Succeeding in Frontier Markets

The Risks, Opportunities and Skills Required to Build and Run a Successful Frontier Organization

With multinational and investors significantly vested in emerging markets, focus has shifted to the next big growth opportunity – frontier markets. Though definitions vary, the **International Finance Corporation** who coined the term agree with different financial institutions that frontier markets have the following characteristics:

- Large populations
- Favorable demographics with a relatively young average age
- A fast growing middle class
- A lower but much faster growing GDP than traditional emerging markets

There are a significant number of risks in frontier market countries and knowing how to manage them will open the doors to countless opportunities not available in other regions. To target these opportunities requires leaders to possess a unique set of skills, especially if they're expats. Getting all the elements right will slingshot your company to success in these fascinating countries.

Risks of Operating in Frontier Markets

Having lived and worked for the past 17 years in many frontier countries, I can attest to the duality of operating in frontier markets. The opportunity are huge but so are the risks – it's certainly not for the faint-hearted. The risks of operating in frontier markets can be divided operational and financial risks.

Operational Risks in Frontier Markets

• Lack of Governance - As political systems in frontier markets are often more linked to

RISKS OF OPERATING IN FONTIER MARKET

Operational

- Lack of Governance
- Inadequate and Emerging
 Infrastructure
- Resource
 Availability and
 Capability
- Living in Fear

Financial

- Geopolitical and Political Risks
- Inflation
- Lack of Transparency
- Currency Risk

personal interests rather than that of the country the governance system has never had the opportunity to settle down. This can result in a lack of consistency, predictability and protection to its citizens leaving all kind of government, legal and regulatory issues open for personal interpretation and application.

- Inadequate and Emerging Infrastructure As you would expect in fast growing countries the investment in infrastructure can often fall behind the pace of (industrial) growth and urbanization. This can lead to significant shortages in energy, transport, financial services and education infrastructure.
- Resource Availability and Capability Almost every frontier markets has a few well regarded universities which educate the privileged few to become the future talent of the country. However there is a significant supply gap due to two main reasons:
- (1) The gap between these top universities and other higher education institutes is substantial, and

- (2) There are many temptations for talent to leave the country to pursue better paying opportunities abroad (the brain drain). These combined with a lack of exposure to developed management systems and processes leaves a capability gap, creating a significant resource shortage. Companies end up scrambling for resources and require significant time and monetary investment to bring employees up the curve.
- Living in Fear As <u>David Brook</u> explained in his NY Times opinion piece: The Republic of Fear, one thing that people from the developed world take for granted is that they can expect the state to provide a basic level of security, allowing them to

focus on improving their lives for themselves and their family. In many frontier markets this is not the case. Of course there are security risks to company assets but David eludes to something much deeper and rawer: The impact that living in a state of fear, where you can't be sure that your life, loved ones or belongings are safe, has on the psyche and wellbeing of its citizens. Only those who have lived through this can understand the consequences of living in a shadow of fear on the productivity of employees.

Financial Risks in Frontier Markets

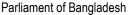
<u>Investopedia</u> identifies a number of financial risks associated with moving into frontier markets including geopolitical and political risks, inflation, lack of transparency and currency risk. Let's look into each one.

Dubai – Satellite Image, 2000 vs 2010



Although not a frontier market anymore, the satellite picture below shows the change in Dubai between 2000 and 2010. There's no developed market which could imaging growth like this







Sri Lanka Presidential Secretariat's headquarters



President Palace of Vietnam

- Geopolitical and Political Risks Many frontier markets are located in unstable areas
 and as a result geopolitical risks are a serious concern. Political change is another
 issue that should be considered since a change of government may be accompanied
 by significant unrest and instability.
- Inflation This is a constant threat in some frontier markets and may erode investment returns substantially over a long period of time.
- Lack of Transparency Most frontier markets suffer from a lack of transparency and have inadequate information sources.
- Currency Risk The steep decline in some emerging market currencies like the Indian Rupee in 2013 highlights the risk posed by investing overseas.

Frontier Market Opportunities

So are the risks worth it? Having been around in frontier market for the majority of my working life I answer this question with a resounding YES. Here are 4 reasons why I have stuck around, made Asia my home and lived through bomb blasts, floods, unforgettable parties and tremendous change. The opportunities that the region provides are not only fulfilling business wise but on a personal level as well.

FRONTIER MARKET OPPORTUNITIES

- Growth
- Forward Looking
- Everything is Possible
- Make an Impact

• **Growth** - This is the electric current that drives everything in frontier markets. Anything you touch has the potential to turn into the next big thing. Everybody is looking for betterment: for themselves, their families and their companies. There's a palpable excitement and energy in the air. China is the best example of this. I was there between '97 and '99 when its growth was still in the acceleration phase. I remember that at the time, there was an urban legend that 80% of all high rise cranes in the world were in China – now that's growth. It was all about

how to grow, make it bigger and better. Discussions were not how you could get 10 or even 20% return on your investments. People wouldn't even consider an investment unless they could profit with more than 40%. Everything was about growth and improvement – it had a buzz and energy that can't be replicated.

- Forward Looking As everything moves forward in overdrive people don't have time to look back over their shoulders and reminisce about the past. I loved Vietnam for that. Work and life in the early 2000's was electric and the Vietnamese despite all their suffering at the hand of the American's during the American War (as they call it in Vietnam) never held a grudge against the Americans or any westerners for that matter. They just focused on what the future would bring, were keenly interested in learning, developing and readying themselves for it. And look at where they are now in twenty years (since the early Doi Moi years) they have become one of the feared Asian Tigers.
- Everything Is Possible Every year I go home I'm so happy that I don't have to work there. The standard answer I get on my questions on whether something can be done is given verbatim from a Standard Operating Procedure Manual and normally involves 3 weeks of waiting, a significant outlay of money and/or a variation on the answer 'sorry but that is not possible'. On the other hand, in frontier markets everything is possible and things get done in a relatively short amount of time. I have organized employee events where conference halls were transformed into Gladiator inspired

Arena's or F1 copied race tracks for 1600 people within a matter of 2 weeks. Turnaround times are within hours and you can meet any senior executive or government official, with the right introduction of course, within days.

• Make an Impact - Due to its phase of development a frontier market by definition is a place where small actions can have huge impacts. People regularly raise a relatively low amount of money whether it be rupee, dong or shilling and support a whole school for \$15,000 / year. Abdul Satter Edhi, a Pakistani philanthropist, now leads the world's largest voluntary ambulance service with 1800 vehicles from a 2-bedroom apartment. You don't have to look far in frontier markets to make an impact – teach people, build infrastructure, provide health care services, provide clean water or build an active social society. Everything is possible.

Leadership Traits Required to Succeed in Frontier Markets

There are certain characteristics of leaders who are able to extract the significant opportunities of working in frontier markets despite numerous risks involved. There has been a great deal of research on what makes a successful leader and Dave Ulrich highlights that there are 5 leadership competencies determine 60-70% of the success of a leader. The additional 30% are different for various situations and contexts. The combination of the

Dave Ulrich - The Leadership Code



The 5 leadership competences that determine the success of 60-70% of a leader.

basic and differentiating competencies defines leaders who create value and have a sustainable competitive advantage.

LEADERSHIP TRAITS REQUIRED TO SUCCEED IN FONTIER MARKETS

- Adaptability
- Networking
- 3. Street Smart
- 4. Imagination
- Taking and Hedging Risks
- 6. Will Power

Not a lot of research has been done on what makes leaders succeed in Frontier Markets. Obviously they should be able to excel in the 'generic' leadership competencies as identified by Ulrich. However, based on my experience over the past 17 years in operating in frontier markets I think these are not enough. I have distilled 6 additional traits that make the difference between leaders that flourish in frontier markets versus those who fail.

1. Adaptability

First of all a leader in frontier markets has to be adaptable. A key characteristic of these markets is the environment is so fluid that what makes sense today, does not have to make sense tomorrow – every day is different. Leaders need to be agile, anticipate and adapt to different circumstances. Government policies change regularly, security situations can cause lack of access to large swaths of customers in the blink of an eye and currency fluctuations can render your imported goods inventory worthless in weeks.

2. Networking

Most things in Frontier Markets happen not because of what you can do but from who you know. Getting things done is more personality driven rather than process or systems driven. Getting clearance to import products is linked to who you know, resolving a catastrophic new regulations is linked to who you know, getting the right talent in the organization is linked to who you know, getting licenses is linked to who you know. You must have the right contacts and keep developing your network.

3. Street Smart

Leaders that keep their heads in the clouds won't succeed in frontier markets. You must understand how things work at an operational and basic level. You have to understand







Ulaanbaatar, Capital of Mongolia



Parliament of Kazakhistan

the lives and concerns of your employees, customers and suppliers to be able to get the best out of them. Conceptual frameworks don't work. Even if you have one you can only succeed if you translate them to meaningful information for individuals. In **China** I learned that you can get agreements on concepts within minutes but agreements on how to implement takes days because this is where the 'rubber hits the road' for people. This is the step where they understand how the project will work and how it will affect them. The psyche of the people that you're working with will dictate how you proceed with your work and ultimately your success.

4. Imagination

People get excited and engage if you can paint an exciting and enticing picture of the future you want to create. One of the characteristics of frontier markets is that everything is possible (this is different from that everything is easy!). Leaders who understand this have the ability to imagine a bold future and are able to translate how to get there. They're the ones who are truly able to capture the growth potential that frontier markets offer.

5. Taking and Hedging Risks

Huge growth requires you to be able to take large risks, understand the potential pitfalls and take measures to hedge your bets. A number of years ago a pharma company in China took risks to significantly expand their sales force and move into secondary and tertiary cities, cities were no other multinational companies had gone before. Their bet paid off and they became the #1 international pharma company. During the same time while I was at Walls China in the 90's, Wall's wanted to expand its distribution and decided

to place hundreds of thousands of ice cream freezers across the country. They lost track of the freezers which disappeared causing the company to lose millions of dollars in the process. You have to be willing to take the risks and accept that there may be consequences to pay.

6. Will Power

Whether you call it will power, perseverance or grit you need a huge dose of it to succeed in frontier markets. They will test your will power to the limit. As much as everything is possible, everything can go wrong. In order for you to stay the course you have to be obsessed, intense and willing to sacrifice other things in order to make it work. Working in frontier markets is not for the faint hearted, succeeding in frontier markets is only for the strong willed.

How to Succeed as an Expat in Frontier Markets

Working in a frontier market is very different than working in developed ones. On the plus side, anything is possible and you have the ability to make a huge impact if you get it right. On the down side: it never goes the way you expect it to go! Over the years I have seen plenty of expats. Some have been largely successful while others were drastic failures. From these examples I have distilled 10 lessons for expats to succeed in frontier markets.

Lesson 1: Keep on Smiling

Within a couple of months I can often predict which expats will be successful and who won't.

The secret: Expats that succeed only smile at things that go wrong, whereas expats that fail get frustrated about things not going their way.

Keep on smiling! Whatever expat life throws at you keep on smiling. Your frustrations won't change anything anyway, so it's better to go with the flow and have some fun during the journey.

10 LESSONS FOR EXPATS TO SUCCEED IN FRONTIER MARKETS

- Keep on Smiling
- Accept that Things Will and Should be Done Differently
- 3. Submerge Yourself
- 4. Don't Ever Think Your Understand It
- 5. Thrive on Chaos
- Keep Yourself Grounded
- Settle the Family
- 8. Buy That Boat
- Seek Comfort in Familiarity
- 10. Develop Three Successors

Lesson 2: Accept that Things Will and Should be Done Differently

The second trap expats in frontier markets fall into is the fallacy that they are there to 'teach' others how to do things. This is true in regards to transferring knowledge but your way is not the only way. Accept that things can be done differently while achieving similar results. Don't impose your views and solutions. Let people come up with their own ideas and ways of doing things.

Lesson 3: Submerge Yourself

Dive right into the culture. Learn the language. Disclaimer: after two failed attempts in China and Vietnam, I decided to stick to English in Pakistan and now of course after ten years in the country I still don't speak a word of Urdu! Understand and practice the do's and don'ts. This doesn't mean that you need to go overboard and don a Thawb, the long garment Arabic men wear, but respect and implement the basics.

Lesson 4: Don't Ever Think You Understand It

I love the expats who after a couple months proclaim that they now understand the culture, notwithstanding the fact that this culture has evolved over thousands of years. Don't patronize a culture, just accept that you will never fully understand its intricacies. In China I felt that the longer I stayed the less I actually understood the Chinese culture. And even after 10 years in Pakistan I still don't fully understand all the finer nuances of the society.

Lesson 5: Thrive on Chaos

The only way to survive in a frontier marketing is to thrive on chaos. They're called frontier markets for a reason: everything is in motion and there are no fixed or right ways of doing

things. And if there is, it can change any minute. That's the wonderful thing about these markets, what is not possible one day, will be possible the next (and vice versa). Use this to your advantage.

Lesson 6: Keep Yourself Grounded

In their home countries, most expats are middle-managers with relatively ordinary lives. Once relocated to a frontier market, they are suddenly put into high profile roles, given significant responsibilities, enhanced social status and provided with a luxurious lifestyle unheard of in their home country. They also attract all kinds of attention from people seeking to make the same kind of fortune and fame by association. This is a cocktail that could swipe even the most grounded individual off his feet and yield to self-destructive temptations. Don't take yourself too seriously – being humble will increase people's respect to new boundaries.

Lesson 7: Settle the Family

For most people going to a new country, taking on new responsibilities, joining a new organization and meeting with new people is a daunting challenges. Add the parent company's expectations to deliver and you've got your plate full. As a result an expat's initial focus is primarily the job. We often end up forgetting the family and assume they will sort themselves out. Remember that the changes are as big (or even bigger) for your spouse and children since they don't have the familiarity and support of a workplace. Make sure your family is settled since they will be the backbone for your success in the country.

Lesson 8: Buy That Boat

I remember my induction course in Unilever way back in the 80's. During this course a Dutch expat was sharing his 'life as an expat' experience. One thing I'll never forget was his story about this sailing boat he wanted to buy over there. He had been in doubt for a long time about making the investment. As his expatriation was about to finish he decided to not buy the boat but admitted that he always regretted the decision since his contract was extended for 2 years afterwards. Morale of the story: live your life as if you're going







The Roman Bath Park, Lebanon



The Sultan's Palace in Oman

to stay in your expatriation forever. And if/when it's time to leave, just unwind your life and do it all over again in your new location.

Lesson 9: Seek Comfort in Familiarity

Build a support network of like-minded expats that you can hangout with on a regular basis. These are the people you'll be able to share your frustrations with, get help from and who can point you in the right direction. Little tips like when the latest imported products have arrived and sharing the passion of a home sport can make a big difference. Don't hide yourself in the expat network but use it when you need to.

Lesson 10: Develop Three Successors

My most important lesson: develop three successors. I have seen so many expats who need to be succeeded by another expat after their contract expires. In my book that's a failure – a failure to develop local talent. What should the local team think if expatriate after expatriate comes over and enjoys life in the company and their country? Your main responsibility as an expat is to make yourself redundant and provide opportunities for local managers to take over.

So the risks are there and there's an added effort required to create a successful organization in any frontier market. But I firmly believe that nearly anyone with experience in the region would agree that knowing the opportunities, being aware of the risks and understanding the skills required can open the door to the incredible opportunities available.



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