asia.**
- **Australian firms can best capture Asia-bound business by working with their Australian clients that are themselves expanding overseas.**
- **Investment in strong regional relationships and networks is critical to business success in the region.**
- **Australian firms operating in countries with which Australia has strong bilateral government relations enjoy better facilitation of their operations.**

Key success criteria for management consulting and legal firms in these markets include:

- Business relationships with partners and clients
- Market knowledge and experience
- Understanding local culture and business practices
- Attracting and retaining local and foreign talent
- Brand recognition.

Key challenges include:

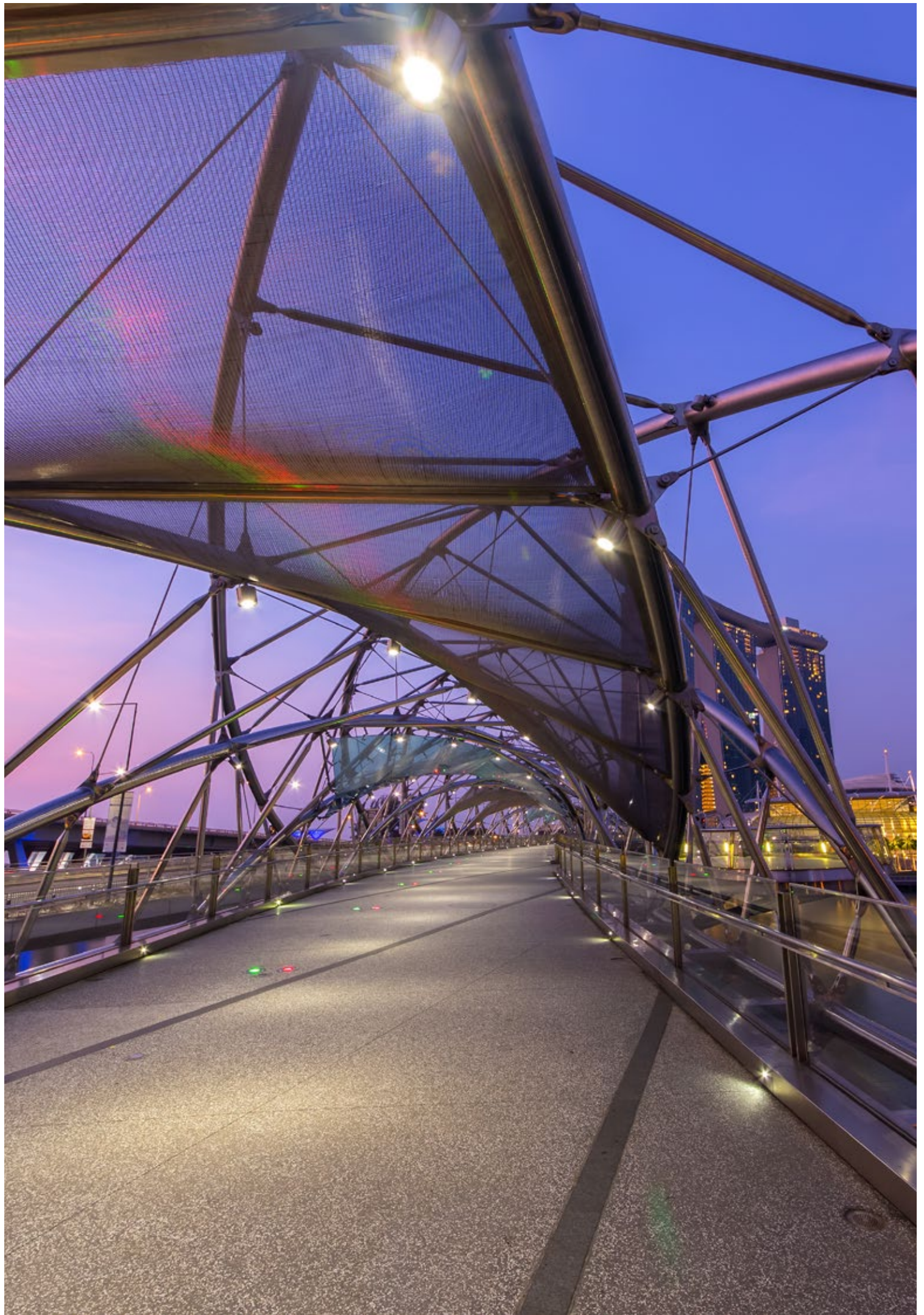
- Attracting and retaining local and foreign talent
- Charging appropriate rates for services
- Brand recognition
- Reconciling a firm's niche expertise with the market's needs.

Although the success criteria and challenges identified across the four markets were reasonably similar, their significance varied in each market. Other market-specific conclusions were also drawn to help Australian businesses identify the opportunities they are best able to capture.

For instance, Japan was considered as having a strong bilateral relationship with Australia which aids Australian business' reputation and strengthens investment ties. Singapore, like Japan, was perceived as a sophisticated market and perhaps the easiest country to do business in. Nevertheless, Singapore was also one of the most competitive market places due to the nature of being a regional hub for global corporations and businesses of various industries.

Indonesia in contrast was considered as having extensive opportunities, however, most Australians are wary of entering the market due to political risk. Korea was also viewed as having vast opportunities as the market opens up to various Australian firms through KAFTA, but was referred to as a more difficult market to establish a presence in, compared with Japan and Singapore.

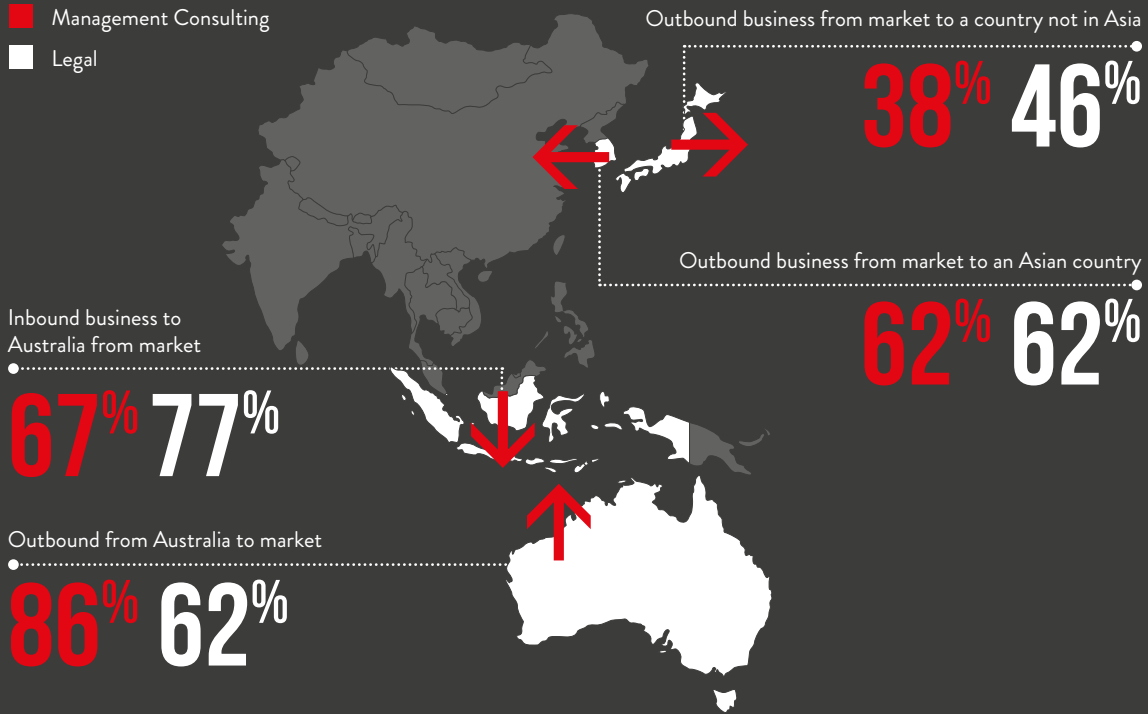
The research overall highlighted that a shift in mindset is required by Australian firms to ensure their capabilities are best harnessed in the four markets examined. Australian firms tend to be risk averse when considering Asian markets. This may lead to them either ignoring the opportunities a market presents or having a short-term approach, and as a result, planning their Asian business establishment for only a couple of years. A long-term strategic mindset is therefore required as Asian markets are not based on quick return investment, but rather business referrals and building trust, leading to long term relationships and a strong market standing.



Key statistics from survey

PRIMARY BUSINESS MODES

- Management Consulting
- Legal



MAIN ENTRY MODE

PERMANENT PRESENCE



JOINT VENTURE WITH LOCAL PARTNER

25% 31%



WHOLLY FOREIGN OWNED ENTERPRISE

25% 31%



JOINT VENTURE WITH FOREIGN PARTNER

8%



FLY-IN, FLY-OUT

25% 15%

TEMPORARY PRESENCE

CLIENTS' LOCATION



IN MARKET

90% 100%



IN AUSTRALIA

81% 100%



IN ASIA PACIFIC

81% 91%

WORK LOCATION



IN MARKET

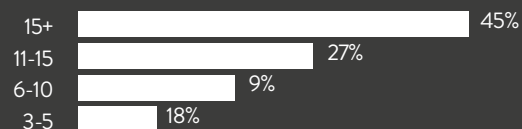
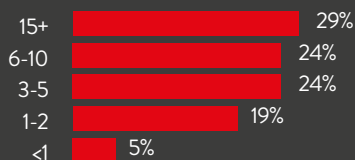
43% 56%



IN AUSTRALIA





57% 36%

TIME IN MARKET (years)






CLIENTS SERVED

MANAGEMENT CONSULTING

- 1  MNC (81%)
- 2  GOVERNMENT (71%)
- 3  SMEs (67%)
- 4  NOT FOR PROFIT (43%)

LEGAL

- 1  MNC (91%)
- 2  SMEs (64%)
- 3  GOVERNMENT (FOR INDONESIA 100%, JAPAN 33%)

INDUSTRIES SERVED

- Mining
- Manufacturing
- Construction
- Information Media and Telecommunications
- Transport, Postal and Warehousing
- Financial and Insurance Services
- Professional, Scientific and Technical Services
- Electricity, Gas, Water and Waste Services
- Agriculture, Forestry and Fishing
- Wholesale and Retail Trade
- Accommodation and Food Services
- Rental, Hiring and Real Estate Services
- Administrative and Support Services
- Public Administration, Defence and Security
- Education and Training
- Health Care and Social Assistance
- Arts and Recreation Services
- Other Service

Asia – the opportunities

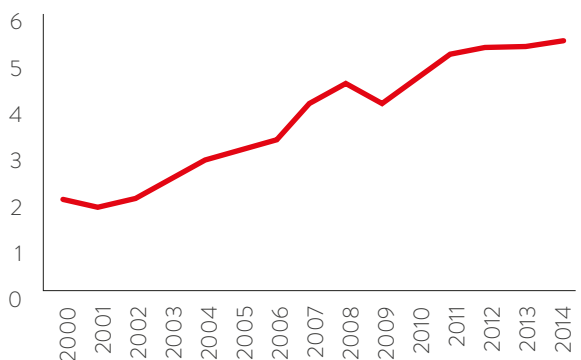
Australia's services sector has expanded significantly in recent decades, now accounting for almost three quarters of GDP and employing around 87 per cent of the workforce. Demand for services has been driven by business investment activities and final consumption, sustained by rising real gross domestic income. Of the market sector industries, the Finance and Insurance Services and the Professional, Scientific and Technical Services industries were respectively, first and fifth largest contributors to GDP in 2015. Legal and accounting services employ more than 250,000 people nationally, while management and related consulting services employ more than 100,000. In addition to their strong contribution to employment, these sectors have played a growing role in Australia's services export to the region.

Services account for 54 per cent of Australia's exports to the world but only 34 per cent of exports to Asia*. This figure is based on research conducted by Asialink Business in its Australia's Jobs Future report, which takes into account the value of embedded and value-added services by Australian firms overseas, giving a more accurate indication of the significance of Australia's services sector. The average annual growth rate however, for Australia's business service exports to Asia is approximately nine per cent, compared with just 3.8 percent to the rest of the world, a clear indicator of the depth of potential in this area.

Despite these impressive growth rates, business services exports to Asia still only amount to two fifths of what Australia provides in business services to the rest of the world. However, when you add the value created by Australia's legal and management consulting services in facilitating other Australian exports and the activities of foreign affiliates of Australian companies, Australia's business services exports could be worth almost double what is reported in official trade statistics.

The dominance of Singapore in Australia's business services trade – its share has grown from 22 per cent in 2000 to 35 per cent in 2013 – likely reflects its role as a regional services hub. The signing of the Singapore-Australia Free Trade Agreement (SAFTA) in 2003 also provided impetus for growth. There has also been significant growth in our business services exports to Indonesia. By contrast, business services trade with Japan has stagnated in recent years, perhaps in part reflecting Japan's lower economic growth. But with the recent signing of free trade agreements with both Korea and Japan, Australia is now well placed to increase its business services trade with both countries. This report explores the opportunities, challenges, and capabilities of Australian business services firms, providing crucial insights on the potential of the knowledge economies of Indonesia, Japan, Korea and Singapore.

Australia's export of services (\$bn)



*In comparison, the Australian Bureau of Statistics quantifies the country's services exports to the world as only 19.7 per cent of total exports, as it does not account for embedded services.

Taking advantage of our trade agreements

Opportunities for Australian businesses in Asia are vast, and continually expanding. With the recent conclusion of the Australia-Japan and Australia-Korea bilateral **free trade agreements** – in addition to existing agreements and partnerships with Singapore, ASEAN and Indonesia – there has never been a better time for Australian businesses to expand into the region.

The trade agreements give Australian services firms either preferential market access or equal access with competitors from countries that are taking advantage of their own free trade agreements with these key Asian nations. As Asian markets become more liberalised and open to foreign investment and business, competition is intensifying. Having a strong first mover advantage is now more important than ever. Such benefits will also arise from the newly agreed Trans Pacific Partnership (TPP), of which Australia is one of 12 member countries, alongside five other Asian nations - Brunei, Japan, Malaysia, Singapore and Vietnam.

Management consulting primary opportunities/ reasons for doing business in market

- 1  Building a global or regional brand (62%)
- 2  Clients requested it (38%)
- 3  Partnering with local organisations (33%)
- 4  Gap existed in market (29%)

Asia – an increasingly competitive marketplace

Participants in the Asialink Business research project noted how competitive the business environments were becoming in all four countries examined. The competition no longer comes only from British and American services firms; increasingly smaller and medium-tier firms from Europe, Russia, China and Canada, as well as some government agencies, are coming into play. Competition is also being intensified by a growing trend for intra-Asia investment, including investment flows within the ASEAN region, which now constitute the largest flow of investment in Southeast Asia. The longer Australian firms wait to enter the Asian market, the more difficult it will be to do so and the less likely they will be able to enjoy the advantages of fewer competitors.

“The world is becoming aware that Asia is the future for business and an area where there is a lot of money to be made.”

Senior Partner, management consulting firm, Korea

“It is often the Asian companies proactively contacting Australian businesses saying ‘You use this ingredient or material – we can supply that by taking advantage of the FTA.’ The Asian companies are telling Australians how to use the FTAs, not the other way around – we need to be more engaging and active in using the FTAs.”

Managing Director, management consulting firm, Indonesia

The Korean legal sector is a good example of how opportunities should be captured now, while there are still relatively few players in the market. Compared with other nations that have signed free trade agreements with Korea, such as the European Union and the United States, Australian firms face a longer wait to gain access to the market through KAFTA (2014). Under the Korea-EU Free Trade Agreement, European law firms will get a first mover advantage by being allowed to operate in the Korean domestic market from 2016, while Australian firms will have to wait until 2019. In the meantime, Australian legal firms, with an eye to entering the Korean market, should be moving now to build relationships and open representative offices to be ready when market access is available. Building networks now will facilitate the ability to capture opportunities later.

“Although KAFTA is aimed at increasing trade flows between the two countries, it will also open up new avenues for Australian legal firms to provide further services to Korean clients.”

Managing Partner, legal firm, Korea

Herbert Smith Freehills

Establishing a presence in Korea

Until recently, Korea was a relatively closed market for foreign legal services firms. However following the ratification of the Korea Australia Free Trade Agreement (KAFTA), the sector has begun to open up, offering many opportunities for Australian firms.

For Herbert Smith Freehills (HSF), expanding into Korea was a natural strategic move due to the firm's focus on the energy, natural resources and infrastructure sectors and Korea's status as one of the largest importers of natural resources in the world.

Already well established in Japan, China and the Southeast Asian region, the firm saw the potential for Korea and the importance of establishing in the market early.

Before the UK-headquartered Herbert Smith (HS) and the Australian firm Freehills merged in October 2012, HS had already decided to establish an on-the-ground presence in Seoul, in September 2011. In December 2011, Australian Lewis McDonald who was then based in HS's Singapore office, was selected to lead the opening of the firm's Seoul office. He flew in and out of Korea for a week every month for a 15 month period to win business and progress the establishment of the office which he then opened in April 2013.

McDonald admits he originally had reservations about success in Korea due to the market's reputation of being a challenge for foreign firms with limited connections and Korean speakers.

Nevertheless, with the encouragement of his superiors, and the merger with Freehills bringing significant additional Korean experience and a wealth of highly talented legal manpower in the Asia-Pacific time zone, McDonald's persistence paid off.

"Today, HSF is the second-largest foreign firm in Korea. The key element for succeeding in Korea is that a business has to be globally competitive," he says.

"You're not competing with just Korean firms in this market, but rather the leading firms from every other major market in the world."

HSF's secondment culture, which helped them build critical relationships early on and develop an understanding of how to do business in Korea, was a competitive advantage. "We were one of the first foreign legal firms to have secondees in a Korean state owned enterprise (SOE), with four people at KOGAS between 2009 and 2012 and additional secondees at Hyundai, Samsung and a Korean law firm," McDonald outlines.

Such secondments led to HSF having three foreign lawyers who had completed between six and 12-month secondments in Korean organisations before opening an office in the market. McDonald highlights that the benefit of building such relationships and developing a strong knowledge base is invaluable.

"A lot of time needs to be spent building trust and relationships in Korea. Spending extensive time doing this helps us to understand what a client is fundamentally looking for, which provides us valuable knowledge to have more accurate applications when tendering for work."

The enforcement of KAFTA is another advantage for HSF's growing presence in Korea. Australian law firms will be permitted to engage in cooperative agreements with local firms in 2016 and in 2019 allowed to enter joint ventures and hire local lawyers. Bringing in more Australian lawyers is now a strong possibility for HSF, explains McDonald.

"We are perfectly positioned for the trade and investment flow between Korea and Australia. Australian lawyers can now work in Korea on cross-border transactions and disputes – a critical opportunity as Australia looks to attract both inbound and outbound investment with Korea."

Untapped opportunities

Although business competition in Asia is intensifying, new opportunities are also constantly emerging. Korea and Japan are becoming increasingly global in focus, Singapore is strengthening its role as a regional hub and Indonesia is looking to strengthen its skills base to support the rapid expansion of its economy. All of this spells opportunity for Australian services firms with the skills, the knowledge and the capabilities to tap into Asia. Demand for foreign business expertise is coming not only from Asian companies, but from governments and foreign clients entering the markets.

Have a niche

Focusing on a particular industry is one of the keys to capturing market share in Asia, according to Australian firms that participated in the project. Gaps in a market, where firms can exploit a competitive advantage based on their unique skills, need to be identified and exploited. With a majority of the management consulting firms examined in the research being small and medium-sized enterprises (SMEs), operating in a niche area was identified as a key factor in success in Asia when competing against larger, often more generalist firms. Encouragingly, some participants said they had received referrals from leading global consulting firms that lacked specialist expertise in certain fields.

“Koreans want to hire specialists, not generalists. Don’t say you can do everything”.

Senior Partner, management consulting firm, Korea

“Identify what your company is good at, then align this to the market’s needs.”

Managing Partner, management consulting firm, Indonesia

Legal firms in particular, even when part of a global alliance, said they had been able to enter a market and establish a strong presence by focusing first on particular sectors. This often involved leveraging off Australia’s commodities exporting industries, including resources, mining and agribusiness, which generate demand for niche services in Asia. In some markets, including Indonesia, Australia’s particular expertise in public-private partnership infrastructure projects is also a much sought after speciality area.

“Clients are looking for industry experience and often global knowledge. With the highly competitive environment, you have to demonstrate your capabilities and skills.”

Partner, management consulting firm, Japan

Gateway markets

Launching a business in one Asian country has served as a springboard for many Australian services firms to expand their operations across the region and beyond. The research found many examples of repeat business or referrals from companies engaged in one market, such as Singapore, which then required services in another market such as China or Korea. Some 91 per cent of legal firms and 81 per cent of management consulting firms involved in the research said that, in addition to their business operations in the countries being examined, they also had clients elsewhere in the Asia-Pacific region. In this way, their operations in a particular market has fuelled further opportunities and the growth of their business.

Australian services firms are also seeing opportunities to tap into the growing trend for investment by Asian countries in other regions of the world, particularly countries in Africa, the Middle East and South America. Of the management consulting firms involved in the survey, 38 per cent said they had clients in other parts of the world beyond Asia, as did 67 per cent of the legal firms.

Leveraging specific sector expertise

Many management consulting respondents surveyed identified the need to have a focused or specialised area of practice as a key factor to success in Asia. A respondent who had set up a management consulting firm focused solely on the Indonesian market observed that the country’s rapid development had given rise to several opportunities to advise the Indonesian government on a variety of matters. The organisation’s particular focus was advising government officials on the useful soft skills and negotiation tactics in the areas of international relations, security and defence. Narrowing the firm’s service offering to a particular aspect of a

particular sector allowed her to better network and market her business. Previous experience working and consulting for the Australian government on Indonesia-related matters gave her specialised skills in this area and the credibility to advise not only the Indonesian government, but also the Australian one and other relevant parties. Her existing network with officials from both countries as well as her doctorate qualification in this very specific field contributed to her strong reputation in this space. This also gave her a wide client base which she serves mainly from Australia and with frequent trips to Indonesia.

Gateway markets

Opportunities in Asia are almost never confined to a single market. Often, connections and business relationships established in one place can lead to further business in the region, if not globally. Several respondents made observations about the potential gateway opportunities in different Asian markets.

“Korean companies I’ve done work with in Australia, have then looked up a partner with our Australian firms in Africa, and also in a couple of cases, South America. So that’s an offshoot for doing Australian-related work.”

One law firm in particular highlighted this as a common trend among its Korean clients, some of whom continued to use the firm’s services outside of Korea, when investing in Australia or China. A key learning from this is that it is vital to build and strengthen relationships with clients, networks and other key stakeholders in any market, even one in which a business is not yet operating.

Capture Asia-bound business in Australia

Opportunity often starts at home. In the case of Australian services firms that want to explore potential growth in Asia, one of the best starting points can be to work with Australian clients that are themselves expanding overseas.

A significant number of management consulting firms surveyed had clients that were Australian businesses seeking to enter Asian markets. Legal firms also found that working in specialised areas with export-oriented clients in Australia can open up significant opportunities in Asia. Broadly, these dealings offered firms the chance to begin building connections and networks in the markets they hoped to enter.

This suggests significant demand among aspiring Australian exporters for the familiarity afforded by engaging Australian management consulting and legal firms to advise them on matters outside of Australia, instead of local service providers. But it also reinforces the importance of capturing business in Australia before clients make their move offshore.

Importantly, the findings suggest significant benefits could flow for the Australian economy from bringing together more Australian exporters and legal and management consulting firms in Australia. This would not only help to capture Australian outbound business for Australian services firms, but also enhance the business and cultural capabilities of all involved.

Relationships and networks – a critical factor

A persistent theme to emerge from the interviews and the survey results was the critical importance of building relationships to achieving success in Asia. Key relationships included those with the local business community, with clients and with government. “Relationships should be treated as seriously as you would keeping your professional skills up to date,” one respondent said.

The types of relationships considered important, and the reasons stated, varied between markets. In the Indonesian legal sector it was considered crucial to develop a partnership with a local firm; in Singapore, relationships were seen to be critical to gaining a competitive advantage over other consulting firms. One SME participant said that had she not had pre-existing relationships in Singapore, she would never have established there: “It would have been too difficult to get the business off the ground.” In Korea, networks and relationships were generally seen as the key to getting access to the market.

Relationships with other Australians in Asia were also seen as a significant factor in success. In Japan and Korea, involvement with the expatriate Australian business community was considered a useful gateway to developing further local connections. Australians working in those markets for major non-Australian multinationals were among those perceived to be important connections. A majority of project participants in both Japan and Korea considered their active involvement in the Australian business community to be crucial to developing their business and reputation.

Building relationships



Building relationships with 'in-market' partners and clients (existing and potential) was the number one key success factor nominated by management consulting firms (90% putting it in the top five success factors) and second for legal firms (70% ranking it in the top five).



Establishing relationships at all levels of government in Asian markets are just as important as building contacts with local businesspeople and companies.



Advising Australian businesses that are doing business in Asia could lead to useful introductions to local contacts and networks.

The importance of a strong bilateral relationship – Japan and Australia

The strong and enduring Japan-Australia bilateral relationship is considered a key advantage for Australians operating in the Japanese market, across both the management consulting and legal sectors. The relationship – built over almost six decades, and encompassing a broad spectrum of business, economic, political, security and cultural ties – has helped Australian firms develop a strong reputation in key areas and market sectors, and has helped facilitate access. With the recent conclusion of a free trade agreement between Japan and Australia – itself a testament to the strength of the bilateral relationship – the opportunities for Australian services firms to get a foothold into the market have never been greater.

“The Australian Government enjoys a very positive profile in the Japanese political space. I think that, in and of itself, carries considerable weight, which is quite useful for opening doors for professional firms – and for general commercial opportunities as well.”

Corporate Partner, legal firm, Japan

For both legal and management consulting firms, their involvement in the Australian-Japanese business community and their engagement with Australian officials – including through the Australian Embassy in Tokyo – underscore the importance of government endorsement and well-developed relationships with Australians working in Japan.

Australian legal firms that participated in this research project reported a significant amount of recent business with Japanese firms investing in Australia – and elsewhere. Management consulting firms also reported a focus on outbound Japanese investment. For Australia, one of the keys to embracing Asian business opportunities is to develop a detailed understanding of how the capabilities and reputations of Australian firms are perceived relative to those of other countries.

Building on our strengths - advantages for Australian lawyers in Asia

The Australian legal profession is well regarded for its legal expertise and also for its record of establishing collaborative and mutually beneficial business relationships with lawyers in Asia.

A key element of this particularly Australian approach is implicit recognition by Australian lawyers that it is genuinely in their interests to see the continued development of internationally focused and strong domestic legal professions across Asia. Foreign legal services are regarded as an integral part of legal practice in Australia and Australian lawyers take this attitude into their work with lawyers throughout the region.

Successful Australian firms work in close collaboration with local legal professionals and seek to utilise firm structures that appropriately reflect the value of their contributions.

While new entrants do benefit from the track record of firms that have already established themselves in Asian markets, it is not a golden ticket. Concentrated and effective investment in relationships and networks will always be critically important.

However, in this very competitive region, the reputation of the Australian legal profession provides a significant advantage. Australian lawyers looking to export legal services to Asia would be well advised to ensure that their approach to market and long term strategy builds on this advantage.

KordaMentha

Singapore - a gateway to Asia

Like many Australian firms, KordaMentha started off by flying in and out of Singapore for their Australian and Asian clients' business dealings. However, this was soon no longer viable.

"KordaMentha Singapore is basically an overall eight year proposition. Mark Korda and Mark Mentha – recognised the opportunities of Singapore and the importance of having a permanent presence on the ground. So they assigned one of their Australian partners to move to Singapore and establish an office. This was in partnership with leading Singaporean consultant – Ben Chaun who was approaching retirement from a Big Four consulting firm in Singapore," explains Matthew Fleming, Partner.

Today, the international advisory firm has grown in Singapore to have a strong team of 25, offering similar speciality services as their Australian operations. "We service the whole of Asia – with a primary focus on Australian and Singaporean clients. We also have multinational corporate clients across the region – wherever it takes us. We're a bit of a hub location for Asia and we're starting to build that up in a different service line again because we see the client need. We recognise we're not going to take on the world and we don't intend to. Rather, we have progressed as the clients require us to," says Fleming.

Demonstrating KordaMentha's capabilities and building the brand from scratch in Asia was a challenge in expanding the client base beyond existing clients. "We are very well known in Australia with six offices and over 300 staff. Proving ourselves isn't necessary due to our reputation. But here in Singapore and Asia – you have to proactively seek out, not necessarily clients, but relationships in the region with potential stakeholders who in the future, will direct business to you," outlines Ben de Haldevang, also a Partner in the Singapore office.

This, he emphasises, incorporates other challenging factors such as cultural and regulation differences. "It is as difficult for a British firm to operate in Poland as it is for an Australian firm to operate in Indonesia. Just because it takes you much less time to get there, it doesn't mean it makes it any easier."

"The key is ensuring one is adaptable with their business approach when operating in Singapore as the base for regional operations.

A one size fits all approach simply won't work in Asia," reiterates Fleming. "It perhaps is even more complex to operate in Singapore than other Asian countries because in Singapore you have to have people with the skills and knowledge of not only the Singaporean market, but also able to effectively work in the variety of contexts Asia encompasses. It is crucial to have the best team by hiring the right people."

"If you and your team do a good job in one location for an Asian client, it will translate and bring business elsewhere," states de Haldevang.

"This is particularly important as the world economy shifts to be more Asia-centred. We understand how strong and vital our Asian relationships are in the grand scheme of things. If you do a great job for a Malaysian client in France, he's going to come back to you for transactions he's doing in other markets."

For this reason, KordaMentha places a strong emphasis on their people building relationships across Asia. "If you build a strong relationship with an Asian connection, they will be loyal for a long time. It takes time to do this, but it is the only way to create something meaningful here," de Haldevang encourages. "Travel around the region, use your time wisely by strategically targeting people to connect with. The benefits are invaluable."

www.kordamentha.com

Securing the future for Australian firms

Perceptions of Australian expertise

The consensus across the four markets and two sub-sectors was that 'being Australian' does not provide an automatic advantage. Rather, a firm needs to have a developed capability, particularly in a niche area, with which it can build its reputation through relationships, clients and its talent. Australian firms are generally seen to be on par with leading American and British firms in the market.

"On a positive note, Singaporeans like Australia. They have a very good view of Australian law firms in general. The downside is, sometimes they perceive that UK or US firms are better resourced and more experienced."

Managing Partner, legal firm, Singapore

One way of challenging such perceptions is for Australian firms to play to their known strengths by focusing on particular industries or sectors. Generally, in services related to commodity industries such as mining, gas, and engineering, Australian firms are thought to have world-leading expertise.

"Australia, being a commodities-based economy, has developed an expertise there, and I think that's the main advantage Australian firms have in that particular area."

Partner, legal firm, Korea

Australia's strong reputation in education reflects positively on Australians and Australian firms generally. This was particularly valued in Singapore, Korea and Japan. The geographical location and similar time zone of Australia were seen as a big advantage over EU or US-based firms in servicing regional projects.

"We were quite attractive to international investors so they could engage with the English-speaking lawyer who would do the liaising with the native Indonesian counsel within the firm."

Senior Associate, legal firm, Indonesia

The findings from Indonesia for example, highlighted that Australian firms are perceived to be more capable than other countries' firms – particularly in the management consulting sector – because Australians are seen as more knowledgeable about Indonesian culture as a result of geographic proximity and education. The experience of Australian consulting firms in agriculture, resources and mining was rated highly, as was the flexibility and adaptability of Australians.

"I know of multinationals that engage people from Australia to work on their projects in Indonesia because ... Australia is in the region, ... it's so close to Indonesia, it has a repository of people who are knowledgeable about Indonesia and who have worked previously in Indonesia."

Managing Director, management consulting firm, Indonesia

Long-term strategy

Across all four markets, participants stressed the need to see entry into an Asian market as a long-term strategic move. A long-term approach was seen as crucial to building all-important trust and relationships. But a consistent concern was that some Australian firms were not entering the market for the long haul.

In this context, an important theme to emerge from the research was the decline of the fly-in, fly-out mode of doing business in Asia. Participants said this is no longer a viable option in Singapore, Korea and Japan. Although it tended to still occur in Indonesia, a permanent local presence in the market was becoming preferred among clients. Permanent bases in all four markets, however, were being used to service other markets in Asia, especially ASEAN economies.

Establishing a local presence with a long term strategy

A long term strategy is critical to success in Asia, given the necessity of establishing an office within each country if you wish to provide services to local clients. The fly-in, fly-out approach is no longer an effective way of doing business in the two sectors explored in this report. Further, a long term strategy and a dedicated local presence is critical to ensuring the business' ability to build relationships and trust with clients.

A management consulting firm operating in Singapore learnt this lesson when it established in Singapore ten years ago but had to pull out. The firm then re-entered Singapore at the request of a major Australian mining client, whose own regional head office was based in the city-state. The firm now identifies a lack of deep understanding and the absence of a long term strategy as a key factor in its initial failure in Singapore. The firm recognised the importance of locally-based leadership

that have a firm understanding of local cultures and practices. It has a number of senior staff and consultants based in its Singapore office as well as in its newer and larger regional head office in Hong Kong. Senior management highlighted the importance of taking the time and putting in the effort to avoid making short-sighted decisions which could ultimately lead to negative impacts on the business in the long-term.

"I think it's something that when a company comes into a new market like Singapore, that it needs to be in the back of their mind that a long-term strategy is required. To turn a quick profit...is always nice, but what is the main game? Where are we going to be in five to 10 years' time because how your business is operating between now and then is going to be very different."



Trans Pacific Partnership (TPP) - Benefits for Australian services sector in Asia:

In 2014, 53 per cent of Australia's services exports were to TPP countries

LEGAL SERVICES

- **Brunei/Malaysia:** Guaranteed access for Australian lawyers to provide advice on Australian, international or third-party law on a fly-in, fly-out basis and new commitments to permit foreign legal service providers to establish offices.
- **Malaysia:** Australian firms can set up an international partnership with Malaysian firms or can establish 100% Australian-owned firms.
- **Vietnam:** TPP clarified that Australian lawyers and legal firms can provide written legal advice and other Australian, international and third-party law legal advice in Vietnam.

TEMPORARY ENTRY OF BUSINESS PERSONS

- Transferees between international offices will be guaranteed initial stays of 1-5 years in TPP countries without being subject to quotas or economic needs tests.
- Those with a contract to offer services, who possess specialist or technical knowledge are guaranteed stays of 3 months to 5 years, without being subject to quotas or economic needs tests.
- Short term business visitors pursuing opportunities in TPP countries are guaranteed at least 3 months' stay in Japan, Malaysia, Singapore and Vietnam and up to 12 months in Brunei. These are extendable in some cases, allowing services firms and individuals time to build relationships and perform due diligence before setting up.

Risk aversion among Australian firms

The research uncovered evidence that Australian businesses, particularly SMEs, are highly risk averse when it comes to business in Asia, and are also lacking awareness of the types of challenges involved in succeeding there. Some participants suggested Australians often wanted everything to be "served on a platter", or could be unwilling to take a risk for an opportunity.

"We often hear about the risk factor. Australian companies are very, very risk averse as we see it. ... It's highly frustrating, and a lot of them said it's because we've been in Asia, we've been burnt before, we don't want to do this again, you know, we're not comfortable".

Managing Director, management consulting firm, Indonesia

Risk aversion was particularly prevalent in relation to Indonesia, with some legal participants suggesting that Australian law firms often put Indonesia into "the too-hard basket", despite its great business potential. A concern, they said, was that law firms from other countries were recognising the opportunity and embracing the first mover advantage.

"It [Indonesia] might just be seen in the too-hard basket and that's largely because of the complex regulatory environment in which one has to operate. And yet, it is not going to prevent our clients that are looking for markets for growth."

Managing Partner, legal firm, Indonesia

Survey participants also reported risk aversion to Korea. One of the questions was: "How do Australian firms considering entering Korea, perceive the market?" Among the responses was this:

"Most probably they think it's similar to China and Japan and don't understand its specificities in business culture etc. North Korea is also seen as an ongoing risk. Some people are reluctant to bring their family to live in South Korea because of their perception of the risks posed by North Korea's political and military situation."

Senior Partner, management consulting firm, Korea

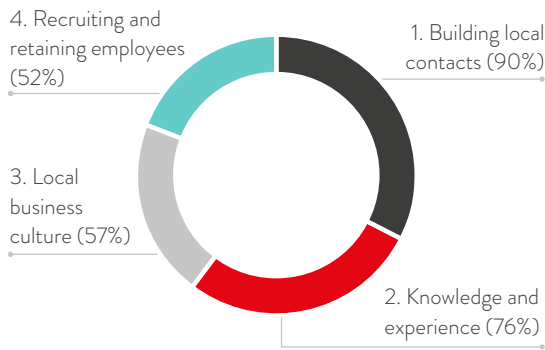
It is worth noting that sovereign risk is a concern for some Asian investors looking to do business in Australia, especially given recent political leadership changes. This highlights the presence of perceived risk in almost any market in the world and that Australia is no more or less risky a destination than many of the other markets in the region.

Risk aversion also came up in relation to free trade agreements. There was consensus across the two sectors that Australian firms had to become more proactive and positive in embracing enhanced market access opportunities, to invest in understanding the market, and to get out there "as the market isn't going to come to you". Asian service providers were seen as being more proactive than Australians, allowing them to better capture available opportunities and avoid a crowded marketplace. The complexity of FTAs and the rules and regulations were also seen as reasons for hesitation by Australian firms. To combat this, DFAT has developed a tool for Australian businesses to better understand the positive impact free trade agreements can have on their business growth. Access it here: www.ftaportal.dfat.gov.au

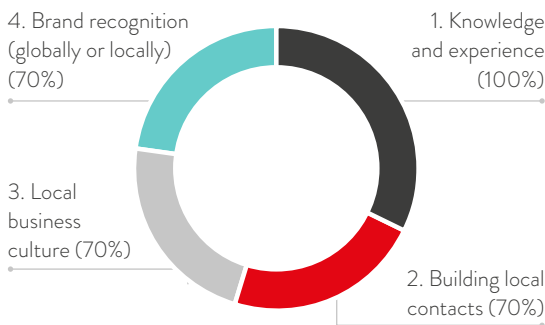


Key success factors

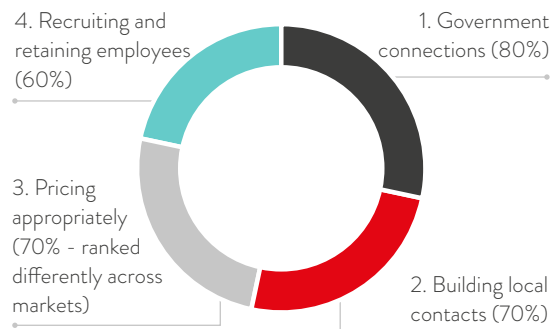
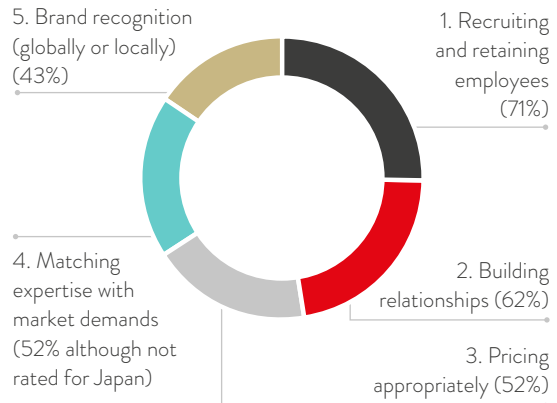
MANAGEMENT CONSULTING



LEGAL



Principal challenges



Key success factors

When participants were asked to nominate the key elements to success in the four markets, there was consistent emphasis placed on the importance of business relationships as discussed previously, as well as understanding the local cultural and business contexts. Some also emphasised the importance of having in-depth Asia capability both in terms of previous regional experience and knowledge, and having appropriate talent.

Asia capability

Interviewees had extensive experience working in the Asian markets in which they were based. Several also had a good understanding of other regional markets. Many had lived and worked in Asia previously, some for up to 25 years. Others had undertaken Asian studies and studied languages and skills that could give them a competitive advantage and help build strong in-market relationships. For those who had set up their own consulting firms, having Asia capability was their principal competitive advantage.

Interviewees underscored the survey findings about the importance of understanding the local cultural context and business practices (ranked fourth for management consulting), and having in-market knowledge and experience (ranked first for legal). Cultural awareness and cultural intelligence were considered relevant for everything from managing staff to winning new clients.

“Cultural sensitivity is essential to doing business in Japan, especially being a consulting firm – you need to ensure Australian clients are also aware of this when doing business with Japanese.”

Director, management consulting firm, Japan

Patience and adaptability were considered vital to working in any Asian market. On the latter, it was noted by one participant that Australians often “make a rookie error considering all Asian markets are the same”, with potentially dire consequences for their business. The importance of being Asia-capable and having extensive experience in the region highlights the need for further development of relevant skills in the Australian workforce. This necessitates, among other things, collaboration between universities, the Australian business community, various government bodies at all levels and other relevant organisations such as Asialink Business.

Developing Asia capability

The importance of Asia capability was a key focus for one of the Australian legal firms in Japan. This was evident across the firm's leadership, with all the senior Australian partners speaking Japanese and possessing several years of in country experience. Language ability is deemed by the firm as critical to developing strong relationships and maintaining a good reputation in Japan. In addition, the firm recognised the importance of developing new staff early on in their careers. Australian law graduates with Japanese language skills and relevant cultural intelligence are targeted in recruitment campaigns. The firm also often seconds young Australian lawyers to their Tokyo office for one year to undertake one year of practice. This helps to build the Australian office's Japan capability while improving communication and understanding between the Tokyo and Australian offices.

“As a foreign lawyer, you can assist local lawyers in doing work, but you can't actually give legal advice, so to the extent that you want to actually do anything substantial for local clients or involving Japanese law, you really need some local Japanese lawyers or people who are qualified to actually give legal advice in Japan. As I understand it, you have to pass quite a difficult exam if you want to actually get that qualification and not a lot of people do it.” Senior Associate, legal firm, Japan

In the Indonesian market, regulatory barriers were exacerbated by uncertainty about current regulations. For example, the Indonesian Bar Association recently suspended issuing 'recommendations' for foreign counsel work permits for eight months, with further discussion around introducing compulsory tests, including a Bahasa Indonesian language component. There are additional concerns that regulations governing foreigners practising law in Indonesia may be changed.

Such challenges were also cited in Singapore. A lawyer seeking a Foreign Legal Practitioner Licence (FLP), for example, faces a 10-month licensing process, followed by two more months for a work permit. Attracting Australian lawyers to move to Singapore rather than fly in and out, can therefore be a challenge. However, businesses committed to a presence in this and other markets must plan for such regulatory delays with the requisite foresight necessary to achieve long term growth in Asia.

Principal challenges

Participants highlighted several major areas in which Australian business services firms face constraints and challenges in Japan, Korea, Singapore and Indonesia. The challenges included regulatory barriers for the legal sector and local sensitivities in relation to management consulting. Participants also reported in-market resistance to their fee structures.

Regulatory constraints

The single biggest challenge across all markets in the legal sector was the restrictive regulatory environment. All legal participants discussed it in depth, highlighting the frustration of not having qualifications recognised in the target market, as well as limitations of practising only foreign law. Other restrictions included quotas on the employment of foreigners, visa regulations, and requirements on business structures, such as partnership arrangements with local firms. Acquiring a licence for a firm, or as a lawyer, in Korea was described as “cumbersome” and “extremely time-consuming”. In Japan the process can take up to a year.

The complex regulatory regime across the four markets also extended to other business issues, including taxation. Employing locals with operational expertise was suggested as a way to effectively manage complexities arising from language difficulties, local administrative processes and procedures.

The regulatory environment was also identified by management consulting interviewees as a major challenge, particularly in the Indonesian market. Vague policies, tiered levels of bureaucracy and different laws in different regions were considered difficult to navigate, even by people with many years' experience in Indonesia. Again, employing locals who are adept at navigating local administrative and regulatory systems can be a real asset.

“The regulatory environment can be quite difficult because it's constantly changing ... There tends to be a lot of ambiguity in policy-making in Indonesia ... so it's trying to interpret ... how that affects you in your work. So, that can be difficult.”

Managing Director, management consulting firm, Indonesia

Top 5 biggest barriers

Legal Sector – All Markets

- 1  Local regulations (i.e. visas, government administration requirements)
- 2  Legal restrictions on business models (e.g. required JVs)
- 3  Government relationships
- 4  Difficulty acquiring local clients
- 5  Competitors have stronger in-market brand/presence

 **89%**

of legal survey respondents said their legal qualifications were not recognised in-market.

Management Consulting – All Markets

- 1  Recruiting and retaining talent (70%)
- 2  Building local contacts (55%)
Local regulations (55%)
- 3  Difficulty acquiring local clients (50%)
- 4  Competitors have stronger in-market brand presence (45%)

Recruiting and retaining talent

Recruiting and retaining talent was cited as one of the top five success factors by both legal and management consulting firms. However legal participants cited this is the fourth most difficult barrier to entry across the markets explored, while management consulting participants surveyed identified this as the greatest barrier.

“What can be challenging is working with a local workforce that really has limitations in capability and knowledge, and almost having to exert more than you’re required to compensate for that lack of knowledge, that’s very, very difficult.”

Managing Director, management consulting firm, Indonesia

Although a challenging element of doing business in Asia, talent development is often an initiative of governments to develop the skills of their workforce and a requisite with foreign firms. This was the case in Singapore with the management consulting firms discussing the importance placed in-market and even with clients, in being a large firm that gives something back to the country through skill development.

“It is important for us [the firm] to leave a legacy behind through developing the local skills and talent within our Singapore operations. This is also important with the Singaporean Government – that they can see you’re creating a sustainable future for their people by developing their labour force.”

Partner, managing consulting firm, Singapore

Local perceptions of management consulting

A further challenge identified across Japan, Korea and Indonesia was the lack of recognition of the value add that management consulting services provide, with some pointing to a cultural reluctance to pay an ‘outsider’ for advice.

In Japan, advice is normally only sought from a trusted and close source. Winning projects and being introduced to clients is therefore a challenge for many Australian firms. Relationships with prospective Japanese clients need to be built and nurtured before the client feels comfortable – and this can be a lengthy process.

Indonesia's complex regulatory environment

Legal firms operating in Indonesia highlighted the nation's complex regulatory environment as the most challenging aspect of doing business. One firm emphasised the numerous 'grey areas' where the laws are not clear and differ among local jurisdictions. The firm itself faced several barriers in establishing and operating in Indonesia. This included the compulsory requirement of being a joint venture with an Indonesian legal firm. Another challenge they consistently face is the country's overall quota on work permits available

for foreign lawyers (known as KITAS) – limiting the number of Australian lawyers they can have in country. It has been suggested that fluency in Bahasa Indonesia should be a prerequisite for such permits. Such a rule would further narrow the pool of talent from which international firms could hire. This nevertheless is not stopping the firm from building more connections in Indonesia.

“Having a Japanese company feel comfortable with you is vital before they will share their secrets with you. They also want to know about your experience in Japan and that area of expertise before they begin to feel comfortable enough to talk business.”

Managing Director, management consulting firm, Japan

Koreans can sometimes appear to be protective of trade secrets and shy away from sharing commercially sensitive information with outsiders, even if these are consultants engaged to advise a business. Participants noted that large Korean organisations were developing their own in-house 'corporate strategy teams', seeking out expatriates with foreign MBAs.

The idea of paying an external firm to “tell you what to do” is not readily embraced in Korea, which means foreign management consulting firms can meet resistance in this market. This reinforces the importance of building relationships and obtaining government endorsements to overcome such barriers.

Indonesian businesses can also have a negative perception of engaging and paying an outsider for advice on what to do. Hence, management consulting is not widely embraced as a service in less developed service economies, although participants in the project believe the need is growing.

Pricing appropriately

Another challenge firms may encounter is justifying the costs of their services. In management consulting, 52% of survey respondents ranked “charging appropriate rates for services” in the top five key success factors they found the most challenging to achieve.

In Singapore, this was particularly an issue for management consulting firms that did not have a global brand and reputation. They found clients, particularly in the public sector, demanded detailed costings to justify the fees, or required extensive information from the firms to support their proposals.

Nevertheless, a participant who worked for a global firm in Singapore highlighted that brand reputation did not automatically win contracts. They, too, have to compete and test themselves against other leading brands.

A similar challenge was cited in Japan. Traditionally, the Japanese do not pay for outside advice, and nor do they like to share business secrets. Hence, Australian management consultants need to tailor their pitches and approaches to compensate for negative local perceptions about foreign firms in general.

Such an approach may also be required in Korea, where the issue was not just limited to management consulting. Lawyers commented that in Korea, legal services command a comparatively low fee than in Australia. It is critical to understand this to minimise resistance or damaging a reputation with Korean clients.

Market-specific findings

In addition to the primary themes discussed above, data analysis revealed several market-specific conclusions about the management consulting and the legal sectors in Indonesia, Singapore, Korea and Japan.

Indonesia

A challenging environment with great potential



Participants stated the main reasons for establishing in Indonesia were requests by clients and filling a gap in the market. Management consulting interviewees stressed that having existing relationships, particularly in Australia, helped in the transition and attraction of clients.

The legal interviewees described Indonesia as a country attracting international capital; hence, legal services are required for businesses setting up there in such industries as agriculture, energy and other services. The market was seen as a strategic option to take advantage of Indonesia's growth and development domestically and through inbound investment.

Perception vs reality

The Indonesian cohort expressed concerns that Indonesia is viewed as a difficult market to break into, one with significant cultural differences. It was seen as an environment with inherent risk in which Australian businesses had limited awareness of market opportunities.

"I think lack of legal certainty is a concern... with a lot of Australians, it's just a lack of awareness, a lack of understanding and knowledge of Indonesia and unfamiliarity... I think Australians have this sort of inherent cynicism about Indonesia."

Director, management consulting firm, Indonesia

"For our Australian clients, it's probably driven kind of by a complete lack of understanding, probably a little bit of fear in terms of: 'what is the market, how does it work, how does Islam play a role in business practices?'"

Managing Partner, management consulting, Indonesia

The wariness about the Indonesian market in particular was flagged as troubling by legal interviewees because first-mover advantages are being neglected while firms from the region, Europe, the UK and the US establish an in-market presence and build relationships to seize opportunities in Indonesia.

Why are Australian businesses going there?

- Requested by clients
- Gap existed in the market
- Natural path of growth strategy (legal)
- Strategic opportunity (legal)
- Existing relationships and connections – particularly with Australian businesses and the Australian Government (management consulting)
- Partnership opportunities with an Indonesian firm (management consulting)

"So, as part of an overall strategy going into the Asia-Pacific region, there is an obvious need to follow the capital move, and it's fair to say that we've seen a shift of capital from an economic power from West to East over the last 10 years. And I think that's obvious in terms of the rise of China, but more importantly up in the other South-east Asian countries, Indonesia is one of them, in my view. The Indonesian market is going through significant change, and I think particularly as the economy grows, population expands, the growth of the middle class and the growth of wealth generally – it leads to increases in needs for energy, infrastructure, mining and commodities. All key sectors for us to service."

Managing Partner, legal firm, Indonesia

"It's clear that there are just immense opportunities for Australian businesses to enter the market, and what concerns me at the end of the day is whether we're too slow off the mark because it looks too difficult. And you know what will happen in that circumstance, and I see it in my travels around that South-east Asian region, is that other countries will fill that void of expertise that is required in those jurisdictions."

Managing Partner, legal firm, Indonesia

The Indonesia and Australia bilateral relationship

Compared with the other markets, Indonesia was the one in which current affairs and their effect on the bilateral relationship were raised. At the time of research, the sensitive issue of convicted Australian drug traffickers facing execution was playing out in Bali and, naturally enough, was discussed. Interviewees said that while the bilateral relationship may not have a direct impact on business, it has an indirect influence on the relationship foundation on which business is built.

“Australians have a strange kind of condescension about Indonesia, and I think they’re more comfortable in Northeast Asian markets than Southeast Asian. And then there is of course the political dimension – the bilateral relationship. Our business people get frustrated and it’s like ‘Oh no, not again!’ And this has effects on business relationships.”

Director, management consulting firm, Indonesia

Interviewees highlighted concerns about their Indonesian connections expressing apprehension about Australians not wanting to do business with them, and the negative impact this would have for future business deals and relationships.

“They (Indonesian clients) had been trying to accelerate business in Indonesia, however, they weren’t prepared to come to Australia in the last three months, because they were concerned about what impact there might be (from the executions) ... I think that’s a large part of the Indonesian culture ... [structure and] harmony is really important, this incident has broken the harmony.” Managing Partner, management consulting firm, Indonesia

The bilateral relationship was also cited by the legal sector interviewees, but not with the same emphasis as the management consulting cohort. Commentary focused on bilateral economic activity and the role of the two governments to foster it. An Australian Government advocacy role to facilitate economic ties and ease regulatory requirements in the Indonesian legal sector was suggested by participants to assist with future growth of economic ties between the two countries.

“I actually think the ability for us to invest and work with Indonesia in a positive way, and a positive framework that benefits both countries, is quite significant. I think we just get caught up in the politics of it all and forget what we’re actually trying to do.” Managing Partner, legal firm, Indonesia

Key drivers of the Indonesian market

Management Consulting key finding: Participants highlighted the importance of networks, particularly with Australian businesses or government, as fundamental to setting up in Indonesia. This was closely linked to building trust and relationships, and understanding of Indonesian culture and its influence on how to conduct business in Indonesia.

“In terms of doing business in ASEAN and Indonesia, a lot of it depends not so much necessarily on the technical expertise, although that is important, but it’s very much about the relationship, how you can adapt, how you can relate to them and also I guess, on your understanding of their culture.”

Managing Director, management consulting, Indonesia

“It’s all about relationships, it’s all about trust and relationships.”

Director, management consulting firm, Indonesia

“When it comes to business, it’s almost a family environment.”

Director, management consulting firm, Indonesia

Legal key finding: Relationships were seen as fundamental to success in either partnering with an Indonesian firm or forming part of a global firm alliance in Indonesia.

Before establishing a presence in Indonesia, it was seen as crucial to foster relationships with Indonesian parties to develop the partnerships required by law. Interviewees stressed the importance of long-term relationships in the market not only to develop the connection with the Indonesian partner firm, but also within the market. Two interviewees stressed the growing importance of overseeing projects on the ground, not simply flying in and flying out.

“Our firm works in partnership ... We have several such Indonesian partner firms. The other important thing is building those ties. It took me about eight years to build such a well-established relationship in Indonesia.”

Managing Partner, legal firm, Indonesia

All interviewees noted the importance of global alliances and talked about how their firms were associated with other firms, either through an Indonesian partnering firm, or another partnering firm in a different Asian market.

These tended to be major international firms based in the UK or the US. Such relationships enabled easier transfer of knowledge and talent when needed. They also reduced the level of competition as firms referred business to partners.

Key challenges of operating in Indonesia

Management Consulting key finding: Constraints linked to cultural differences, limited talent, regulations and concerns about risk management.

The interviewees, all representing SMEs, noted the difficulties they encountered due to their limited resources when compared with major consulting firms. For this reason, their existing relationships and connections were vital, with many entering the market in what they described as ‘an non-traditional way’. This included seeking new clients through networks and also flying in and flying out for projects. Some set up an Indonesian phone number diverted to their Australian office.

Culture, differing laws and complex regulations were seen as the most challenging aspects of setting up in Indonesia. This was in addition to risk management – both in terms of personal security but also ensuring transparency with transactions and encouraging local staff or Indonesian connections to conduct business in an ethical manner. This was highlighted by all as being crucial in maintaining their personal reputation in Australia as well as maintaining a high standard in Indonesia.

“There’s a lot more relationship building that is relevant, and it’s different types of relationship building. There’s a long dance before you get there.”

Managing Partner, management consulting firm, Indonesia

Indonesia (legal) key survey findings:

The leading key success factor (100%) was Indonesian market knowledge and previous experience.

The two most challenging key success factors (100%) were:

- Government connections and relationships in Indonesia
- Charging appropriate rates for services

The biggest barrier to entry (100%) was:

Local regulations (i.e. visas, government administration requirements)

Primary types of business:

- Inbound business to Indonesia from a third country (100%)
- Outbound business from Australia to Indonesia (75%)
- Outbound business from Indonesia to an Asian country (50%)

75% are established as a JV with an Indonesian partner, with the rest flying in and out.

67% of firms had been in Indonesia for over 15 years.

Types of clients:

- SMEs (100%)
- Government (100%)
- Multinational corporations (67%)

Clients were located globally although predominantly in Indonesia, Australia or in the region.

The importance of ‘face’ or ‘saving face’ was discussed with one participant describing it as “more exaggerated” in the Indonesian context compared with other Asian cultures. Other cultural differences cited included time orientation – punctuality is rare. Cultural sensitivities were not only a challenge for the participants, but also for clients who needed to be ‘prepped’ before conducting business in such an environment.

Legal key finding: A ‘complex’ market in a heavily regulated environment.

The constraints of regulations dominated every element of establishing a legal business in Indonesia. Where a business can set up, whom it can employ, clients’ ability to invest, recognition of overseas legal qualifications, as well as a firm’s specialised focus are all pertinent questions.

“One of the challenges is actually gaining entry for business, or as a practitioner into the Indonesian market, to provide legal services.”

Special Counsel, legal firm, Indonesia

Cultural differences were highlighted, with Australian lawyers perceived as not understanding Indonesian culture and/or ‘not having time or patience’ to accommodate such differences. Indonesian senior lawyers were described as being more understanding compared with their Australian counterparts.

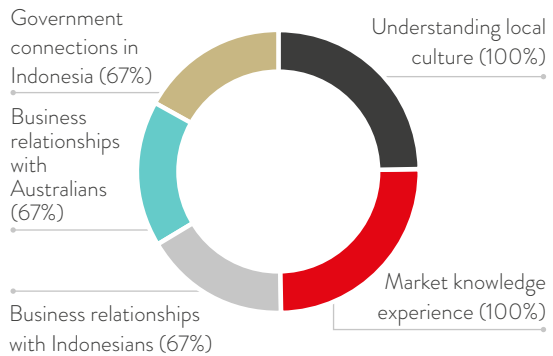
“I think the key challenge is coming to terms with and coming to understand that doing business in Indonesia is not necessarily like doing business in Australia, giving yourself the time to invest to be able to understand what it is, and accept what it is, and then work from there. ... [There] seems to be an unwillingness to try to understand how it might help you operate and accept what it actually is, and there’s not much you can do about it, other than actually try to work within that framework.”

Managing Partner, management consulting firm, Indonesia

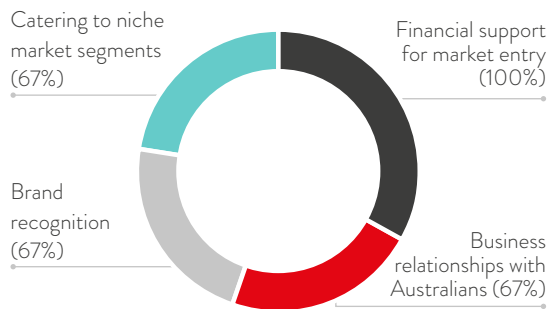
As with the management consulting responses, lack of talent or retaining talent, both local and expatriate, were cited as a difficulty. Legal firms spend considerable time and money on developing local staff to an international standard, which makes them a target to be poached by competitors. Attracting Australian lawyers to live in Indonesia and then retaining them was cited as an additional challenge.

Indonesia (management consulting) survey key success factors & challenges:

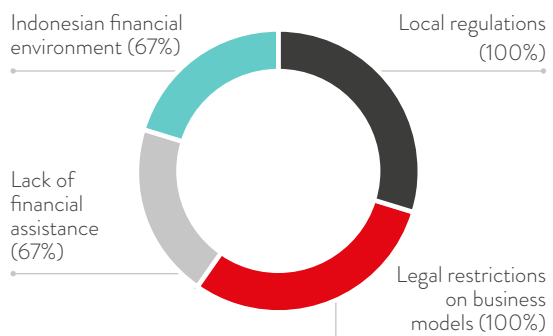
KEY SUCCESS FACTORS



PRINCIPAL CHALLENGES



BARRIERS TO ENTRY



Singapore

A gateway to Asia: A presence beyond a 'branch' – a strategic hub for the region



In Singapore, relationships were seen as the key to success, with much business coming via referrals or 'repeat business'. The importance of relationships was underscored by all management consulting participants and was supported by the legal sector discussions.

All legal interviewees described Singapore as a fundamental part of the business, not simply a 'branch'. It was seen as crucial to a firm's credibility and reputation in the domestic market as well as the region. Flying in and out was not considered an appropriate mode of operation for the market

According to the management consulting group, geographic proximity, requests from clients, local skills and a developed infrastructure were key factors in setting up shop in the regional hub.

The Singaporean business environment was described as one of the easiest in which to operate. Laws and official incentives designed to attract multinational corporations were beneficial not only for the legal firms, but also their clients.

'Following the money', the capital generated by the influx of companies requiring services for inbound and outbound investment, was a core reason legal firms established in Singapore.

Being in Singapore allows a firm to attract international clients. The firms focused on Australian clients needing assistance not only in Singapore but also in the region. In addition, they serviced domestic and regional clients.

Why are Australian management consulting firms going there?

- Building a global or regional brand (82%)
- Natural part of growth strategy (73%)
- First-mover advantage (46%)
- Clients requested it (46%)

"Singapore is a great opportunity and to take advantage of this you need 'skin in the game!' Having a strong presence is crucial but you also need to spend time to understand the country and also the other markets you're operating in within Asia."
Managing Director, management consulting firm, Singapore

"Our focus is the whole of Asia, with an interest in Australian and Singaporean clients as our primary target, but we service clients across the region wherever it takes us. So we're a bit of a hub location for Asia and we're starting to build that up across other service lines and countries." Partner, management consulting firm, Singapore

Clients' request for presence was the core reason for legal firms establishing in Singapore

"A significant number of transactions relating to Chinese outbound or inbound investment are channeled through legal services in Singapore."
Partner, legal firm, Singapore

Interviewees noted that Singapore was in a strategic position in relation to China, allowing them to engage in and attract business arising out of Chinese investor interest in the Australian real estate market. Singapore was also seen to be a vital player in doing business in Indonesia and India. One firm commented on the integration of its Singapore and Hong Kong offices, both of which are gateway markets to the region.

Key drivers in the Singaporean market

Management Consulting key finding: The Singaporean market is underpinned by two overarching concepts: relationships and strong competition.

Singapore is an advanced economy with a very skilled work force and a mature market which is highly competitive. Expertise, relationships and costs are, therefore, all fundamental drivers in attracting clients.

“The best is already in Singapore ... Harvard, Oxford ... graduates. Therefore, as an Australian business, you’ve got to be able to offer something that demonstrates you know what you’re talking about.”

Country Manager, management consulting firm, Singapore

Although the Singaporean market is seen as the most ‘Western’ in the Asian region, Australians should not expect business to be conducted in exactly the same way as at home. There are nuances that must be recognised.

“It really comes down to who you know and how connected you are within the Singaporean and regional business community, as well as with government. Singaporeans will ask you about your connections to confirm this.”

Partner, management consulting firm, Singapore

Interviewees suggested that adaptability and innovation are critical success factors in a competitive environment like Singapore.

“You need to be creative and offer innovative solutions – be at the top of your game as the market is very competitive and crowded.”

Partner, management consulting firm, Singapore

“Have a very varied and solid client base, so not just one or two major clients, but actually a variety of clients across many industries, because sometimes when one industry gets hit, you kind of want ... alternative industries that you can fall back on.”

Country Manager, management consulting firm, Singapore

Legal key finding: Intensely competitive environment, full of potential.

The legal sector identified similar drivers to management consulting, describing the Singaporean market as a highly competitive one in which a well-known and global ‘brand’ was a significant advantage. This was particularly so because of Singapore’s role as a financial services hub, particularly in banking and wealth management, and a base for cross-border mergers and acquisitions, investments, disputes and arbitrations. Some of the world’s largest multinationals operate there, a boon for legal firms with strong reputations.

Singapore (legal) key survey findings:

- Primary business: inbound from Australia to Singapore
- Length of time in market: ranged between three to 15 years
- Principal clients are: multinational corporations
- Clients’ location was in Australia and Asia/ Pacific (including Singapore)
- All work was carried out in Singapore (not in Australian offices)
- The number one key success factor was ‘Singaporean market knowledge and previous experience’
- Most challenging success factor was ‘having talent, both local and foreign employees’
- 100% of firms said the reason for establishing was due to clients requesting it.

“Competition is very heavy for legal services in Asia. I think Singapore is such a market that hundreds of service providers are looking to set up here.”

Managing Partner, legal firm, Singapore

Securing clients may be influenced by earlier transactions in other markets; for example, Australian clients seeking out Australian firms. It was also noted that clients often would choose a legal firm based simply on the sector in which they are operating. Expertise as a competitive advantage and having a permanent base were seen as critical drivers of success.

“With different firms servicing different sectors, a client’s decision in selecting a law firm may be influenced by their preference of services related to a specific sector.”

Managing Partner, legal firm, Singapore

Key challenges

Management Consulting key finding: A costly environment with cultural nuances that Australian firms must understand and adapt to.

The research concluded that Australians operating in Singapore often undervalued the impact its Asian cultural heritage has on the conduct of business. Not understanding cultural nuances can be the downfall for any Australian management consulting firm operating in Singapore. Three interviewees commented on the 'transactional focus' of Australians.

"Australians often want to complete transactions quickly; as soon as you mention this you will find your relationship will cool. Following a procedural and step-by-step process might be the way to do business in Australia, but it is not in Singapore."

Managing Director, management consulting firm, Singapore

The importance of understanding how to do business in regional markets was also seen as vital; what works in Singapore may not be suitable in a regional office in China or even neighbouring Malaysia.

Other difficulties cited included the expense of operating in Singapore, and barriers associated with poor connections and under-developed relationships.

Legal key finding: Regulatory constraints, the competitive environment and cultural differences are the principal challenges Australian firms encounter.

Singaporean interviewees agreed that the regulatory environment, though not as limiting as in some other countries, was the biggest challenge. The highly competitive market was another, particularly for smaller firms without a global alliance or brand to support them. Participants recommended building a strong presence in Singapore and taking on Asian clients wanting to invest in Australia to showcase capabilities.

"For us, the issue is building a brand. As a start, we have been targeting Australian companies. The reason is that Australian companies are generally comfortable in doing business with Australian law firms. As for Asia, the brand recognition that we have now is related to our experience and building the trust that people on the ground can depend on us. They should feel comfortable that we have the expertise and we know the market, particularly the property market."

Managing Partner, legal firm, Singapore

"Due to their immense international exposure and reputation, global firms are more successful in attracting new and emerging clients."

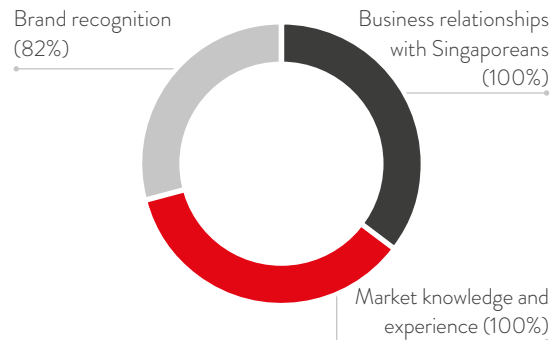
Managing Partner, legal firm, Singapore

Cultural differences in business and other spheres, and a failure to understand them, were another aspect highlighted as a challenge, not just in Asia, but also in Australia. One participant commented that Asian clients "can demand the work to be done quickly – not comprehending the red tape that exists in Australia".

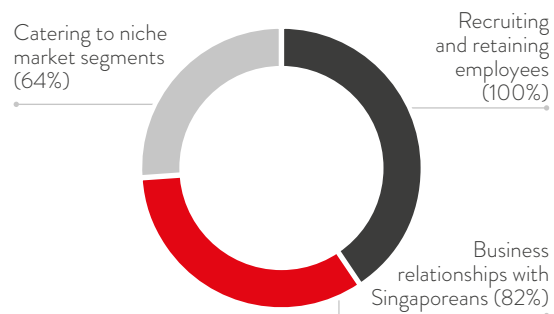
Australian lawyers were also considered to have limited awareness of cultural differences, crucial to working in Singapore.

Singapore (management consulting) survey key success factors & challenges:

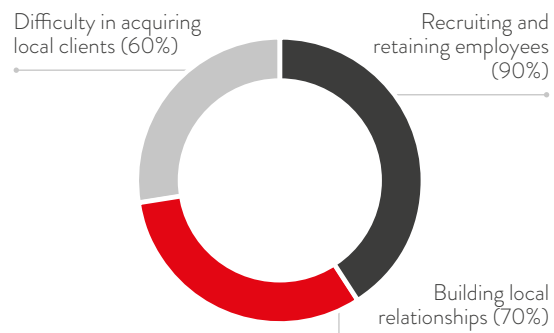
KEY SUCCESS FACTORS



PRINCIPAL CHALLENGES



BARRIERS TO ENTRY



Biggest market barriers in the Singapore legal sector (survey):

- Local regulations (i.e. visas, government administration requirements)
- Competitors have stronger in-market and brand presence.

Australia-Singapore Comprehensive Strategic Partnership:

In May, 2016, Australia and Singapore announced significant enhancements to the Comprehensive Strategic Partnership (CSP) struck between the two countries in 2015. The enhancements included upgrades to the Singapore-Australia Free Trade Agreement (SAFTA), but the CSP is a partnership that goes well beyond a simple free trade agreement to forge a high quality bilateral relationship as close or closer than Australia shares with other countries.

Key economic elements of the CSP that will directly impact professional services include:

Business

- Improved mobility for our business people, including investors/independent executives, contractual service suppliers and their families and installers and servicers of machinery and equipment, providing enhanced certainty on entry and longer lengths of stay
- New transparency provisions to support business people seeking to move between our markets
- Negotiation of mutual recognition of qualifications, with priority given to arrangements for engineers and accountants
- New commitments on government procurement providing greater certainty for businesses to bid for valuable procurement contracts in each other's markets.
- Greater certainty for Australian lawyers and law firms operating in Singapore
- Updated trade rules in SAFTA for goods, services and investment to reflect modern business needs.

Education

- Singapore will recognise the Juris Doctor programs offered at all Australian universities currently listed in SAFTA.

Innovation and Science

- Establishing an Australian "landing pad" in Singapore to facilitate innovative start-up companies gaining a foothold in Singapore and the wider Asian market.



Korea

An evolving market of opportunities, becoming more open to Australian business



With the recent enforcement of the Korea-Australia Free Trade Agreement (KAFTA) and both the Australian and Korean governments focusing on encouraging engagement between the services sectors of the two countries – it is an exciting time for Australian firms with opportunities for first-mover advantages in the coming years.

Korean outbound investment, to Australia in particular as well as to the wider region, was identified as the primary reason for having a presence in Korea. Two global management consulting participants established ‘Australian desks’ in their Korean offices to take advantage of opportunities offered by Korean outbound investment.

They could leverage off existing relationships and business they had with Korean clients in Australia, as well as other markets. In contrast, the other management consulting interviewees who attempted to establish in Korea found the market complex and not ideal for their services. They therefore looked to other Asian markets such as Singapore and Hong Kong.

“In Korea – you’ve got to find the right key to unlock the door.”

Partner, management consulting firm, Korea

At present, Australian legal firms are flying their people in and out of Korea, many servicing the market from offices in Tokyo, Singapore, or even Australia. Over the past 10 years, this practice has helped these firms to build connections in Korea and across the region. With KAFTA now in place and the subsequent relaxation of regulations in the legal services sector in the coming years, the benefits of having Australians on the ground is critical for the success of these firms.

“The focus is fairly limited in that it tends to be not so much to service Australian companies going into Korea because that’s a very small market; the main focus has been acting for Korean companies, particular the Chaebols and some of their State Owned Enterprises (SOEs), with them being active in resources projects in Australia and procuring their various raw material needs from Australia.”

Managing Partner, legal firm, Korea

Legal sector in Korea – a new opportunity

Unlike the other markets, there are no stand-alone Australian law firms operating in Korea. Nevertheless there are Australian lawyers working for global firms in Korea and some who fly in and out. However, many of them are not permitted to practice law in Korea and therefore only act as consultants or advisors to local lawyers. With the newly enforced Korea-Australia Free Trade Agreement (KAFTA) this is likely to change with several Australian firms in the process of setting up a base in Korea. However, fully Australian-owned firms would not be permitted to practise domestic law until five years from the start of enforcement of KAFTA.

- New opportunities have opened up since the signing of KAFTA in December 2014
- Australian lawyers are employed by global and local firms. At present, there are about 40-50 Australian lawyers working in Korea as advisors to Korean lawyers
- Transactions are both Korean investment in Australia and vice-versa
- Key areas of legal practice include financing, disputes and corporate agreements.

“The main thing is just keep building and have people on the ground, that’s the single biggest important element for us.” Partner, legal firm, Korea

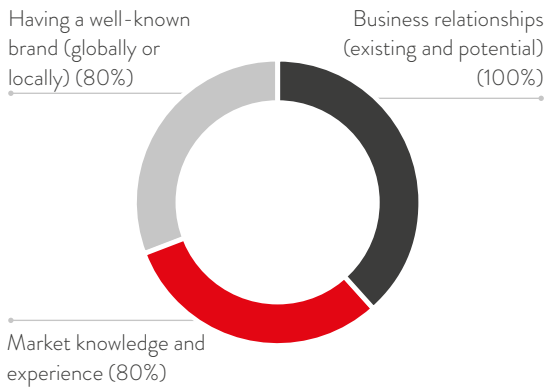
What are the key drivers in the Korean market?

Management Consulting key finding: An opportunistic market driven by government endorsement, relationships and an emphasis on value proposition.

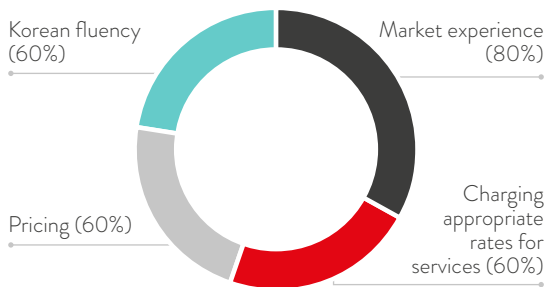
Korea is a complex market with various key drivers, some similar to other markets, but others quite unique and generally underestimated by Australian firms entering Korea. It is an evolving environment that is shifting from what was primarily a domestic market focus to a more outward emphasis. For this reason, the project participants stressed the importance of ‘knowledge sharing’ when working with Korean clients – rather than telling them what to do. Numerous opportunities are presenting themselves, and it is critical to gain a ‘first-mover advantage’. Government endorsement, both Korean and Australian, is also critical in the Korean market place.

Korea (management consulting) survey key success factors & challenges:

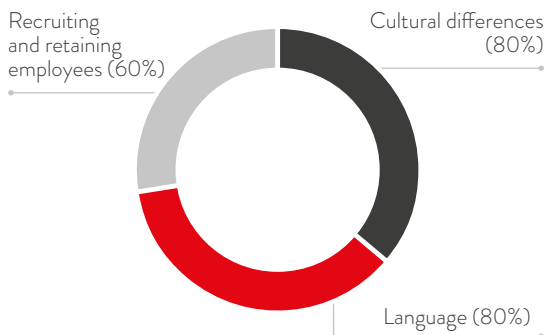
KEY SUCCESS FACTORS



PRINCIPAL CHALLENGES



BARRIERS TO ENTRY



Korea (management consulting) key survey findings:

Primary types of business:

- Outbound Australia to Korea (100%)
- Inbound Korea to Australia (80%)
- Other inbound business (60%)

Primary industries served:

- Mining (100%)
- Wholesale and retail trade (80%)
- Information media and telecommunications (80%)

60% of surveyed firms had been in market for more than 15 years, and 40% between 6-10 years.

“If we don’t have the political support or at least that desensitisation of what we’re trying to do, we have to go one company at a time to basically get the engagement, and it’s way too slow, and it’s too big of a financial impact for a small organisation... and you know, that’s the kind of stuff that, if you could change it, you would.”

Managing Director, management consulting firm, Korea

The consensus was that Korea is a ‘tough market’. A senior manager from one of the global management consulting firms described it this way:

“Flat since the global financial crisis. A lot of big companies came in and charged significant fees with no substantial results for companies ... therefore, the market has become ‘fatigued’ and even wary. However, if you specialised in niche area, this is probably not the case.”

Director, management consulting firm, Korea

For this reason, respondents emphasised the importance of having and communicating a value proposition when seeking clients. This suggests the importance of having a niche advantage, a key factor in referral and repeat business.

Although the market perhaps is different to navigate compared to Australia, the untapped opportunities and the potential Korea offers Australian services firms can not be ignored.



Legal key finding: Driven by Korean clients

Considering the type of business in which Australian firms are participating, the Korean market can be said to be driven by private and public-sector based Korean clients conducting inbound and outbound transactions in Korea and globally. Relationships are important, demonstrating a long-term commitment to the market. In years of flying in and out of Korea, participants developed networks that led to critical repeat business for outbound Korean investment; and this no doubt will prove useful in establishing and pursuing business from a Korean office.

Key challenges

Management Consulting key finding: Culture influences all aspects of doing business in Korea.

Complexities of the market offer challenges that Australian businesses may not expect. It is vital to recognise the nature and history of the Korean services sector, to understand its cultural context.

“Be aware that Korea is a different market. You could be successful elsewhere in Asia, but then you can go to Korea and fail. Australian businesses need to understand these differences.”

Director, management consulting firm, Korea

Collectively, the participants reiterated the importance of being aware of and dealing with cultural differences when doing business in Korea. This includes the hierarchy of client companies and the internal systems they follow. And it includes the importance of ‘face’ and how one’s behaviour impacts one’s company and society.

“You can’t do business as you would in Australia. There are strict protocols, hierarchies and ways of doing things even though they may oppose your Australian ‘laid back’ ways.”

Partner, management consulting firm, Korea

“Koreans are extremely sensitive about how they are perceived by others and how society sees them.”

Senior Partner, management consulting firm, Korea

“Third-party relationships with government officials are vital and can be one of the most difficult elements to build as a new market entrant.”

Managing Director, management consulting firm, Korea

“I’ve seen others try to break into the market and they needed a lot of resources to leave a substantial footprint. We just didn’t have that at the time.”

Partner, management consulting firm, Korea

Legal key finding: Is access to the market too late? Other countries’ firms have the advantage of already being there, building reputation as competition increases.

The market is quite competitive. One particular Australian firm has gained access to the market through its partnership with an international UK firm, but the Australian lawyers are only permitted to practise foreign law.

“You’ve got 15-20 international firms that are trying to capture anything that is associated with Korea globally, there’s a lot of competition there. An example is a firm that has an Australian office and one in China - they may go into Korea to try to capture Korean outbound work not only into Australia, but also into China, but there would be a lot of competition for that work – from Australian firms, Chinese firms, foreign firms in all three markets and Korean firms.”

Partner, legal firm, Korea

“All the large global firms, they employ Australian lawyers because the Australian lawyers are good, but at the end of the day, if you go to Samsung in Korea and say ‘Well, I’m an Australian lawyer so give me the work,’ they wouldn’t necessarily give you the work because you’re Australian. Rather, they would give you the work if you are working for one of the well-known brand names.”

Counsel, legal firm, Korea

The regulations governing the practice of law are quite restrictive and therefore a key challenge. Australian lawyers can provide advisory services or assist local lawyers in international matters. If a cross-border transaction is under UK law – then only British-registered lawyers can advise; Australian-registered lawyers are restricted to Australian legal matters.

Japan

A shifting internal focus from domestic to global – Japan offers great opportunity as outbound investment grows and the nation seeks to maintain its competitive advantage



Why are Australian businesses going there?

Japan is a leading source of foreign direct investment (FDI) in a number of ASEAN countries, contributing 14 per cent of all FDI into the region between 2006 and 2013. The government-led Japan External Trade Organization (JETRO) found that 73 per cent of Japanese businesses it surveyed nominated ASEAN as their preferred region for expansion. Indeed the gateway opportunities to ASEAN arising out of Japan are numerous and Australian firms need to consider the significant potential this market offers.

Management Consulting key finding: A mixture of servicing domestic as well as Australian clients entering Japan.

The management consulting respondents represented a variety of models in the Japanese market. One global firm had an 'Australian Desk' in its Japan office with the Australian partner on secondment in Japan for over eight years.

Another participant worked for the 'Japanese operations' of a leading global firm whose focus was assisting Japanese clients in the Japanese domestic market as well as outbound investment. Other participants employed their own subject matter experts based in Australia, but whom had considerable experience in Japan.

Across the entire group – all had several years' experience in Japan (most at least 10 years) and in Asia (some up to 20 years). Participants highlighted the importance of having an understanding of, and experience in a market before establishing a new business there.

Legal key finding: Most of the firms are servicing Japanese clients investing in Australia, with the primary modes of entry being mergers with global firms and partnerships with local Japanese firms.

Japan's legal sector - complemented by the strong bilateral relationship

The Japanese market is quite unique compared with others examined.

Japan and Australia have one of the longest-standing bilateral and economic relationships in the Asian region. The complex and well-established ties between the two economies have and continue to give rise to numerous opportunities not just in legal and management consulting services but across a myriad of other professional service industries.

These include financial advice, technical services and accounting. Interestingly however, none of the participants highlighted particular opportunities with JAEPA in the legal sector. They suggested that the bilateral economic agreement was more trade-focused; it may build awareness and encourage Australian companies to consider Japan as a market. In terms of attracting more investment from Japan to Australia, they did not think it would have a dramatic impact; rather a complementary effect.

The mainstay for Australian firms in Japan is to 'service' Japanese outbound investment into Australia and, increasingly, into other markets. Participants suggested that originally Australian firms' representatives would fly in and out of Japan to conduct and develop business. This has evolved into many firms having a strong presence in Japan, although the mode in which they operate differs. Opportunities in Japan have moved beyond outbound investment into Australia; Japanese firms increasingly are looking to other markets in which to invest.

Australian legal firms in Japan

Primary opportunities and reasons for doing business in Japan:

- Natural part of growth strategy (80%)
- Building a global or regional brand (80%)
- Clients requested it (40%)
- Longevity is key: 100% of surveyed legal firms had been operating in Japan for at least six years.

When establishing a permanent presence in Japan, Australian firms either engage in a model where they:

- Partner with a local Japanese firm and are then used 'for their expertise' particularly with Australian law. The local Japanese firm is the frontline in Japan and the Australian firm is consulted when required for clients.
- Merge with a global firm (those examined were with primarily UK-based international firms) – this helps to “cast a wider net” offering various services that covers several law systems (i.e. UK law, Australian law but also having Japanese lawyers who can practise Japanese law) and share costs.
- Then there is the option to be a stand-alone 'Australian firm' and establish an office in Japan that can operate in two ways: have only Australian lawyers who capture business and send it back to Australia and facilitate Australian business into Japan. But this is very expensive with a small area of opportunity, as they cannot practise Japanese law. Or, hire local Japanese lawyers who are registered 'Bengoshi' to have a wider opportunity for business. This is also quite costly.

“Effectively, we were set up in Japan to service those opportunities outbound.”

Partner, legal firm, Japan

“The fact that Japan had invested for a long time into Australia was sort of – pre-merger days – the impetus for a firm establishing a presence in Japan ... the opportunity was there to assist outbound transactions ... before we had the Tokyo office, the main focus, for my practice at least, was those investments into Australia. But having a presence on the ground now, it's actually much broader than that, it's effectively, wherever our clients are investing, we will assist with those investments.”

Corporate Partner, legal firm, Japan

“As a foreign lawyer – you can assist local lawyers in doing work, but you can't actually give legal advice, so to the extent that you want to do anything substantial for local clients or involving Japanese law you really need some local Japanese lawyers or people who are qualified to actually give legal advice in Japan.”

Senior Associate, legal firm, Japan

“The market is sophisticated enough to know that if they've got people here on the ground, they can come straight to those people, we can go straight to visit them ... the fly in-fly out business, I think, is very limited to a couple of key specialists in a couple of key areas that some of the smaller local offices aren't able to service. So, it's no longer, I think, a particularly viable method, given the competition here.”

Corporate Partner, legal firm, Japan

What are the key drivers in the Japanese market?

Management Consulting key finding: The evolving focus on globalisation and maintaining the nation's competitive advantage means there is great opportunity for Australian management consulting firms in Japan. Relationships are a crucial element.

Collectively, respondents described the Japanese market as being a 'domestic entity' despite having a large number of international businesses. But, they suggested, as the Japanese market matures and increasingly looks outward, many firms want to bring in foreign partners and foreign expertise.

“Japan is a very domestic entity, you know ... [Japanese] corporates, government, people have always been very focused on Japan for the last 60 years. Whilst they do have businesses like Toyota and Sony, which have an international footprint, they're still very domestically focused.”

Partner, management consulting firm, Japan

“Traditional Japanese businesses are now having to find other revenue streams as a result of the changing nature of the Japanese domestic focus to having to become more global.”

Partner, management consulting firm, Japan

The Japanese market also has to reconsider economic sectors in which they once were leaders, but now have seen heightened competition from other countries; for example, innovation and technology. Interviewees suggested that there were numerous opportunities for Australian firms to assist Japanese clients and fill gaps where capabilities are lacking.

“To go from where Japan is today to become different tomorrow – change is needed. This is not radical change, it’s a fine-tuning type exercise ...I lack the experience or the knowhow in order to be able to fine-tune each of those areas, governance, innovation, talent, and that’s where I see enormous opportunity for consulting to come in and fine-tune.”

Partner, management consulting firm, Japan

“Management consulting could also help with cultural awareness and diversity aspects – helping Japanese companies transform to become, to develop a culture that can succeed in Japan and in other markets, knowing that they need to have a different international mindset.”

Director, management consulting firm, Japan

Participants agreed that to take advantage of opportunities, Australian firms had to be aware of the key components of doing business in Japan. These include strong partnerships with Japanese firms, relationships and connections. The benefit of strong connections with the Japanese Government, the Australia and New Zealand Chamber of Commerce in Japan (ANZCCJ) and Japanese associations should not be underestimated; they may be crucial in getting a foot in the door when entering the market.

One also has to demonstrate, particularly to potential partners and future clients, a long-term commitment to Japan. This might be done, for example, by spelling out intentions to one’s Japanese counterparts, and making sure that future visits and meetings are planned and locked in the calendar. In other words, demonstrating that one is willing to put in the patience, effort, time and money to secure vital relationships.

All participants emphasised that Japan is about longevity. If a firm does not have the resources to engage in long-term relationship building, Japan is probably not its appropriate target market. Having local Japanese input to assist in working out cultural nuances was considered crucial. Unlike in the legal sector, fly in fly out is possible in management consulting. However, for a long-term strategy, a permanent local presence is the preferred mode of operation.

Japan (management consulting) survey key success factors & challenges:

Key success factors:

- Business relationships (100%)
- Market knowledge and experience (100%)
- Local business culture (100%)
- Japanese fluency (100%)

Recruiting and retaining employees, both local and foreign, was identified by all survey respondents as the most challenging key success factor.

Barriers to entry:

- Local regulations (i.e. visas, government administration requirements) (100%)
- Building local relationships (100%)

Legal Key finding: Japanese outbound investment is the key driver. Engaging a Japanese firm investing in Australia also opens the door to other potential business opportunities. Relationships are a critical element.

Japanese outbound investment into Australia is concentrated in mining, gas and oil. However, participants noted increasing investment in Australian infrastructure and a growing focus on investment opportunities in agricultural and food production sectors. Participants also noted a Japanese push to look overseas for opportunities.

“... With the demographics they have here now and sort of a stagnating domestic market, it’s becoming increasingly important for Japanese companies to look at growth opportunities outside the domestic markets. Australia continues to be a key destination, because it’s a well-understood investment jurisdiction, but other parts of the world are becoming increasingly popular investment destinations for Japanese companies.”

Corporate Partner, legal firm, Japan

It was agreed that inbound investment into Japan from Australia was not a large part of business, although it was starting to increase. Overall, it was recognised that the Japanese market is competitive, costly and probably not viable for Australian small to medium firms unless they partnered with a local firm or joined forces with a global partner. Nevertheless, the sector was never described as ‘tough’ or ‘hard’ to operate in, descriptions applied to the other three legal markets examined.

Relationships and networks were seen as critical elements of doing business in the legal sector. The entire cohort emphasised the importance of maintaining existing relationships while actively seeking out new ones and building networks to develop deeper roots and raise brand awareness. Participants active in Japanese-Australian associations contended this also strengthens the positive perception of Australians and Australian lawyers in Japanese business communities and sectors.

“Always, I mean particularly for Japan, maintaining those networks, and frequent engagement with clients, both existing and prospective is critical. And being able to raise your profile, being able to raise the profile of Australia generally.”

Partner, legal firm, Japan

Key challenges

Management Consulting key finding: Culture was highlighted. Australian firms have to understand and tailor their business approach to the Japanese mindset.

In discussing the barriers to and challenges of the Japanese market, the management consulting cohort framed it in a rather simple perspective: that is, better understand the Japanese culture, business practicalities and the ‘Japanese mindset’ and the rest will follow.

Having bilingual and even bicultural staff was fundamental, as was identifying the right Japanese counterparts with whom to meet and negotiate. Tapping into the pool of Australians or other foreign experts in Japan was identified as a way to gain a competitive edge when entering Japan as a newcomer.

“You have to meet and do business with the right person – if you go too high or too low – you won’t get anywhere.”

Director, management consulting firm, Japan

“There’s just a very small number of competent senior people who are bilingual, bicultural who can help play that tag-team role and build connections, so I’d say that’s the biggest single barrier, just having people who do not have that ‘Japanese understanding’ who can help you bridge.”

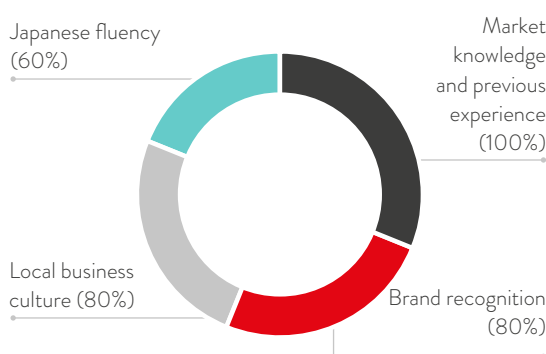
Partner, management consulting firm, Japan

“The way of doing business in Australia is quite cut and dry – it’s clear. For Australians going to Japan, a bit of coaching is required to help them understand the Japanese, their culture and their ways.”

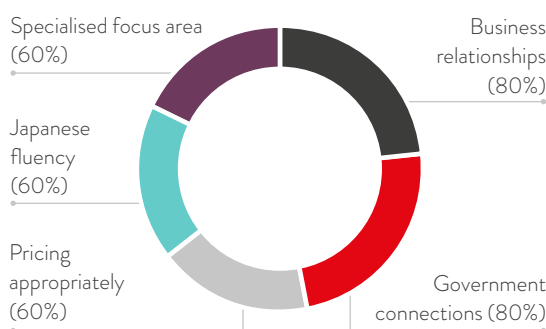
Managing Director, management consulting firm, Japan

Japan (legal) survey key success factors:

KEY SUCCESS FACTORS



PRINCIPAL CHALLENGES



Language was also seen as a potential barrier, especially when bringing Japanese to Australia to do business.

“Some people assume language barriers are not a problem in contemporary Japan. This is not the case and it needs to be addressed if you’re going to have Japanese clients.”

Partner, management consulting firm, Japan

Legal key finding: As in the other markets, regulatory requirements and constraints are the core challenge.

Establishing in Japan was described as ‘an administratively intensive process’ with the numerous regulatory bodies associated with becoming a ‘Registered Foreign Lawyer’. Registration as a lawyer to practise Japanese law is quite extensive and not a path often chosen by foreign lawyers. The restriction of only having one office was cited as a further barrier for existing Australian firms in the market seeking to expand.

Insights for growing knowledge economies

Australian firms are well positioned for and have the skills and capabilities to capture the vast opportunities Asia offers. Australian businesses need to capture these opportunities as soon as possible as the Asian marketplace is becoming increasingly more competitive and crowded, not just with other international entrants from Russia, Europe and North America, but also with newcomers from within the region. Many Asian economies are now shifting from a domestic focus to a more international one, seeking out investment opportunities in their region. This is resulting in firms from countries such as China and Korea following the investment flow and actively establishing in neighbouring economies.

Although this movement brings increased competition, it also opens the door for Australian firms to leverage their existing networks and relationships in a specific Asian market to provide professional services for that client in another regional marketplace. Using a particular Asian market as a gateway to not only the region but also in other global markets, is a critical opportunity for Australian firms to diversify their interest and take advantage of the potential growth developing markets offer.

Significant opportunities also arise from working with Australian clients looking to expand overseas. Although the overall encouragement is to look to Asia for potential prospects, Australian firms additionally need to examine their domestic market and the extensive opportunities that exist in assisting Australian businesses to flourish offshore. Participants opined that Australian businesses embarking on this journey prefer engaging Australian lawyers and management consultants as opposed to local ones, as it offers them the confidence of avoiding losses that could arise from cultural misunderstandings and language barriers. Such insights demonstrate the multi-faceted opportunities particular Asian cities present, not only with the traditional inbound and outbound business model, but also as gateways to the broader region and the world.

Naturally, addressing challenges is a fundamental part of doing business anywhere. The findings highlighted that often Australian firms are preoccupied with the perceived risk of doing business in Asia, underestimating the potential for returns while also feeling overwhelmed by what they see as a difficult business environment to navigate. Restrictive legal regulations, cultural differences and recruitment of both expatriate and local talent were identified as primary challenges Australian firms encounter across the four examined markets.

Considering this, a change in mindset is required for Australian firms entering Asia. The need for a long-term strategic approach was reiterated by many participants, who argued that businesses too often establish in a market without thoroughly committing to a long term presence. There is a lack of recognition of the importance of demonstrating a commitment to stay to both prospective clients and competitors. Such short termism is often detrimental to a business' ability to build strong connections in a market and ultimately limits its growth potential.

Even with a long term plan, identifying a niche is crucial for Australian firms to be successful in Asia, no matter the sector. Specialising in a particular field that meets the particular market's needs and identifying an untapped opportunity ensures a strong competitive advantage and presents to clients the essential value proposition of an Australian firm's unique capabilities.

There are four modes by which services trade can occur:

1. Cross border supply (direct exports)
2. Consumption abroad
3. Commercial presence
4. Presence/movement of natural persons.

While bilateral or free trade agreements can address some of the legal/regulatory barriers associated with Modes 1, 3 and 4, the study has identified important non-regulatory transaction or establishment costs that can present a significant barrier to entry for smaller, resource-constrained firms.

A number of the success factors identified in this initial study can be promoted through public policy programs as well as business-led initiatives. Indeed it is critical that both the public and private sector in Australia work together to boost Australian businesses' potential to capture the fast emerging opportunities in the region.

The findings from this study, of firms that have successfully established markets for their services, suggest that the following measures could be helpful in dealing with existing barriers to these types of services exports:

- Promote FTA tools which create awareness and further understanding of Australia's FTAs in the region, including showcasing examples of Australian firms that have enjoyed success by taking advantage of the improved market access offered by these agreements
- Assistance for Australian firms to develop and tailor their niche offerings for specific markets
- Support for Australian firms to develop their brand and reputation in market, through relationship building initiatives such as networking events, partner facilitation and brand awareness programs
- Provision of insights around the activities of outbound companies (Australian companies seeking to do business in Asia), so Australian management consulting and legal service providers can better understand potential market opportunities
- Encourage and foster bilateral relations through policy and reciprocal market access initiatives as a mechanism to support and ease entry for Australian firms
- Support initiatives that develop Asia capabilities in Australian firms, particularly around market knowledge and understanding local cultures and business practices
- Market entry programs that educate Australian firms on how to appropriately position and price its services in the region.

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- provide you with information and advice on recently concluded **Free Trade Agreements**
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- **identify potential partners, service providers and customers** and arrange introductions
- **set up meetings** with potential partners and customers and, if required, join your meetings to provide cultural and language support
- **follow up initial meetings** with potential partners and customers on your behalf

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Web: www.austrade.gov.au

Email: info@austrade.gov.au

Tel: 13 28 78 (within Australia)

Asialink Business

Asialink Business provides high-calibre opportunities for Australian businesses to build the Asia capability of their executives and team members.

Our business and cultural competency programs, professional development opportunities and practical research products allow businesses to develop essential knowledge of contemporary Asian markets, business environments, cultures and political landscapes.

Supported by extensive market research and customer intelligence, Asialink Business is uniquely positioned to provide tangible support to Australian businesses wishing to maximise their economic opportunities.

To start a conversation about how we can help build Asia capability in your business, please get in touch.

Asialink Business

Tel: +61 3 8344 4800

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Department of Industry, Innovation and Science

The Department of Industry, Innovation and Science is responsible for developing policies and administering programmes which enable growth and productivity for globally competitive industries.

AusIndustry, a division of the department responsible for programme administration and delivery, is putting the needs of Australian business first by simplifying and streamlining access to information and advice.

The programmes and services delivered by AusIndustry provide specific assistance and tailored support for businesses such as:

- **Entrepreneurs' Programme** is the Australian Government's flagship initiative for business competitiveness and productivity providing practical advice and support for businesses on Business Management, Research Connections and Accelerating Commercialisation.
- **Industry Skills Fund** can assist Australian industry to access training and support services to help build a highly skilled workforce that can take advantage of new business growth opportunities and adapt to rapid technological change. The programme will prioritise small and medium-sized enterprises (SMEs), including micro businesses. This is delivered by the Australian Government Department of Education and Training also through business.gov.au.
- **Australian Small Business Advisory Services** is an initiative to deliver low-cost advisory and information services to small business and is delivered through the single business service on behalf of the Treasury.

There are also business incentives for research and development available through programmes such as:

- **The R&D Tax Incentive** to encourage business investment in research and development, and for growing and sustaining innovative, competitive and export-orientated Australian industries.
- **Cooperative Research Centres Programme** to support industry-led collaborations between researchers, industry and the community.

More comprehensive information on programmes and services is available at business.gov.au.

AusIndustry

Web: www.business.gov.au

Email: An inquiry form is available at www.business.gov.au/contact-us/Pages/email-us.aspx

Tel: 13 28 46 (within Australia)

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Australian Government
Department of Industry,
Innovation and Science



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