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LEASING & FINANCIAL SERVICES

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## RECOGNIZING CULTURAL DIFFERENCE... Key to Global Vendor Success

*Americans often tend to judge others by their own boundaries. Recognizing the diversity inherent in the global markets is critical to the continued growth of our industry. Real opportunity exists for those lessors who recognize this and can seamlessly deliver global programs that offer localized delivery of products and services.*

By Paul A. Larkins

Today vendors simply expect seamless delivery of products and services in a multitude of jurisdictions around the world. Key Equipment Finance has expanded into 27 countries over the course of its nearly 30-year history. Our experience has been that vendors and their customers vastly prefer doing business with people who work and live locally. Customers in Europe, for example, prefer to do business with their fellow countrymen and it makes a big difference day to day. It is a cultural preference that is rooted in centuries of history.

As companies expand into global markets there is often desire to centralize operations for the sake of efficiency or cost containment. On paper this makes sense. Looking back at history, particularly that of many lessors, this can be seen as a questionable tactic. Local talent is a requirement in many areas such as credit and customer service. Additionally, any given country could, and typically does, support multiple languages, cultures, and resulting business practices. Based on these facts, we have determined that cutting costs by over-centralizing the business typically will not pay off in the long run.

### Client Expectations

Vendors' program expectations often differ from the program's market requirements. Vendors' program expectations tend to be more generic on a global level, while market requirements are decidedly more local, detailed and specific. For example, all vendors want, among other things, exceptional customer service, easy access to information and the effective use of technology. But on a local level, vendors also want the lessor to understand the regulatory environment, how to structure and customize products and services in their market, pricing conventions, billing conventions, etc. Operations that are not localized in their ability to support the business geographically are at a major disadvantage. This is especially true for companies operating in multiple jurisdictions.

### Think Global, Act Local

Lessors who have an international presence have a major advantage in the competitive global leasing market. In most cases, lessors are provided the directive/opportunity by the vendor to roll out a global leasing

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program. Strategically this makes sense, however the practical limitations must be considered. In some cases, one's most popular financial product in one country may violate tax or regulatory laws in another. In reality, global launches are a series of country launches. This approach allows the lessor, with his intimate knowledge of local practices, to tailor the program's products and services to the unique needs of the jurisdiction.

Many vendors look to their global finance partner to provide direction on the launch of a global program. Typically the collective knowledge of the lessor's team far exceeds that of the vendor's own financing arm. Key Equipment Finance invests a considerable amount of time educating vendors on the nuances of global program launches.

### **New Markets, New Challenges**

Like many other lessors, Key Equipment Finance has found that the best strategy for entering new markets is to partner with a vendor customer. Before venturing into a new market, lessors need to size up the opportunity thoroughly. The cost associated, in terms of human and capital resources, can be tremendous. Additionally, there is no guarantee that the infrastructure developed in a specific initiative will be transferable to the next market into which a company expands.

Companies looking to conduct business in a given country must understand the country requirements, business practices, credit assessment possibilities, the civil and tax laws, and the subtle nuances that are critical to all types of communication. To benefit by efficiency, lessors then need to tailor products and services to reflect local customs without having to do a major retooling in each country.

This can be a challenge to inexperienced lessors if they look at the international regions as a collection of states. It is probably safe to say that many global markets have tired of the American trend of treating their individual countries as homogeneously as we treat our 50 united states. Even if one masters all of the regulatory, tax, legal, cultural and language issues in a given country, they would only be scratching the surface for that *one* country.

Additionally, in many cases the fact that you have a long-standing relationship with a vendor in one country means nothing to the same vendor in another country. In this case, you still have to earn your client's respect. This was the case with one of our global vendor leasing

programs many years ago. Despite the fact that the program had been in place for several years in the U.S., the vendor's local management team in Europe refused to acknowledge that relationship—this was a normal practice in that culture. It took one of our country managers several years to gain the trust of the local branch so that he could formally introduce the program to the vendor's sale people. This highlights how critically important it is to have talented country managers.

### **HR Management Just as Challenging**

Recruiting personnel is very difficult, regardless of your location. Competition for experienced talent is very high. Having a strong brand name in the marketplace eases recruiting efforts considerably, as does organizational longevity.

Recruiting for the top job in a given location (the country manager position) is especially difficult, given the typically rigorous requirements of the job. Country managers, for example, not only need to be able to communicate effectively across their own company, but must also know the local marketplace and have an entrepreneurial spirit that is strong enough to develop and expand what is often a start-up operation.

Retaining talent within the organization is a function of competitive compensation packages, a strong strategic plan for the organization and a culture that fosters empowerment, promotional opportunities, entrepreneurial spirit and work that enables employees to showcase their skills. Having a flexible organization that can quickly respond to market changes is important, as well.

Key Equipment Finance has found that the best approach to staffing operations overseas is not only to rely heavily on local talent, but also to include professionals from the headquarters operation. Although often not in a management role, seasoned professionals from headquarters often assist with communicating the needs of the international operation to the parent company. This (professional placement) also ensures that the needs of the parent company are accommodated as much as possible in the international operation. Placing foreign nationals in the U.S. headquarters is essential, too. Cross-pollination, so to speak, is a very important part of one's future success.

Running an ex-patriot program is a lot more complicated than simply relocating employees and their families for a few years—at least if you want to do it right. An ex-

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pat program must be carefully managed. Career paths, job rotation, succession planning, and the needs of the employees and their families all need to be considered, planned and reviewed. There are also practical limitations to all these areas.

A classic mistake many companies make is to ignore the international experience of returning ex-pats. Upon returning to their home office, many ex-pats are given roles closely aligned with their functional expertise. Many expect that the ex-pats experience will be fully integrated into the business yielding smoother communications and processes between the two offices. Typically this is not the case. For the good of the business, it is important to avoid this mistake by capitalizing on the experiences of the ex-pat.

### **Corporate Structure is Important**

It is important to have an effective strategy in place to manage international funding and tax issues. A company's international corporate structure must be thoroughly reviewed since it has a tremendous impact on international taxation and regulatory considerations.

Our parent company, KeyCorp (NYSE: KEY) has been tremendously supportive of our international venues, recognizing the competitive distinction that we garner for the same. Additionally, having a strong, stable resource like KeyCorp can be instrumental in securing necessary funding, particularly since our cost of capital is often lower and more accessible than it is for many non-bank lessors.

### **Exporting Products/Practices is Possible**

The globalization of leasing is truly augmenting the composition of products and services across the board. In many cases, the products and services developed in one country can be exported to another country that has similar attributes. Customizing the product or service to reflect local market conditions enables lessors to easily offer innovative products and services without major retooling.

Exporting best practices between markets with similar attributes has worked well for Key Equipment Finance, and we have learned some lessons along the way. Compensation practices do not always export well, and you have to be careful that incentive programs abroad are not U.S.-centric. In the U.S., for example, stock options are very popular. But in many countries, stock options can generate a tremendous tax burden for both the employee and the employer, resulting in a potential negative impact to what was originally conceived of as a reward.

### **Toughest Challenge?**

The single biggest challenge in running an international business is communication. Due to cultural, time zone and language differences, communicating to international operations is exponentially more challenging. In the case of Key Equipment Finance, we've built

Intranets, distribute weekly electronic newsletters and conduct quarterly updates for all our employees. Additionally, we distribute critical info using Real™ streaming audio and video technology that is delivered directly to our employee's desktops. We also have included our non-domestic business unit managers in the overall management team. Despite all these efforts, we're just scratching the surface!

High levels of communication are especially important because of the increasingly global nature of our business. In the business development area, for example, communication is critical to our success. It is entirely possible that a representative from our Canadian office and a representative from our Italian office could be talking to the same vendor at the same time. It's important that a consistent message is delivered to our prospective and existing customer base; effective communication helps us do this.

Headquartered in the U.S., our global functional managers must also facilitate worldwide communication. This high level communication focuses around specific business practices. A typical conversation might revolve around reporting requirements. In most cases, the home office must communicate to operations outside the U.S. as to why reporting practices are required by certain U.S. examiners and auditors. The two-way communication between the home and international offices also serves a more subtle goal: understanding each other's needs. Instead of dictating these requirements, regular communication reinforces the global nature of our business as well as the needs of another area of the business.

### **Summary**

Americans often tend to judge others by their own boundaries. Recognizing the diversity inherent in the global markets is critical to the continued growth of our industry. Real opportunity exists for those lessors who recognize this and can seamlessly deliver global programs that offer localized delivery of products and services. *m*

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