Entrepreneurship

Eighth Edition

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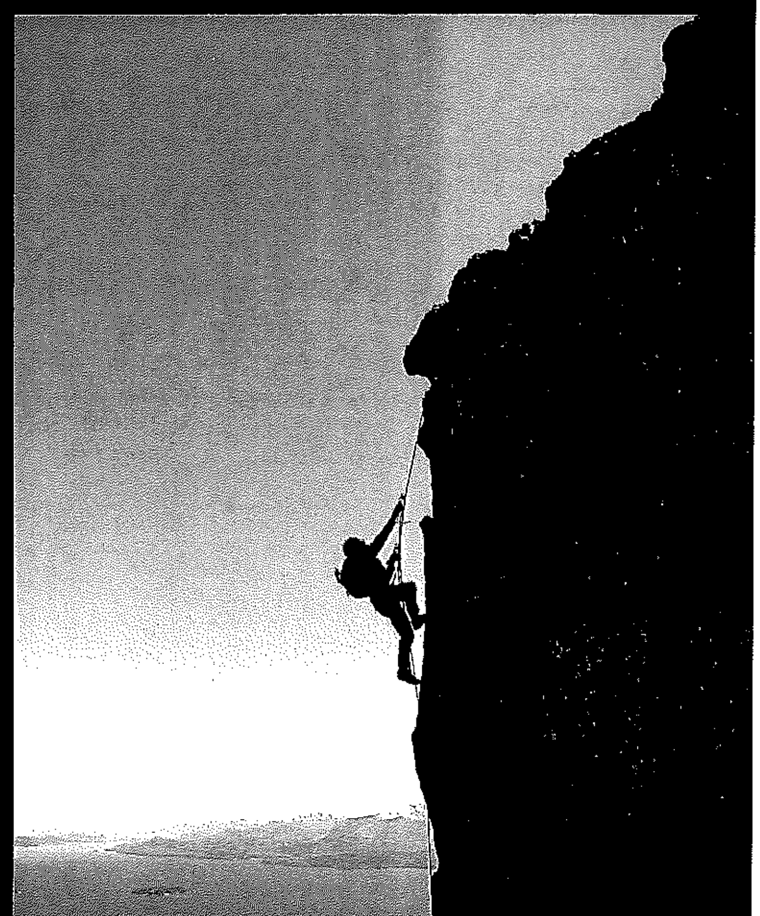

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IDENTIFYING AND ANALYZING DOMESTIC AND INTERNATIONAL OPPORTUNITIES

LEARNING OBJECTIVES

1
To understand the aspects and importance of identifying good domestic or international opportunities.

2
To be able to identify these opportunities.

3
To be able to create an opportunity analysis plan.

4
To present the problems and barriers of entering global markets.

5
To be able to select a global market.

6
To understand the options for entering a foreign market.

OPENING PROFILE

A. MALACHI MIXON III

Creativity, risk taking, and innovation in entrepreneurship are essential not only to the inception of new products and ventures, but also to a firm's successful transition into global markets. The case of Mal Mixon's notable revitalization of tiny Invacare Corporation exemplifies this connection.

www.invacare.com

Invacare traces its existence to the 1895 beginnings of the Worthington Company, a small Elyria, Ohio, firm that manufactured a line of vehicles especially designed for the physically challenged. Having undergone numerous changes due to mergers and acquisitions, the Worthington Company's small wheelchair business was sold to local investors, but on the basis of traditional business evaluation measures, there was not much to buy. Sales in 1979 were $19 million with 350 employees; the principal products were unwieldy, clunky steel manual wheelchairs, and no new products were on the drawing boards. The 1979 pro forma earnings statement that followed a Mixon-led leveraged buyout (LBO) indicated net earnings of only $100,000. Everest & Jennings, a public competitor more than seven times Invacare's size, controlled 80 percent of the domestic wheelchair market.

Mal Mixon, then vice president of marketing for the CT scanner products division of Johnson & Johnson's Technicare subsidiary, saw beyond manual wheelchairs and focused instead on the potential for home medical products. Assembling a group of local investors, he spearheaded a leveraged acquisition funded with $1.5 million of equity and $6.3 million in debt. The influence of Mixon's nurturing father, coupled with the effects of his upbringing in the small Oklahoma farming town of Spiro, instilled Mixon with confidence and a strong sense of purpose and determination. Intellectually curious, he learned to dream of the possibilities in life, to question everything, to take intelligent risks, to be persistent, and to become a fierce competitor. After he graduated from Harvard College, these traits were reinforced and supplemented with leadership skills acquired through four years of service in the Marine Corps, where he also learned how to deal with adversity. "You are taught to reach your objective no matter what . . . you never have an excuse for failure," says Mixon. Returning from the Marine Corps in 1966, Mal went back to Harvard for his MBA, graduating with distinction. He initially worked as a salesman, then became sales manager, and later was director of marketing for the Cleveland-based Harris Corporation. He moved to Ohio Nuclear, a subsidiary of Technicare, where he rose to vice president of sales and marketing of the CT scanner division. Mal was 39 years old when Johnson & Johnson divested Invacare.

Investing $10,000 of his own funds, $40,000 borrowed from friends, and a $100,000 note from Invacare, Mal took control of the company on January 2, 1980, retaining a 15 percent share. With a fierce tenacity reminiscent of the Marine Corps's "bulldog" mascot, Mixon's restructuring of Invacare was immediate and total. He soon replaced 16 of the 18 direct sales staff—"They didn't have fire in their bellies, and they didn't have the necessary talent"—and, more importantly, began working with the company's engineers to produce new products, believing that without a good product, nothing else matters. He initiated "one-stop shopping" by expanding the home health care line and cajoling, pleading, and offering volume discounts to skeptical customers to increase business. The three-pronged attack of revitalization, product/service development, and aggressive competitive orientation proved effective, and soon Invacare was capturing market share from Everest & Jennings. In the process, Invacare reduced the weight of its standard wheelchairs from 68 to 15 pounds, introduced microprocessor electronic control systems for power wheelchairs, and offered "30 different crazy colors," while dramatically reducing lead times. Everest & Jennings watched its wheelchair market share erode from 80 to 5 percent today.

Sales and earnings accelerated through the early 1980s and by the end of 1983, Invacare had $70 million in sales and $2.8 million in net earnings. In 1984, the company went public to obtain operating capital and to pay down the short-term debt that helped fund the company's growth during the 1980s. The initial public offering ($11 adjusted to two stock splits, or $2.75/share on NASDAQ) raised $15 million.

A major challenge presented itself in 1986 when a Taiwanese competitor began selling in the United States at 20 percent below prevailing prices. Aided by the facilities consolidations and plan reconfigurations that were launched in 1985, Invacare relocated some of its manufacturing to Mexico. This further improved its overall cost structure and competitive position. Invacare attacked the competition, meeting the imports head-on in price, with a superior product and a more extensive distribution and service capability. Because of Invacare's aggressive response, the Taiwanese imports failed to gain a foothold and ceased to be a major market factor by 1987. Sales, product lines, and earnings have increased steadily since. Invacare posted $100 million in sales in 1986, surpassed $200 million in 1990, $600 million in 1996, $1 billion in 2001, and $1.8 billion in 2008.

Product lines now include manual and powered wheelchairs; home respirator devices for oxygen, aerosol, and sleep therapy; home care beds; assistive aids; replacement parts; disposables; and electronic control systems. From a tenuous and ambitious beginning ($19 million in sales and a 10 percent market share in standard wheelchairs), Invacare, headquartered in Elyria, Ohio, has manufacturing plants in the United States, Australia, Canada, China, Denmark, Germany, France, Mexico, New Zealand, Portugal, Sweden, Switzerland, and the United Kingdom, and has 6,100 employees worldwide. The company conducts business in more than 80 countries around the world and has the largest distribution network in the industry. In 2008, Invacare had revenue of $1.8 billion, experiencing a 17 percent (from $19 million in 1979 to $1.8 billion in 2008) annual compounded average sales growth. Net income had a 23 percent increase from $100,000 in 1979 to $38.6 million in 2008 annual compounded growth in net income.

Mal Mixon continues to adapt and successfully manage a rapidly expanding company on a global level. Mixon is also recognized as a visionary leader. As stated by a friend and business acquaintance, "He's able to develop a vision faster than most people can pick up the telephone." The abilities to develop and articulate a sound vision, plan and execute an appropriate strategy for the enterprise, and maintain sound values are important elements of leadership, according to Mixon. Frequently, however, it is difficult for an entrepreneur to bridge the gap, or to manage and expand a venture, as evidenced by Steve Jobs and the turbulent growth of Apple Computer. As a new venture grows, there can be a need for more and more administration. It appears that this has been attended to in Invacare, as Mal has built a strong management team. Also, at times, a new infusion of the entrepreneurial spirit that has formed the venture is needed. Balancing entrepreneurship with administration becomes the challenge. As Mal puts it, "Entrepreneurship is creating business as opposed to administering business and having extensive personal capital at risk as opposed to compensation for a job."

INTRODUCTION

Unlike Mal Mixon, many entrepreneurs find it difficult to identify a market opportunity and expand the venture, especially in the global marketplace. To start and expand a venture, an entrepreneur needs to identify opportunities for domestic and international expansion. As a new venture grows and matures, a need can develop for different management skills as well as for a new infusion of the entrepreneurial spirit (intrapreneurship), as discussed in Chapter 2. Some entrepreneurs forget that a basic axiom in business is that the only constant is change. Entrepreneurs like Mal Mixon, who understand this axiom, effectively manage change by continually adapting organizational culture, structure, procedures, strategic direction, and products in both a domestic and an international orientation. Entrepreneurs in such developed countries as the United States, Japan, the United Kingdom, and the European Union must sell their products in a variety of new and different domestic market areas early on in the development of their firms or, as in the case of Mal Mixon's Invacare, determine how to expand into and prosper in international markets.

Never before in the history of the world have there been such interesting and exciting international business opportunities. The opening of the once-controlled economies of Eastern and Central Europe, the former U.S.S.R., the People's Republic of China, and Vietnam to market-oriented enterprise and the advancement of the Pacific Rim are just a few of the myriad of possibilities for entrepreneurs wanting to start or grow in a foreign market.

As more and more countries become market oriented and developed, the distinction between foreign and domestic markets will be less pronounced. What was once only produced domestically is now produced internationally. This blurring of national identities will continue to accelerate as more and more products are introduced outside domestic boundaries earlier in the life of entrepreneurial firms.

In the past decade, organizations have been attempting to redefine themselves as truly global organizations. The pressure to internationalize is being felt in virtually every organization: nonprofit and for-profit, public and private, large and small. This need to internationalize is accelerating due to the self-interest of the organizations themselves as well as the impact of a variety of external events and forces. Who would have believed a decade ago that today seven-eighths of the markets of the world would have some degree of market economics? Few predicted the rapid collapse of controlled economies that opened up astoundingly large new market opportunities and potentially more significant competition. Who would have ever imagined that a trading agreement would emerge between Canada, Mexico, and the United States, creating one of the world's largest and most prosperous trading blocs? Or who would have imagined the rise of economic power in China to become one of the largest economies in the world? Or the solidification of diverse nations into the European Union?

These changes are well recognized by organizations, which are investing trillions of dollars in a world economy that features emerging markets as the vehicles of future growth and one in need of major investment in infrastructure. Just ask the potato farmers in the Chuvash Republic of Russia, who saw 26 percent of their crop rot because of inadequate distribution and warehousing, whether there is a need for such investment in infrastructure. Or, ask the economics professor in the former U.S.S.R., who has to leave the university to find other employment due to the low university wages, whether massive investment is needed. Clearly, developing countries need training and education as well as infrastructure to support their development and growth in the next century.

There are also new market opportunities in Latin and South America, Africa, the Pacific Rim, Vietnam, Iraq, and countries throughout the world that are in transition. These areas are becoming major attractions to companies that want to grow and establish a market position as these economies change and go through privatization and deregulation.

The internationalization of entrepreneurship and business creates wealth and employment that benefits individuals and nations throughout the world. International entrepreneurship is exciting as it combines the many aspects of domestic entrepreneurship with such other disciplines as anthropology, economics, geography, history, jurisprudence, and language. In today's hypercompetitive world with rapidly changing technology, it is essential for an entrepreneur to at least consider entering a market outside the company's national borders.

International markets offer entrepreneurial companies new market opportunities. Since 1950, the growth of international trade and investment has been generally larger than the growth of domestic economies. A combination of domestic and international sales offers the entrepreneur an opportunity for expansion and growth that is not available in the domestic market alone. Using today's rapidly changing technology, an entrepreneur can have an even brighter growth potential in the future in today's truly global world.

OPPORTUNITY RECOGNITION AND THE OPPORTUNITY ASSESSMENT PLAN

The key to successful domestic and international entrepreneurship is to develop an idea that has a market with a need for the product or service idea conceived. The ideation process explained in Chapter 4 needs to be thought of in terms of satisfying a specific market need or as one entrepreneur stated, "making the customer more profitable."

What is deemed to be "profitable" varies by the product/service idea and particularly whether the idea is an industrial product (business-to-business market) or a consumer product (business-to-consumer market). This is best accomplished through the development of a market opportunity analysis plan.

Opportunity assessment is often best accomplished by developing an opportunity assessment plan. An opportunity assessment plan is *not* a business plan. Compared to a business plan, it should:

- Be shorter.
- Focus on the opportunity, not the venture.
- Have no computer-based spreadsheet.
- Be the basis for making the decision to either act on an opportunity or wait until another, better opportunity comes along.

An opportunity assessment plan has four sections—two major sections and two minor sections. The first major section develops the product/service idea, analyzes the competitive products and companies, and identifies the uniqueness of the idea in terms of its unique selling propositions. This section includes:

- A description of the product or service.
- The market need for the product or service.
- The specific aspects of the product or service.
- The competitive products available filling this need and their features.
- The companies in this product market space.
- The unique selling propositions of this product or service.

Some data sources for determining competition and market size are further discussed in the section on foreign market selection in this chapter.

The second major section of the opportunity assessment plan focuses on the market—its size, trends, characteristics, and growth rate. It includes:

- The market need filled.
- The social condition underlining this market need.
- Any market research data available to describe this market need.
- Any potential patents that could be obtained.
- The size and characteristics of the domestic and/or international market.
- The growth rate of the market.

The third section (a minor one) focuses on the entrepreneur and the management team in terms of their skills and experience. It should include answers to the following questions:

- Why does this opportunity excite you?
- How does the product/service idea fit into your background and experience?
- What business skills do you have?
- What business skills are needed?
- Do you know someone who has these skills?

The final section of the opportunity assessment plan develops a time line indicating what steps need to be taken to successfully launch the venture and translate the idea into a viable business entity. This minor section should focus on:

- Identifying each step.
- Determining the sequence of activities and putting these critical steps into some expected sequential order.

- Determining the time and money required at each step.
- Determining the total amount of time and money needed.
- Identifying the source of this needed money.

INFORMATION SOURCES

There are many sources of information both on competitive companies and products/services and the market size and characteristics available to the entrepreneur in identifying an appropriate opportunity as well as assistance in starting a new venture. These will be discussed in terms of general information sources, industry and market information sources, competitive company and product information, government sources, search engines, trade associations, and trade publications.

General Information

Information and assistance is readily available for entrepreneurs, particularly those starting a new venture. SCORE (www.score.org) is a nonprofit organization that provides free online and in-person assistance in about 400 chapter locations throughout the United States. The assistance takes the form of training, consulting, and mentoring provided mainly by retired executives and entrepreneurs.

Small Business Development Centers (sba.gov/aboutsba/sbaprograms/sbdc/sbdclocator/index.html) has small business development centers in over 1,100 locations throughout the United States. It provides counseling, training, and technical assistance on all aspects of starting and managing a new venture. Each location also has an on-site resource library. These centers are a part of the overall SBA (Small Business Administration) (sba.gov), which also provides a wide variety of resources and tools for the entrepreneur. One of the helpful items in the SBA's resource library is the Small Business Planner, a step-by-step guide for starting your new venture. The SBA also has a Women's Business Center and a Minority Business Center.

The U.S. Chamber Small Business Center (uschamber.com/sb) provides start-up assistance mainly through Web-based tools and resources. Its start-up toolkit is very helpful in starting a business as it focuses on everything from evaluating an idea to developing a business plan, accessing capital, and launching the venture. Other useful tools for various business documents, such as spreadsheet templates and other government forms, are also provided under the "Tools" section.

Other valuable Web sites providing useful information include:

1. *National Association of Small Business Investment Companies (nasbic.org).* Provides an online database of small venture capital firm members and a guide to obtaining SBIC financing.
2. *National Venture Capital Association (nvca.org).* Provides information on the venture capital industry as well as access to state and regional venture capital firms.
3. *National Business Incubation Association (nbia.org).* Provides information on the role of incubators, how to select the right incubator, and a listing of national and international incubators.
4. *FastTrac (www.fasttrac.org).* Funded by the Kauffman Foundation, provides educational programs for entrepreneurs throughout the United States.
5. *Active Capital (ACE-Net, activecapital.org).* Provides an opportunity for entrepreneurs to connect with accredited investors throughout the United States. Counseling, mentoring, and training are also provided.

6. *Collegiate Entrepreneurs' Organization (CEO, c-e-o.org).* Provides information on entrepreneurship programs at the undergraduate level at numerous colleges and universities.
7. *Consortium for Entrepreneurship Education (entre-ed.org).* Provides information on entrepreneurship programs and education throughout the United States.
8. *Ewing Marion Kauffman Foundation (kauffman.org).* Provides resources for entrepreneurship education and research and lists the angel (private investor) groups throughout the United States.

Industry and Market Information

There are a wide variety of databases available that provide significant information about the industry and market. These include:

1. *Plunkett.* Provides industry data, market research, trends and statistics on markets, and forecasts.
2. *Frost and Sullivan.* Provides very industry-specific information on industries such as aerospace and defense, chemicals/materials, telecom/IT, consumer products, electronics, energy, health care, industrial automation, and transportation.
3. *Euromonitor.* Provides consumer market sizes and marketing parameters as well as information on companies and brands.
4. *Gartner.* Provides information on technology markets.
5. *Gale Directory Library.* Provides industry statistics and a directory of nonprofit organizations and associations.

Competitive Company and Product Information

Besides personally investigating what is available by looking at the various options presently available for satisfying the market need, several sources supply significant information on competing products/services and their companies:

1. *Business Source Complete.* Provides company and industry information by scanning the Datamonitor reports.
2. *Hoovers.* Provides information on both large and small companies with links to competitors in the same NAICS (North American Industrial Classification System) category.
3. *Mergent.* Provides detailed company and product information on U.S. and international companies.

Government Sources

There are numerous information sources available from the U.S. government. These include the following:

- Census reports
  - factfinder.census.gov
  - www.census.gov/ipc/www/idb
  - www.census.gov/econ/census/ (ratios)
- Export/import authority
  - UN Comtrade
  - www.business.gov/expand/import-export

AS SEEN IN *BUSINESSWEEK*

MOM-AND-POP MULTINATIONALS

From the outside, the gray Victorian with the stained-glass windows on a gentrified block in Dorchester, Mass., is a typical middle-class dream house. But it also is the headquarters of what you might call a micro-multinational. Randy and Nicola Wilburn run real estate, consulting, design, and baby food companies out of their home. They do it by taking outsourcing to the extreme.

Professionals from around the globe are at their service. For $300, an Indian artist designed the cute logo of an infant peering over the words "Baby Fresh Organic Baby Foods" and Nicola's letterhead. A London freelancer wrote promotional materials. Randy has hired "virtual assistants" in Jerusalem to transcribe voice mail, update his Web site, and design PowerPoint graphics. Retired brokers in Virginia and Michigan handle real estate paperwork.

Global outsourcing is no longer just for big corporations. Increasingly, Main Street businesses from car dealers to advertising agencies are finding it easier to farm out software development, accounting, support services, and design work to distant lands. Elance, the Mountain View (Calif.) online-services marketplace that is the Wilburns' main connection to the cyberworkforce, boasts 48,500 small businesses as clients—up 70% in the past year—posting 18,000 new projects a month. Sites such as Guru.com, Brickwork India, DoMyStuff.com, and RentACoder also report fast growth.

But while other forms of e-commerce caught fire quickly, Web sites for freelancers have only recently begun to generate much momentum. Market researcher Evalueserve estimates that revenues for online service marketplaces will grow 20% in 2008, to $190 million, far from the initial hype.

Why has it taken buyers and sellers of services longer to get comfortable trading online than companies dealing in physical goods? An eBay for services, says Elance CEO Fabio Rosati, "was a brilliant idea that started too soon." But improved software, search engines, and new features are boosting the industry. Several sites now allow buyers to view detailed work samples and customer ratings for thousands of service vendors. Guru launched a payment system to mediate disputes and lets buyers put funds in escrow until work is received. Elance developed software to track work in progress and handle billing, pay, and tax records.

- North American Industrial Classification System (NAICS) and Standard Industrial Classification (SIC) codes
  - www.naics.com/info.htm
  - www.osha.gov/pls/imis/sic_manual.html

Search Engines

There are many key terms for searching for the needed industry, market, and competitive information. Some of the better ones are:

- Search: _______ and statistics
- Search: _______ and market share
- Search: _______ and industry
- Search: _______ and association

Trade Associations

Trade associations in the United States and throughout the world are also a good source for industry data about a particular country. Some trade associations do market surveys of their members' domestic and international activities and are strategically involved in international standards issues for their particular industry.

Those upgrades are starting to make a difference. Elance, which makes money by charging subscription fees and a 4% to 6% cut of each project, expects total billings to rise 50%, to $60 million, this year. Guru predicts similar growth, to $26 million.

The Wilburns began buying graphic designs through Elance in 2000. They say they shifted to radical outsourcing after reading the 2007 Timothy Ferriss best-seller, *The 4-Hour Workweek: Escape 9-5, Live Anywhere and Join the New Rich,* which extols the merits of freeing up time by hiring cheap offshore "virtual assistants" to handle scheduling and other routine tasks.

Remote help has allowed 38-year-old Randy Wilburn to shift gears with the economy. His real estate business has slowed, so he spends more time advising nonprofits across the U.S. on how to help homeowners avoid foreclosure. Virtual assistants have handled routine correspondence and put together business materials while he's on the road, all for less than $10,000 a year. He figures a full-time secretary would run $45,000. Nicola, a 35-year-old designer, decided to work from home after she had their second child. Nicola now farms out design work to freelancers and is starting to sell organic baby food she cooks herself. She is setting up a Web site for that business and offered $500 for the design work. Of the 20 bidders who responded via Elance, 18 are from outside the U.S.

The couple uses two main offshore vendors. One is GlobeTask, a Jerusalem outsourcing firm that employs dozens of graphic artists, Web designers, writers, and virtual assistants in Israel, India, and the U.S. It generally charges $8 an hour. The other is Kolkata's Webgrity, which has a staff of 45 and charges $1 to $1.20 an hour. Five years ago, says founder Amit Keshan, 32, his company designed Web sites for Indian clients. Now he does all his business through Elance, handling up to 300 jobs each month for U.S., British, and Australian clients. For $125, Webgrity designed a logo for Wilburn's real estate business that Wilburn says would have cost as much as $1,000 in the U.S.

A worldwide market where even mom-and-pop businesses outsource could still be years from attaining wide appeal. But micro-multinational entrepreneurs like the Wilburns may not be rarities for much longer. "People will do it the old way until it becomes a no-brainer to do it the new way," predicts Elance's Rosati.

Source: Reprinted from July 14, 2008 issue of *BusinessWeek* by special permission, copyright © 2008 by The McGraw-Hill Companies, Inc., "Mom-and-Pop Multinationals," by Pete Engardio, *BusinessWeek,* pp. 77–78.

Trade Publications

There are numerous domestic and international publications specific to a particular industry that are also good sources of information. The editorial content of these journals can provide interesting information and insights on trends, companies, and trade shows by giving a more local perspective on the particular market and market conditions. Sometimes trade journals are the best, and often the only, source of information on competition and growth rates in a particular industry.

THE NATURE OF INTERNATIONAL ENTREPRENEURSHIP

international entrepreneurship An entrepreneur doing business across his or her national boundary

Simply stated, *international entrepreneurship* is the process of an entrepreneur conducting business activities across national boundaries. It may consist of exporting, licensing, opening a sales office in another country, or something as simple as placing a classified advertisement in the Paris edition of the *International Herald Tribune*. The activities necessary for ascertaining and satisfying the needs and wants of target consumers take place in more than one country. When an entrepreneur executes his or her business model in more than one country, international entrepreneurship is occurring.

With a commercial history of only 300 years, the United States is relatively new to the international business arena. As soon as settlements were established in the New World, American businesses began an active international trade with Europe. Foreign investors helped build much of the early industrial trade as well as much of the early industrial base of the United States. The future commercial strength of the United States will similarly depend on the ability of U.S. entrepreneurs and established U.S. companies to successfully do business in markets outside the country.

THE IMPORTANCE OF INTERNATIONAL BUSINESS TO THE FIRM

International business has become increasingly important to firms of all sizes—particularly today, when every firm is competing in a hypercompetitive global economy. There can be little doubt that today's entrepreneur must be able to move in the world of international business. The successful entrepreneur will be someone who fully understands how international business differs from purely domestic business and is able to respond accordingly, thereby successfully "going global."

INTERNATIONAL VERSUS DOMESTIC ENTREPRENEURSHIP

Although both international and domestic entrepreneurs are concerned with sales, costs, and profits, what differentiates domestic from international entrepreneurship is the variation in the relative importance of the factors affecting each decision. International entrepreneurial decisions are more complex due to such uncontrollable factors as economics, politics, technology, and culture (see Table 5.1).

Economics

In a domestic business strategy, a single country at a specified level of economic development is the focus of the firm's entrepreneurial efforts. The entire country is organized under a single economic system and has the same currency. Creating a business strategy for a multicountry area means dealing with differences in levels of economic development; currency valuations; government regulations; and banking, venture capital, marketing, and distribution systems. These differences manifest themselves in each aspect of the entrepreneur's international business plan and method of doing business.

Stage of Economic Development

The United States is an industrially developed nation with regional variances. While needing to adjust the business plan according to regional differences, an entrepreneur doing

TABLE 5.1 International versus Domestic Business

- Economics
- Stage of economic development
- Current account
- Type of economic system
- Political–legal environment
- Language

business only in the United States does not have to worry about significant lacking of such fundamental infrastructures as roads, electricity, communication systems, banking facilities and systems, adequate educational systems, a well-developed legal system, and established business ethics and norms. These factors vary greatly in other countries, which impacts a firm's ability to successfully engage in international business.

Current Account

current account The trade status of imports/exports between countries

With the present system of flexible exchange rates, a country's *current account* (the difference between the value of a country's imports and exports over time) affects the valuation of its currency. The valuation of one country's currency affects business transactions between countries. At one time, Italy's chronic balance of payments deficit led to a radical depreciation in the value of the lira, the currency of Italy. Fiat responded by offering significant rebates on cars sold in the United States. These rebates cost Fiat very little because fewer dollars purchased many more lire due to the decreased value of the lira. Similar exchange rate divergences have occurred for Japanese automobile manufacturers and many products produced by Chinese firms, including steel and steel alloys.

Type of Economic System

Pepsi-Cola began considering the possibility of marketing in the former U.S.S.R. as early as 1959, following the visit of U.S. Vice President Richard Nixon. When Premier Nikita Khrushchev expressed his approval of Pepsi's taste, the slow wheels of East–West trade began moving, with Pepsi entering the former U.S.S.R. 13 years later. Instead of using its traditional type of franchise bottler in this entry, Pepsi used a barter-type arrangement that satisfied both the socialized system of the former U.S.S.R. and the U.S. capitalist system. In return for receiving technology and syrup from Pepsi, the former U.S.S.R. provided the company with Soviet vodka and the distribution rights in the United States. Many such *barter* or *third-party arrangements* have been used to increase the amount of business activity in countries in various stages of development and transition.

barter A method of payment using nonmoney items

third-party arrangements Paying for goods indirectly through another source

Political–Legal Environment

The variety of different political and legal environments in the international market creates vastly different business problems, opening some market opportunities for entrepreneurs and eliminating others. One significant event in the political–legal environment involves the price fluctuations and significant increases and decreases in oil and other energy products.

A country's legal environment can influence each element of the business strategy of an entrepreneur. Pricing decisions in a country that has a value-added tax (VAT) will differ from pricing decisions made by the same entrepreneur in a country with no value-added tax. The value-added tax addition may increase the price above a price threshold and/or distort the advantage of ending a price in .79, .89, or .99. Advertising strategies are affected by variations in what can be said in the copy or in the support needed for advertising claims in different countries. Product decisions are affected by legal requirements with respect to labeling, ingredients, and packaging. Types of ownership and organizational forms vary widely throughout the world. The laws governing business arrangements also vary greatly, with more than 150 different legal systems and national laws.

While most entrepreneurs generally prefer to do business in stable and freely governed countries, good business opportunities often occur in different conditions. It is important to assess each country's policies and stability. This assessment is referred to as *political risk analysis*. While there is some political risk in every country, the range from country to country varies significantly, and even in a country with a history of stability and consistency, these conditions could change. There are three major types of political risks that might be present: operating risk (risk of interference with the operations of the venture), transfer risk (risk in attempting to shift assets or other funds out of the country), and—the biggest risk of all—ownership risk (risk where the country takes over the venture's property and employees). Of course, conflict and changes in the solvency of the country are major risks to an entrepreneur in a particular country. This can take such forms as guerilla warfare, civil disturbances, and even terrorism where the entrepreneur's company and employees are targets.

political risk analysis Prior to entering into business in another country, an assessment of that country's political policies and its stability

A country's legal system, composed of the rules and laws that are used to regulate behavior as well as the processes by which the laws are enforced, also impacts the entrepreneur. The laws of a country regulate the business practices in that country, the manner in which business transactions are executed, and the rights and obligations involved in any business transaction between parties.

The entrepreneur should have an overall sense of the legal system of a country but usually needs legal counsel when it comes to specifics. Ideally this legal counsel would have its headquarters in the United States, with an office in the target country. Several areas are critical to some extent for every entrepreneur: (1) property rights, (2) contract law, (3) product safety, and (4) product liability.

Countries vary significantly in the degree to which their legal system protects the property rights of the individual and the business. The property rights of a business are the resources owned, the use of these resources, and the income earned from this use. Besides buildings, equipment, and land, the protection of intellectual property is a very great concern, particularly for technology entrepreneurs. Intellectual property—such as a book, computer software, a score of music, a video, a formula for a new chemical or drug, or some other protected idea—is very important to a firm and needs to be protected when going outside the United States. Legal issues and property protection are discussed in Chapter 6. Few countries have laws and court procedures protecting intellectual property like those in the United States. You probably have heard how videos can be purchased in China at 10 percent of the cost in the United States—sometimes even before being officially released. Even this book—which has legal editions in several languages, including Arabic, Chinese, Hungarian, Indonesian, Portuguese, Russian, Slovenian, and Spanish—has an illegal edition in the Iranian language, as Iran does not recognize world copyright laws. Before entering a country, the entrepreneur needs to assess that country's protection of the intellectual property of her venture and the costs if these are copied illegally.

Another area of legal concern is the contract law of the country *and* how it is enforced. A contract specifies the conditions for an exchange and the rights and duties of the parties involved in this exchange. Contract law varies significantly from country to country, in part reflecting the two types of legal tradition—common law and civil law. Countries operating under common law include the United Kingdom, the United States, and most countries of the former British colonies. Countries operating under civil law include France, Germany, Japan, and Russia. Common law tends to be relatively nonspecific, so contracts under this law are longer and more detailed, with all the contingencies spelled out. Since civil law is much more detailed, contracts under it are much shorter.

In addition to the law itself, the entrepreneur needs to understand how the law might be enforced and the judicial system securing this enforcement. If the legal system of the country

TABLE 5.2 Lost in Translation

Even the best-laid business plans can be botched by a careless translator. Here's how some of America's biggest companies have managed to mess things up:

Kentucky Fried Chicken	English: "Finger lickin' good."	Chinese: "Eat your fingers off."
Adolph Coors Co.	English: "Turn it loose."	Spanish: "Drink Coors and get diarrhea."
Otis Engineering Corp.	English: "Complete equipment."	Russian: "Equipment for orgasms."
Parker Pen Co.	English: "Avoid embarrassment."	Spanish: "Avoid pregnancy."
Perdue Farms Inc.	English: "It takes a tough man to make a tender chicken."	Spanish: "It takes a sexually excited man to make a chick affectionate."

Source: From "Speaking in Tongues," *Inc.* magazine, June 2003. Reprinted with permission of *Inc.* magazine.

does not have a good track record of enforcement, the contract should contain an agreement that any contract disputes will be heard in the courts of another country. Since each company might have some advantage in its home country, usually another country is selected. This aspect is very important for entrepreneurs operating in developing economies with little or even a bad history of enforcement. One company exporting Hungarian wine into Russia made sure any disputes in its Russian contracts would be heard in the Finnish court system rather than the Russian court system.

The final overall area of legal concern pertains to the laws of the country regarding product safety and liability. Again, these laws vary significantly among countries, from very high liability and damage awards in the United States to very low levels in Russia and China. These laws also raise an ethical issue for the entrepreneur, particularly one from the United States. When doing business in a country where the liability and product safety laws are much lower than in your home country, should you follow the more relaxed local standards or adhere to the stricter standards of your home country and risk not being competitive and losing the business?

Language

Sometimes one of the biggest problems for the entrepreneur is finding a translator. As indicated in Table 5.2, significant problems can occur with careless translation. To avoid such errors, care should be taken to hire a translator whose native tongue is the target language and whose expertise matches that of the original authors.

TECHNOLOGICAL ENVIRONMENT

Technology, like culture, varies significantly across countries. The variation and availability of technology are often surprising, particularly to an entrepreneur from a developed country. While U.S. firms produce mostly standardized, relatively uniform products that can be sorted to meet industry standards, this is not the case in many countries, making it more difficult to achieve a consistent level of quality.

New products in a country are created based on the conditions and infrastructure operating in that country. For example, U.S. car designers can assume wider roads and less expensive gasoline than European designers. When these same designers work on transportation vehicles for other parts of the world, their assumptions need to be significantly altered.

ETHICS

ETHICS MUST BE GLOBAL, NOT LOCAL

In business school, we used to debate whether your business ethics should adapt to the local environment or be the same around the world. Many of my classmates argued, "When in Rome, do as the Romans do." In other words, follow local practices. Those were the days when leading ethicists like Joseph Fletcher and James Adams at Harvard were promoting "situation ethics," based on flexible, pragmatic approaches to complex dilemmas.

I listened to their arguments but never could figure out how leaders of business organizations could operate with one set of principles in their homeland and another overseas.

In the 1970s, the Foreign Corrupt Practices Act (FCPA) sent a chill throughout the business community by criminalizing the act of making payments outside the United States in pursuit of contracts. Yet the practice persisted. Many U.S. executives lobbied to relax the FCPA's provisions, arguing that they were at a competitive disadvantage in bidding against non-U.S. companies.

RISKING THE COMPANY'S REPUTATION

These days the business world has gone global, which has intensified the ethics debate. Making payments to obtain business is common practice in many developing markets in Asia, Africa, the Middle East, and Eastern Europe, and some companies feel obliged to play the game to compete. Witness Germany's Siemens (SI), which has admitted to nearly $2 billion in bribes, leading to the resignations of both its board chairman and its CEO in 2007. Then there's Britain's BAE Systems, which has been accused of making a $2 billion payment to a Saudi prince to secure $80 billion in government contracts. (The company denied the allegation, which is being investigated by the U.S. Justice Dept.)

What's significant about these ethical scandals is the damage they do to great institutions. If you were leading such an organization, would you risk permanently damaging your company to win a few overseas contracts? Regrettably, for some executives the answer is yes.

Forty years of experience has strengthened my belief that the only way to build a great global company is with a single global standard of business practices, vigorously communicated and rigorously enforced. Applying "situation ethics" in developing countries is the fastest way to destroy a global organization. To sustain their success, companies must follow the same standards of business conduct in Shanghai, Mumbai, Kiev, and Riyadh as in Chicago.

ENGAGE THE CEO IN THE PROCESS

How else will employees in far-flung locations know what to do when pressured by customers or competi-

CULTURE

Probably the single most important problem confronting the entrepreneur occurs when crossing cultures. While culture has been defined in many different ways, the term generally refers to common ways of thinking and behaving that are passed on from parents to children or transmitted by social organizations, developed, and then reinforced through social pressure. Culture is learned behavior and the identity of an individual and society.

Culture encompasses a wide variety of elements, including language, social structure, religion, political philosophy, economic philosophy, education, and manners and customs (see Figure 5.1). Language, sometimes thought of as the mirror of culture, is composed of verbal and nonverbal components. Messages and ideas are transmitted by the spoken words used, the voice tone, and nonverbal actions such as body position, eye contact, and gestures. An entrepreneur or someone on her team must have command of the language in the country in which business is being done. Not only is it important for information gathering and evaluation, but it is also essential for communication among those involved as well as eventually in developing the advertising campaign. Even though English has generally become the general language of business, dealing with languages other than English tors to deviate from company standards? If overseas managers miss their financial targets because they adhere to strict ethical standards, can they be confident management will back them up?

Operating ethically requires much more than a code of conduct. The CEO and top management must engage with employees around the world to insist on transparency and compliance. Otherwise, they will never know what's going on. The company must have a closed-loop system of monitoring and auditing local marketing practices. The "don't look, don't tell" approach is bound to destroy your company's reputation. High standards must be enforced with a zero tolerance policy.

This well-established approach is employed by the companies on whose boards I serve—ExxonMobil (XOM), Goldman Sachs (GS), and Novartis (NOVN). Their employees throughout the world know precisely what is expected of them. Nothing is more important to these companies than their reputations, and they know that nothing destroys reputations faster than ethical violations.

ETHICS CREATE SHAREHOLDER VALUE

General Electric's (GE) former general counsel, Ben Heineman, writes in "Avoiding Integrity Land Mines" in the *Harvard Business Review* about high performance with high integrity, proposing that performance and ethics go hand in hand. Heineman argues persuasively that CEOs can't just publish their policies and enforce them. Rather, they must get personally involved in ensuring ethical behavior and engaging employees in vigorous discussions of real-world issues. Otherwise, marginal practices like using agents to make payments will abound.

Despite the best efforts, there will be deviations. That's when leaders are watched most closely by their subordinates. Will management make an exception for a top performer?

Early in my time as CEO of Medtronic (MDT) I had to deal with numerous such deviations that led to the termination of such high-performing executives as the president of our European operations and country managers of Japan, Argentina, and Italy. These actions sent a powerful message that we were serious about company standards, and no one was exempt.

The bottom line is that good ethics is good business. There is a direct correlation between behaving ethically and creating long-term shareholder value. Furthermore, high integrity in external business dealings goes hand in hand with creating greater transparency and increased integrity in internal relationships. This necessitates choosing leaders who are not only ethical themselves but also committed to ensuring their organizations operate ethically at all times.

Bill's True North Principle: Great global organizations can be built only from a solid ethical foundation.

Source: Reprinted from February 12, 2008 BusinessWeek by special permission, copyright © 2008 by The McGraw-Hill Companies, Inc., "Ethics Must Be Global, Not Local," by Bill George, www.businessweek.com/managing/content/feb2008/ca20080212_394828.htm.

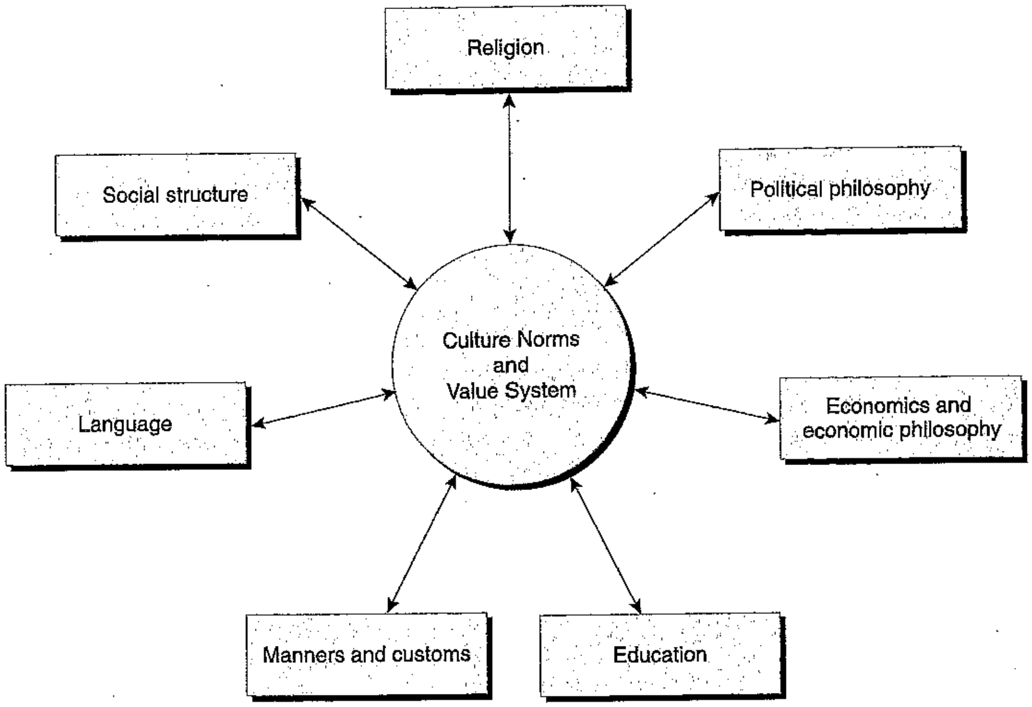
almost always requires local assistance, whether in the form of a local translator, a local market research firm, or a local advertising agency.

One U.S. entrepreneur was having a difficult time negotiating an agreement on importing a new high-tech microscope from a small entrepreneurial firm in St. Petersburg, Russia. The problems were resolved when the entrepreneur realized that the translations were not being done correctly and hired a new translator.

Equally important to the verbal language is the nonverbal or hidden language of the culture. This can be thought of in terms of several components—time, space, and business relationships. In most parts of the world, time is much more flexible than it is in the United States. For example, due to the variability in traffic and the possibility of significant congestion, it is difficult to set exact appointment times in Beijing or Hong Kong. "Irish time" means that a meeting usually starts anywhere from 15 to 30 minutes after the established posted time—which one U.S. professor at an Irish university found out when he was in the meeting room at the appointed starting time and no one showed up until 10 minutes later. The meeting actually started 15 minutes after that.

The second aspect of nonverbal language is space—in particular, how much room should exist between individuals when they talk. While Germans prefer more space than Americans, Arabic and Latin Americans like to stand closer when talking. Also, some cultures,

FIGURE 5.1 Various Aspects of Culture



like Hungarian, Russian, and Slavic, hug and even kiss when greeting a known business partner regardless of gender.

The final aspect of nonverbal language, business relationships, is also critical for the entrepreneur to understand. In most countries, it is far more important to interact with a potential business partner on a personal level before any transactions occur or even before business is discussed. One entrepreneur in Australia met the president, the management team, and the family on different social occasions before any business was discussed.

Social Structure

Social structure and institutions are also aspects of the culture. While the family unit in the United States usually consists of parent(s) and children, in many cultures it is extended to include grandparents and other relatives. This, of course, radically affects lifestyles, living standards, and consumption patterns.

Social stratification can be very strong in some cultures, significantly affecting the way people in one social strata behave and purchase. India, for example, is known for its hierarchical and relatively rigid social class system.

Reference groups in any culture provide values and attitudes that influence behavior. Besides providing overall socialization, reference groups develop a person's concept of self and provide a baseline for compliance with group norms. As such, they significantly impact an individual's behavior and buying habits.

The entrepreneur also needs to recognize that the social structure and institutions of a culture will impact the roles of manager and subordinate and how the two relate. In some cultures, cooperation between managers and subordinates is elicited through equality, while in other cultures, the two groups are separated.

Religion

Religion in a culture defines the ideas for life that are reflected in the values and attitudes of individuals and the overall society. The impact of religion on entrepreneurship, consumption, and business in general will vary depending on the strength and impact of the dominant religious tenets on the values and attitudes of the culture. Religion also provides the basis for some degree of transcultural similarity under shared beliefs and attitudes, as seen in some of the dominant religions of the world.

Political Philosophy

The political philosophy of an area also impacts its culture. The rules and regulations of a country significantly impact the entrepreneur and the way business is conducted. For example, embargoes or trade sanctions, export controls, and other business regulations may preclude an entrepreneur from doing business in a particular culture or at the very least will impact the attitudes and behaviors of people in that culture when business is transacted.

Economics and Economic Philosophy

The economics and economic philosophy of a country impact its culture and the entrepreneur. Whether the country overall is in favor of trade or trade restrictions, its attitudes toward balance of payments and balance of trade, its convertible or nonconvertible currency, and its overall trading policy all affect not only the decision about whether it is advantageous to do business in a certain market, but also the types and efficiency of any transactions occurring. Some countries use import duties, tariffs, subsidization of exports, and other restrictions to protect the country's own industry by having more exports than imports. Think how difficult it would be to do business in a country that restricted the exportation of profits.

Education

Both formal and informal education affect the culture and the way the culture is passed on. An entrepreneur needs to be aware not only of the education level and the literacy rate of a culture, but also the degree of emphasis on particular skills or career paths. China, Japan, and India, for example, emphasize the sciences and engineering more than many cultures.

The technology level of the firm's products may be too sophisticated depending on the educational level of the culture. This level also influences whether customers are able to use the goods or services properly and whether they are able to understand the firm's advertising or other promotional messages.

Manners and Customs

Understanding manners and customs, the final aspect of culture, is particularly important for the entrepreneur in negotiations and gift giving. In negotiations entrepreneurs can come to an incorrect conclusion because their interpretations are based on their own frame of reference—not the frame of reference of the culture. For example: the silence of the Chinese and Japanese has been used effectively in negotiating with American entrepreneurs who interpret this (incorrectly) as a negative sign. Agreements in these countries, as well as other countries in Asia and the Middle East, take much longer because of the desire to discuss unrelated issues. Aggressively demanding last-minute changes is a mannerism used by Russian negotiators.

Probably the area that requires the most sensitivity is gift giving. Gifts can be an important part of developing relationships in a culture, but great care must be taken to ascertain whether it is appropriate to give a gift, what type of gift to give, how to wrap the gift, and the manner in which the gift should be given. For example, in China a gift is given with two hands and is usually not opened at the time of giving but rather in the privacy of the recipient.

AVAILABLE DISTRIBUTION SYSTEMS

While the entrepreneur needs to be less concerned about worldwide logistics today, due to state-of-the-art transportation methods and the ensuing cost reductions, one of the entrepreneur's biggest challenges is related to the distribution channels in the target country. Distribution channels vary significantly from one country to another, and it should quickly become apparent that the channel of distribution in any country is a very powerful and strategic position, critical to the success of the global company.

In determining the best channel of distribution system for a country, the entrepreneur needs to consider several factors: (1) the overall sales potential, (2) the amount and type of competition, (3) the cost of the product, (4) the geographical size and density of the country, (5) the investment policies of the country, (6) exchange rates and any controls, (7) the level of political risk, and (8) the overall marketing plan. Each of these factors affects the choice of the distribution system that will yield the greatest sales and profit results in the country.

MOTIVATIONS TO GO GLOBAL

Unless they are born with a global mind-set, many entrepreneurs, particularly from the United States, will pursue international activities reluctantly. As indicated in Table 5.3, a variety of motivations can cause an entrepreneur to become involved in international business. Profits, of course, are one of the most significant reasons for going global. Usually, the expected profitability of going global is not reflected in the actual profits obtained. The profitability is adversely affected by the costs of getting ready to go global, an underestimation of the costs involved, and losses resulting from mistakes. The difference between the planned and actual results may be significant in the entrepreneur's first attempt to go global. Anything that the entrepreneur thinks won't happen most likely will, such as having significant shifts in foreign exchange rates.

The allure of profits is a strong motivation to sell to other markets. For a U.S.-based entrepreneurial firm, the 95 percent of the world's population living outside the United States offers a very large market opportunity. These sales may even be necessary to cover any significant research and development and start-up manufacturing costs that have been incurred in the domestic market. Without sales to international markets, these costs have to be spread over domestic sales alone, resulting in less profit, which can be a problem, particularly in price-sensitive markets.

Sales to other markets also may reflect another reason for going global—the home domestic market may be leveling or even declining. This is occurring in several markets in the United States due in part to the changing demographics.

TABLE 5.3 Motivations for Going Global

- Profits
- Competitive pressures
- Unique product(s) or service(s)
- Excess production capacity
- Declining home country sales
- Unique market opportunity
- Economies of scale
- Technological advantage
- Tax benefits

Sometimes an entrepreneur moves into international markets to avoid increased industry regulations or governmental or societal concerns about the firm's products or services. Cigarette companies such as Philip Morris, confronted with increased government regulations and antismoking attitudes, have aggressively pursued sales outside the United States, particularly in developing economies. Sometimes this has taken the form of purchasing existing companies in these foreign markets, which is what occurred in Russia.

When the entrepreneur's technology becomes obsolete in the domestic market and/or the product or service is near the end of its life cycle, there may be sales opportunities in foreign markets. One entrepreneur found new sales in the European Union for the company's gas-permeable hard contact lenses and solutions when the domestic market in the United States was negatively affected by highly competitive soft lenses. Volkswagen continued to sell its original VW Beetles in both Latin and South America for years after stopping its sales in the United States; after several years VW reentered the U.S. market.

Entrepreneurs often go global to take advantage of lower costs in foreign countries in such things as labor, manufacturing overhead, and raw materials. The HourPower Flip Watch could never be marketed at its price point in Things Remembered and JCPenney stores had it not been produced in China. Waterford is producing some products in Prague to help offset the higher labor costs in Ireland. There are often some cost advantages of having at least a distribution and sales office in a foreign market. Graphisoft, a Hungarian software company, found that its sales significantly increased in the United States when it opened a sales office in Los Angeles, California.

Several more esoteric motivations, beyond the traditional ones of sales and profits, also can motivate an entrepreneur to go global. One of the more predominant motivations is the desire to establish and exploit a global presence. When an entrepreneur goes global, many company operations can be internationalized and leveraged. For example, when going global, an entrepreneur will establish a global distribution system and an integrated manufacturing capability. Establishing these gives the entrepreneurial company a competitive advantage as they not only facilitate the firm's successful production and distribution of present products, but also help keep out competitive products. By going global, an entrepreneur can offer a variety of different products at better price points.

STRATEGIC EFFECTS OF GOING GLOBAL

While going global presents a wide variety of new environments and new ways of doing business, it is also accompanied by an entirely new set of wide-ranging problems. Carrying out business internationally involves a variety of new documents, such as commercial invoices, bills of lading, inspection certificates, and shippers' export declarations, as well as the need to comply with an entirely new set of domestic and international regulations.

One major effect of going global centers around the concept of proximity to the firm's customers and ports. Physical and psychological closeness to the international market affects the way business occurs. Geographic closeness to the foreign market may not necessarily provide a perceived closeness to the foreign customer. Sometimes cultural variables, language, and legal factors can make a foreign market that is geographically close seem psychologically distant. For example, some U.S. entrepreneurs perceive Canada, Ireland, and the U.K. as being much closer psychologically, due to similarities in culture and language, than Mexico, which may be closer in distance.

Three issues are involved in this psychological distance. First, the distance envisioned by the entrepreneur may be based more on perception than reality. Some Canadian and even Australian entrepreneurs focus too much on the similarities they share with the U.S. market, losing sight of the vast differences. These differences, which exist in every international market to varying extents, need to be taken into account to avoid costly mistakes. Second, closer psychological proximity does make it easier for an entrepreneurial firm to enter a market. It may be advantageous for the entrepreneur to start going global by selecting a market that is closer psychologically to gain some experience before entering markets that are more psychologically distant. Finally, the entrepreneur should also keep in mind that there are more similarities than differences between individual entrepreneurs regardless of the country. Each entrepreneur has gone through the entrepreneurial process, taken the risks, worked hard for success, and passionately loves the business idea.

FOREIGN MARKET SELECTION

With so many prospective countries available, two critical issues for the entrepreneur are foreign market selection and market entry strategies. Should you enter the top market prospect or should you employ a more regional focus? Should you choose the largest market possible or one that is easier to understand and navigate? Is a foreign market that is more developed preferable to one that is developing?

These are just some of the questions confronting the entrepreneur in deciding which market to enter. The market selection decision should be based on both past sales and competitive positioning as well as an assessment of each foreign market alternative. Data need to be collected on a systematic basis on both a regional and country basis. A region can be a collection of countries, such as the European Union, or an area within a country, such as the southeastern part of China.

A systematic process is needed so that a ranking of the foreign markets being considered can be established. Why is ranking markets so important? Ranking helps avoid the mistake of so many entrepreneurs—doing a poor job of establishing a rigorous market selection process and relying too much on assumptions and gut feel. The significant differences between global and domestic markets and the entire global decision process require that the market selection process be based on as much information as possible. These data should cover at least three years so that trends appear. The data collected and analyzed for market selection also will be used in developing the appropriate entry strategy and marketing plan.

While there are several market selection models available, one good method employs a five-step approach: (1) develop appropriate indicators, (2) collect data and convert into comparable indicators, (3) establish an appropriate weight for each indicator, (4) analyze the data, and (5) select the appropriate market from the market rankings.

In step 1, appropriate indicators need to be developed based on past sales, competitive research, experience, and discussions with other entrepreneurs doing global business. Specific indicators for the company need to be developed in three general areas: overall market size indicators, market growth indicators, and product indicators. Market size indicators generally center around: (1) population, (2) per capita income, (3) the market for the specific product (for consumer products), and (4) the types of companies and their sales and profits of particular products (for industrial products). In terms of market growth, the overall country growth (GDP) should be determined as well as the growth rate for the particular market of the venture. Finally, appropriate product indicators such as the size of the export of the specific product category to the market, the number of sales leads, and the level of interest should be established.

Step 2 involves collecting data for each of these indicators and making the data comparable. Both primary data (original information collected for the particular requirement) and secondary data (published data already existing) need to be collected. Typically, secondary data are collected first to establish what information (if any) still needs to be collected through primary research. When collecting international secondary data, there are several problems that can occur based on the stage of economic development of the country. These

AS SEEN IN *BUSINESSWEEK*

STRANGER IN A STRANGE LAND

As even the smallest companies become more global in their operations, many family-owned businesses are seizing opportunities to expand overseas. But others are resisting and, in turn, missing opportunities that could sustain their success. Much of their reluctance is due to the conservative fiscal management and risk avoidance that characterize many family businesses. Expanding overseas takes capital, often a loan with a long payback period. Currency fluctuations also are a hazard. So business owners find themselves looking hard for easier, faster domestic growth opportunities.

Managing risk will always be important, as companies must carefully balance their desire to invest capital for growth with shareholders' needs for liquidity. But by taking the following steps, you can diminish the dangers of going global.

Start Small. Selling a product overseas, perhaps with the assistance of a foreign sales representative, is much less chancy than establishing your own distribution and production facilities. Those early sales also will help you gauge demand in the new market. If you are still not ready to commit to your own sales force and facilities, you can outsource distribution and manufacturing to a partner. Try to team up with another family-owned business, because family businesses, even those in different countries, often can find common ground and may be more likely to understand and respect one another.

Develop a Business Plan. Make a thorough plan for the global opportunity and build a strong, eloquent case for it. Unless you can convince other family members of the merits of the idea and give them parameters for measuring its success, they may continue to see it as risky.

Get Directly Involved. It's a myth that you can manage remotely using sophisticated financial information and control systems. Different reporting practices, cultures, compensation, and incentives mean you can't manage solely by trying to detect financial variances. Meeting business, government, and education leaders, plus local employees and competitors, provides intelligence on strategies that will work in particular markets. Matt Litzler, the third-generation president of C.A. Litzler, a specialty machinery manufacturer in Cleveland, says his company has been exporting to Asia and Europe since the 1950s because the U.S. market for its continuous-process drying machine is limited. "We keep our passports up to date and we know that at any time we can be on a plane," says Litzler.

Invest in the Brand. You may have a great reputation at home, but global brand equity often is created from scratch. Listen to local customers and do local advertising, and provide the quality and exceptional service that will differentiate your product. Because rivals often find it hard to replicate intangible advantages, it pays to have caring, skilled employees, and superior quality and performance.

Build an Advisory Board. If you do open a foreign subsidiary, develop a local board to oversee it. Advisers with local knowledge can help you understand culture, regulations, and competitors. Having a trusted and committed network will make venturing abroad far less risky and far more profitable.*

ADVICE TO AN ENTREPRENEUR

An entrepreneur who has been trying to expand his family business globally but has been unsuccessful due to resistance from his business partners reads this article and comes to you for advice. He wants to persuade his partners to go global and needs help determining what to tell them.

1. What are potential business opportunities that may be missed out on by not extending the company globally?
2. What actions can be taken to minimize the risk of failure?

After a few weeks of discussion, all the partners are aligned and have decided to export their products to Europe.

1. How should the entrepreneur and his partners prepare personally, as they begin the expansion process, to ensure the success of their overseas business?
2. What are some ways they can begin networking with business professionals in Europe to build an advisory board?

*Source: Reprinted from August/September, 2007, BusinessWeek by special permission, copyright © 2007 by The McGraw-Hill Companies, Inc. "Stranger in a Strange Land," by Ernesto Poza, www.businessweek.com/magazine/content/07_36/b4048434.htm.

problems include: (1) comparability (the data for one country will not be the same as the data of another), (2) availability (some countries have much more country data than others, depending upon the stage of economic development), (3) accuracy (the data can be collected using rigorous standards or not as rigorous and even biased due to the interests of the government of the country), and (4) cost (only the United States has the Freedom of Information Act, which makes all government-collected data—with the exception of data related to security and defense—available to all). One entrepreneur was interested in setting up the first Western health club in Moscow. He was going to charge two rates: a higher hard currency rate to foreigners and a lower ruble rate to Russians and other citizens of countries in the former Soviet Union. In determining the best location, he was interested in identifying areas of the city where most foreigners lived. After significant searching to no avail and a high degree of frustration, he finally was able to buy the data needed from the former KGB (Soviet Union Security branch).

When researching foreign markets, the entrepreneur will usually want economic and demographic data such as population, GDP, per capita income, inflation rate, literacy rate, unemployment, and education levels. There are many sources for this and other foreign information in government agencies, Web sites, and embassies. One important source of data is STAT-USA and its National Trade Data Bank (NTDB), which is managed by the U.S. Department of Commerce. The STAT-USA database has good information due in part to the large number of government agencies contributing information. STAT-country name provides data on other countries. For example, STAT-Austria provides information on the country of Austria. This results in a large number of international reports such as Country Reports, Country Analysis Briefs (CABs), Country Commercial Guides (CCG), Food Market Reports, International Reports and Reviews, Department of State Background Notes, and Import/Export Reports.

Another good source of data is trade associations and U.S. and foreign embassies. While trade associations are a good source of domestic and international data, sometimes more specific information can be obtained by contacting the U.S. Department of Commerce industry desk officer or the economic attaché in the appropriate U.S. or foreign embassy.

The collected data for each selected indicator need to be converted to a point score so that each indicator of each country can be numerically ranked against the other countries. Various methods can be used to achieve this, each of which involves some judgment on the part of the entrepreneur. Another method is to compare country data for each indicator against global standards.

The third step is to establish appropriate weights for the indicators to reflect the importance of a particular indicator in predicting foreign market potential. For one company manufacturing hospital beds, the number and types of hospitals, the age of the hospitals and their beds, and the government's expenditure on health care and its socialized system were the best country indicators in selecting a foreign market. This procedure results in each indicator receiving a weight that reflects the relative importance of the indicator. The assignment of points and weights as well as the selection of indicators vary greatly from one entrepreneur to another and indeed are somewhat arbitrary. Regardless, this requires intensive thinking and internal discussion and results in far better market selection decisions being made.

Step 4 involves analyzing the results. When looking at the data, the entrepreneur should carefully scrutinize and question the results. He or she should also look for errors, as mistakes can be easily made. Also, a what-if analysis should be conducted by changing some of the weights and seeing how the results vary.

The final step—step 5—involves selecting a market to enter as well as follow-up markets so that an appropriate entry strategy can be selected and a market plan developed.

ENTREPRENEURIAL ENTRY STRATEGIES

There are various ways an entrepreneur can market products internationally. The method of entry into a market and the mode of operating overseas are dependent on the goals of the entrepreneur and the company's strengths and weaknesses. The modes of entering or engaging in international business can be divided into three general categories: exporting, nonequity arrangements, and direct foreign investment. The advantages and disadvantages of some of the modes are indicated in Table 5.4.

Exporting

exporting The sale and shipping of products manufactured in one country to a customer located in another country

Frequently, an entrepreneur starts doing international business through exporting. *Exporting* normally involves the sale and shipping of products manufactured in one country to a customer located in another country. There are two general classifications of exporting: direct and indirect.

TABLE 5.4 Various Entry Modes

Entry Mode	Advantage	Disadvantage
Exporting	Ability to capitalize on experiences in location selection	• High transport costs • Trade barriers • Problems with local marketing agents
Turn-key contracts	Ability to earn returns from process technology skills in countries where FDI is restricted	• Creation of efficient competitors • Lack of long-term market presence
Licensing	Low development costs and risks	• Lack of control over technology • Inability to realize location and experience curve economies • Inability to engage in global strategic coordination
Franchising	Low development costs and risks	• Lack of control over quality • Inability to engage in global strategic coordination
Joint ventures	• Access to local partner's knowledge • Shared development costs and risks • Politically acceptable	• Lack of control over technology • Inability to engage in global strategic coordination • Inability to realize location and experience curve economies
Wholly owned subsidiaries	• Protection of technology • Ability to engage in global strategic coordination • Ability to realize location and experience curve economies	• High costs and risks

indirect exporting In international business, involves having a foreign purchaser in the local market or using an export management firm

Indirect Exporting *Indirect exporting* involves having a foreign purchaser in the local market or using an export management firm. For certain commodities and manufactured goods, foreign buyers actively seek out sources of supply and have purchasing offices in markets throughout the world. An entrepreneur wanting to sell in one of these overseas markets can deal with one of these buyers. In this case, the entire transaction is handled as though it were a domestic transaction, even though the goods will be shipped out of the country. This method of exporting involves the least amount of knowledge and risk for the entrepreneur.

Export management firms, another avenue of indirect exporting, are located in most commercial centers. For a fee, these firms will provide representation in foreign markets. Typically, they represent a group of noncompeting manufacturers from the same country who have no interest in becoming directly involved in exporting. The export management firm handles all the selling, marketing, and delivery, in addition to any technical problems involved in the export process.

direct exporting Involves the use of independent distributors or the company's own overseas sales office in conducting international business

Direct Exporting If the entrepreneur wants more involvement without any financial commitment, *direct exporting* through independent distributors or the company's own overseas sales office is a way to get involved in international business. Independent foreign distributors usually handle products for firms seeking relatively rapid entry into a large number of foreign markets. This independent distributor directly contacts foreign customers and potential customers and takes care of all the technicalities of arranging for export documentation, financing, and delivery for an established rate of commission.

Entrepreneurs also can open their own overseas sales offices and hire their own salespeople to provide market representation. In starting out, the entrepreneur may send a U.S. or domestic salesperson to be a representative in the foreign market. As more business is done in the overseas sales office, warehouses are usually opened, followed by a local assembly process when sales reach a level high enough to warrant the investment. The assembly operation can eventually evolve into the establishment of manufacturing operations in the foreign market. Entrepreneurs can then export the output from these manufacturing operations to other international markets.

nonequity arrangement A method by which an entrepreneur can enter a market and obtain sales and profits without direct equity investment in the foreign market

Nonequity Arrangements

When market and financial conditions warrant the change, an entrepreneur can enter into international business by one of three types of *nonequity arrangements:* licensing, turn-key projects, and management contracts. Each of these allows the entrepreneur to enter a market and obtain sales and profits without direct equity investment in the foreign market.

licensing Involves giving a foreign manufacturer the right to use a patent, technology, production process, or product in return for the payment of a royalty

Licensing *Licensing* involves an entrepreneur who is a manufacturer (licensee) giving a foreign manufacturer (licensor) the right to use a patent, trademark, technology, production process, or product in return for the payment of a royalty. The licensing arrangement is most appropriate when the entrepreneur has no intention of entering a particular market through exporting or direct investment. Since the process is low risk, yet provides a way to generate incremental income, a licensing agreement can be a good method for the entrepreneur to engage in international business. Unfortunately, some entrepreneurs have entered into these arrangements without careful analysis and have later found that they have licensed their largest competitor into business or that they are investing large sums of time and money in helping the licensor adopt the technology or know-how being licensed.

turn-key projects A method of doing international business whereby a foreign entrepreneur supplies the manufacturing technology or infrastructure for a business and then turns it over to local owners

Turn-Key Projects Another method by which the entrepreneur can do international business without much risk is through *turn-key projects.* The underdeveloped or lesser-developed countries of the world have recognized their need for manufacturing technology and infrastructure and yet do not want to turn over substantial portions of their economy to foreign ownership. One solution to this dilemma has been to have a foreign entrepreneur build a factory or other facility, train the workers, train the management, and then turn it over to local owners once the operation is going—hence the name turn-key operation.

Entrepreneurs have found turn-key projects to be an attractive alternative. Initial profits can be made from this method, and follow-up export sales can also result. Financing is provided by the local company or the government, with periodic payments being made over the life of the project.

Management Contracts A final nonequity method the entrepreneur can use in international business is the *management contract.* Several entrepreneurs have successfully entered international business by contracting their management techniques and skills. The management contract allows the purchasing country to gain foreign expertise without giving ownership of its resources to a foreigner. For the entrepreneur, the management contract is another way of entering a foreign market without a large equity investment.

management contract A nonequity method of international business in which an entrepreneur contracts his or her management techniques and skills to a (foreign) purchasing company

Direct Foreign Investment

The wholly owned foreign subsidiary has been a preferred mode of ownership for entrepreneurs using direct foreign investment for doing business in international markets. Joint ventures and minority and majority equity positions are also methods for making direct foreign investments. The percentage of ownership obtained in the foreign venture by the entrepreneur is related to the amount of money invested, the nature of the industry, and the rules of the host government.

Minority Interests Japanese companies have been frequent users of the minority equity position in direct foreign investment. A *minority interest* can provide a firm with a source of raw materials or a relatively captive market for its products. Entrepreneurs have used minority positions to gain a foothold or acquire experience in a market before making a major commitment. When the minority shareholder has something of strong value, the ability to influence the decision-making process is often far in excess of the amount of ownership.

minority interest A form of direct foreign investment in which the investing entrepreneur holds a minority ownership position in the foreign venture

Joint Ventures Another direct foreign investment method used by entrepreneurs to enter foreign markets is the *joint venture*. Although a joint venture can take on many forms, in its most traditional form, two firms (for example, one U.S. firm and one German firm) get together and form a third company in which they share the equity.

joint venture The joining of two firms in order to form a third company in which the equity is shared

Entrepreneurs use joint ventures most often in two situations: (1) when the entrepreneur wants to purchase local knowledge as well as an already established manufacturing facility, and (2) when rapid entry into a market is needed. Sometimes joint ventures are dissolved with one party assuming 100 percent ownership.

Even though using a joint venture to enter a foreign market is a key strategic decision, the keys to its success are not well understood, and the reasons for forming a joint venture today are different from those of the past. Previously, joint ventures were viewed as partnerships and often involved firms whose stock was owned by several other firms.

Joint ventures in the United States were first used by mining concerns and railroads as early as 1850. The use of joint ventures, mostly vertical joint ventures, started increasing significantly during the 1950s. Through the vertical joint venture, two firms could absorb the large volume of output when neither could afford the diseconomies associated with a smaller plant.

What has caused this significant increase in the use of joint ventures, particularly when many have not worked? Studies examining the success and failure of joint ventures have found many different reasons for their formation. One of the most frequent reasons an entrepreneur forms a joint venture is to share the costs and risks of a project. Projects where costly technology is involved frequently need resource sharing. This can be particularly important when an entrepreneur does not have the financial resources necessary to engage in capital-intensive activities.

Synergy between firms is another reason that an entrepreneur may form a joint venture. Synergy is the qualitative impact on the acquiring firm brought about by complementary factors inherent in the firm being acquired. Synergy in the form of people, customers, inventory, plant, or equipment provides leverage for the joint venture. The degree of the synergy determines how beneficial the joint venture will be for the companies involved.

Another reason for forming a joint venture is to obtain a competitive advantage. A joint venture can preempt competitors, allowing an entrepreneur to access new customers and expand the market base.

Entrepreneurs frequently use joint ventures to enter markets and economies that pose entrance difficulties or to compensate for a company's lack of foreign experience. This has been the case for the transition economies of Eastern and Central Europe and the former U.S.S.R. It is not surprising that it is easier to establish a joint venture in Hungary because that country has fewer registration requirements for establishing a joint venture than it does for registering a new business start-up.

Majority Interest Another equity method by which the entrepreneur can enter international markets is through the purchase of a majority interest in a foreign business. In a technical sense, anything over 50 percent of the equity in a firm is *majority interest*. The majority interest allows the entrepreneur to obtain managerial control while maintaining the acquired firm's local identity. When entering a volatile international market, some entrepreneurs take a smaller position, which they increase up to 100 percent as sales and profits occur.

majority interest The purchase of over 50 percent of the equity in a foreign business

Mergers An entrepreneur can obtain 100 percent ownership to ensure complete control. Many U.S. entrepreneurs desire complete ownership and control in cases of foreign investments. If the entrepreneur has the capital, technology, and marketing skills required for successful entry into a market, there may be no reason to share ownership.

Mergers and acquisitions have been used significantly in international business as well as within the United States. During periods of intense merger activity, entrepreneurs may spend significant time searching for a firm to acquire and then finalizing the transaction. While any merger should reflect the basic principles of any capital investment decision and make a net contribution to shareholders' wealth, the merits of a particular merger are often difficult to assess. Not only do the benefits and costs of a merger need to be determined, but also special accounting, legal, and tax issues must be addressed. The entrepreneur, therefore, must have a general understanding of the benefits and problems of mergers as a strategic option as well as an understanding of the complexity of integrating an entire company into present operations.

horizontal merger A type of merger combining two firms that produce one or more of the same or closely related products in the same geographic area

vertical merger A type of merger combining two or more firms in successive stages of production

product extension merger A type of merger in which acquiring and acquired companies have related production and/or distribution activities but do not have products that compete directly with each other

There are five basic types of mergers: horizontal, vertical, product extension, market extension, and diversified activity. A *horizontal merger* is the combination of two firms that produce one or more of the same or closely related products in the same geographic area. The merger is motivated by economies of scale in marketing, production, or sales. An example of a horizontal merger is the acquisition of convenience food store chain Southland Stores by 7-Eleven Convenience Stores.

A *vertical merger* is the combination of two or more firms in successive stages of production that often involve a buyer–seller relationship. This form of merger stabilizes supply and production and offers more control of these critical areas. Examples are McDonald's acquiring its store franchises and Phillips Petroleum acquiring its gas station franchises. In each case, these outlets become company-owned stores.

A *product extension merger* occurs when acquiring and acquired companies have related production and/or distribution activities but do not have products that compete directly with each other. Examples are the acquisitions of Miller Brewing (beer) by Philip Morris (cigarettes), and Western Publishing (children's books) by Mattel (toys).

market extension merger A type of merger combining two firms that produce the same products but sell them in different geographic markets

diversified activity merger A conglomerate merger involving the consolidation of two essentially unrelated firms

A *market extension merger* is a combination of two firms producing the same products but selling them in different geographic markets. The motivation is that the acquiring firm can economically combine its management skills, production, and marketing with those of the acquired firm. An example of this type of merger is the acquisition of Diamond Chain (a West Coast retailer) by Dayton Hudson (a Minneapolis retailer).

The final type of merger is a *diversified activity merger*. This is a conglomerate merger involving the consolidation of two essentially unrelated firms. Usually, the acquiring firm is not interested in either using its cash resources to expand shareholder wealth or actively running and managing the acquired company. An example of a diversified activity merger is Hillenbrand Industries (a caskets and hospital furniture manufacturer) acquiring American Tourister (a luggage manufacturer).

Mergers are a sound strategic option for an entrepreneur when synergy is present. Several factors cause synergy to occur and make two firms worth more together than apart. The first factor, economies of scale, is probably the most prevalent reason for mergers. Economies of scale can occur in production, coordination, and administration, and in the sharing of central services such as office management and accounting, financial control, and upper-level management. Economies of scale increase operating, financial, and management efficiency, thereby resulting in better earnings.

The second factor is taxation or, more specifically, unused tax credits. Sometimes a firm has had a loss in previous years but not enough profits to take advantage of the tax-loss carryover. Corporate income tax regulations allow the net operating losses of one company to reduce the taxable income of another when they are combined. By combining a firm that has a loss with a firm that has a profit, the tax-loss carryover can be used.

The final important factor for mergers refers to the benefits received in combining complementary resources. Many entrepreneurs will merge with other firms to ensure a source of supply for key ingredients, to obtain a new technology, or to keep the other firm's product from being a competitive threat. It is often quicker and easier for a firm to merge with another that already has a new technology developed—combining the innovation with the acquiring firm's engineering and sales talent—than it is to develop the technology from scratch.

Regardless of the entry mode, a successful entry strategy and growth in a global market often require the development of a global business plan. The global business plan varies somewhat from the domestic business plan discussed in Chapter 7. An outline of a typical global business plan is presented in Appendix 5A, at the end of this chapter.

ENTREPRENEURIAL PARTNERING

One of the best methods for an entrepreneur to enter an international market is to partner with an entrepreneur in that country. These foreign entrepreneurs know the country and culture and therefore can facilitate business transactions while keeping the entrepreneur current on business, economic, and political conditions. This partnering is facilitated by understanding the nature of entrepreneurship in the country.

There are several characteristics of a good partner. A good partner can help the entrepreneur achieve his or her goals such as market access, cost sharing, or core competency obtainment. Good partners also share the entrepreneur's vision and are unlikely to try to opportunistically exploit the partnership for their own benefit.

How does the entrepreneur go about selecting a good partner? First, he or she needs to collect as much information as possible on the industry and potential partners in the country. This information can be obtained from embassy officials, members of the country's chamber of commerce, firms doing business in that country, and customers of the potential partner. The entrepreneur also will need to attend any appropriate trade shows. References for each potential partner should be checked, and each reference should be asked for other references. Finally, it is most important that the entrepreneur meet several times with a potential partner to get to know the individual and the company as well as possible before any commitment is made.

BARRIERS TO INTERNATIONAL TRADE

There are varying attitudes throughout the world concerning trade. Starting around 1947 with the development of general trade agreements and the reduction of tariffs and other trade barriers, there has been an overall positive atmosphere concerning trade between countries.

General Agreement on Tariffs and Trade (GATT)

One of the longest-lasting agreements on trade is the General Agreement on Tariffs and Trade (GATT), which was established in 1947 under U.S. leadership. GATT is a multilateral agreement with the objective of liberalizing trade by eliminating or reducing tariffs, subsidies, and import quotas. GATT membership includes over 100 nations and has had eight rounds of tariff reductions, one of which is the Uruguay Round, which lasted from 1986 to 1993, and another is the Doha Development Round, which is in progress (2001). Another round should start in the 2010 time frame. In each round, mutual tariff reductions are negotiated between member nations and monitored by a mutually agreed-upon system. If a member country feels that a violation has occurred, it can ask for an investigation by the Geneva-based administrators of GATT. If the investigation uncovers a violation, member countries can be asked to pressure the violating country to change its policy and conform to the agreed-upon tariffs and agreements. Sometimes this pressure has not been sufficient to get an offending country to change. While GATT has assisted in developing more unrestricted trade, its voluntary membership gives it little authority to ensure that this type of trade will occur.

Increasing Protectionist Attitudes

Support for GATT goes up and down. Although down in the 1970s, the support increased in the 1980s due to the rise in protectionist pressures in many industrialized countries. The renewed support reflected three events. First, the world trading system was strained by the persistent trade deficit of the United States, the world's largest economy, a situation that caused adjustments in such industries as automobiles, semiconductors, steel, and textiles. Second, the economic success of countries perceived as not playing by the rules (e.g., Japan and then China) also strained the world's trading system. The success of Japan and China as the world's large traders and the perception that their internal markets are, in effect, closed to imports and foreign investment have caused problems. Finally, in response to these pressures, many countries have established bilateral voluntary export restraints to circumvent GATT. The economic prosperity of the 1990s and the downturn from 2008 have lessened the interest in GATT.

Trade Blocs and Free Trade Areas

Around the world, groups of nations are banding together to increase trade and investment between nations in the group and exclude those nations outside the group. One little-known agreement between the United States and Israel, signed in 1985, establishes a Free Trade Area (FTA) between the two nations. All tariffs and quotas except on certain agricultural products were phased out over a 10-year period. In 1989, an FTA went into effect between Canada and the United States that phased out tariffs and quotas between the two countries, which are each other's largest trading partners.

Many trading alliances have evolved in the Americas. In 1991, the United States signed a framework trade agreement with Argentina, Brazil, Paraguay, and Uruguay to support the development of more liberal trade relations. The United States has also signed bilateral trade agreements with Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Peru, and Venezuela. The North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico is a much publicized agreement to reduce trade barriers and quotas and encourage investment among the three countries. Similarly, the Americas, Argentina, Brazil, Paraguay, and Uruguay operate under the Treaty of Asunción, which created the Mercosur trade zone, a free trade zone among the countries.

Another important trading bloc has been developed by the European Community (EC). Unlike GATT or NAFTA, the EC is founded on the principle of supranationality, with member nations not being able to enter into trade agreements on their own that are inconsistent with EC regulations. As nations are added, the EC trading bloc becomes an increasingly important factor for entrepreneurs doing international business.

Entrepreneur's Strategy and Trade Barriers

trade barriers Hindrances to doing international business

Clearly, *trade barriers* pose problems for the entrepreneur who wants to become involved in international business. First, trade barriers increase an entrepreneur's costs of exporting products or semifinished products to a country. If the increased cost puts the entrepreneur at a competitive disadvantage with respect to indigenous competitive products, it may be more economical to establish production facilities in the country. Second, voluntary export restraints may limit an entrepreneur's ability to sell products in a country from production facilities outside the country, which may also warrant establishing production facilities in the country in order to compete. Finally, an entrepreneur may have to locate assembly or production facilities in a country to conform to the local content regulations of the country.

IMPLICATIONS FOR THE GLOBAL ENTREPRENEUR

The cultural, political, economic, and distribution systems of a country clearly influence its attractiveness as a potential market and potential investment opportunity. Generally, the costs and political risks are lower in those market-oriented countries that are more advanced economically and politically. However, the long-run benefits to an entrepreneur are the country's future growth and expansion. This opportunity may indeed occur in less developed and less stable countries. The entrepreneur must carefully analyze the countries to determine the best one(s) (if any) to enter and then develop an appropriate entry strategy.

IN REVIEW

SUMMARY

Identifying both domestic and international market opportunities is becoming increasingly important to more and more entrepreneurs and to their countries' economies. International entrepreneurship—the conducting of business activities by an entrepreneur across national boundaries—is occurring much earlier in the growth of new ventures as opportunities open up in the hypercompetitive global arena. Several factors (economics, stage of economic development, balance of payments, type of system, political–legal environment, technological environment, and cultural environment) make decisions regarding international entrepreneurship more complex than those regarding domestic entrepreneurship.

Once an entrepreneur decides to be involved in international business, three general modes of market entry need to be considered: exporting, nonequity arrangements, and equity arrangements. Each mode includes several alternatives that provide varying degrees of risk, control, and ownership.

Entrepreneurs in the United States can find their counterparts in a wide variety of economies. Entrepreneurship is thriving from Dublin to Hong Kong, providing new products and services, new jobs, and new opportunities for partnering.

RESEARCH TASKS

1. Interview three managers of multinational businesses to ascertain the benefits generated from engaging in international business as well as some of the challenges (problems).
2. Choose a country. Research and be prepared to report on that country's (a) stage of economic development, (b) political–legal environment, (c) cultural environment, and (d) technological environment. If you were advising an entrepreneur who was considering entering this country to sell his or her products, what would you say were the major strategic issues? (Be specific to the country chosen.)
3. Choose a transition economy. Research that country and its recent economic progress. Do you believe its economy will flourish or stagnate? Why? What can that country's government do (if anything) to "help" the economy flourish?
4. Choose a specific industry in a specific country. Which mode of entry has been used the most by foreign firms entering this industry in this country? Explain why, using examples of successful entry and examples of unsuccessful entry.

CLASS DISCUSSION

1. Make sure, if possible, there is one foreign student in each small group. The group needs to discuss, and then report back to class on, the nature of business and entrepreneurship in the foreign student's home country. Such a discussion should include the country's (a) stage of economic development, (b) political–legal environment, (c) technological environment, and (d) cultural environment. Also explore how entrepreneurship and business failure are perceived in this country.
2. We typically focus on firms from well-developed economies entering markets of less developed economies. Do firms from less developed economies have a chance of success if they enter developed markets, such as the United States? What competitive advantage could a firm from a less developed economy rely on in entering developed markets? What would likely be the best entry mode?
3. Is going international something that only large and established firms should pursue after they have achieved success in their domestic markets "right off the bat"? Which sorts of products are more amenable to "going international" by small and new firms?

SELECTED READINGS

Baron, Robert A.; and Michael D. Ensley. (September 2006). Opportunity Recognition as the Detection of Meaningful Patterns: Evidence from Comparisons of Novice and Experienced Entrepreneurs. *Management Science*, vol. 52, no. 9, pp. 1331–44.

The ability to discern a business opportunity is a popular research theme in entrepreneurship literature. The contemporary school of thought indicates the practiced entrepreneur is generally more perspicacious than the greenhorn. The authors of this article—who are professors at the Lally School of Management and Technology at Rensselaer Polytechnic Institute in Troy, New York—examine the topic from a more scientific angle. Based on e-mails and phone conversations with entrepreneurs with varying experience levels, the study was designed to uncover cognitive blueprints behind both sets of entrepreneurs' opportunity identification processes. The authors' methods are impeccable, and the resultant article presents their valiant efforts to eliminate analytical bias and preserve the integrity of the data collected.

DeTienne, Dawn R.; and Gaylen N. Chandler. (May 2007). The Role of Gender in Opportunity Identification. *Entrepreneurship: Theory & Practice*, vol. 31, no. 3, pp. 365–86.

This scholarly paper includes research investigating a correlation between an entrepreneur's gender and his or her proclivity for spotting an opportunity. The authors' research methods include two sample groups: college seniors studying technology and 189 entrepreneurs working in the technology field. According to the study's findings neither gender proved more adept at perceiving business opportunities; similarly, the opportunities discovered by each gender group were no more or less gainful. However, the article does include observations about the two gender groups' distinct capabilities for opportunity identification.

Riddle, Liesl. (Fall 2008). Diasporas: Exploring Their Development Potential. *Economic Self-Reliance (ESR) Review*, vol. 10, no. 2, pp. 28–35. Brigham Young University: http://findarticles.com/p/articles/mi_qa5457/is_200810/ai_n3117124.

In 2006 the author of this article cofounded the George Washington University Diaspora Capital Investment Project. This article describes globalization's phenomenon of the diaspora: expatriates, persons living away from their native lands. Capital generated by these "diasporans" is of particular interest to economists and financiers. Typically, the members of these diasporas send a large portion of their earnings to their home countries. Rather than bemoaning this capital flight, the author of this article presents diasporans' investment activity as a boon for all entrepreneurs.

Schaper, Michael. (July 2005). Being a Green Entrepreneur: Does It Make Business Sense? *Business Source Complete*, vol. 13, no. 3, pp. 5–7.

Dr. Michael Schaper, an adjunct professor at Australia's Curtin University of Technology, has published an article for university students about the benefits of green business. Dr. Schaper maintains that young entrepreneurs need not take a vow of poverty when electing the socially responsible route when choosing a career. The green initiative actually presents many profitable business opportunities. Dr. Schaper's article furnishes examples of entrepreneurs who have committed to environmentally friendly practices, and provides a road map for those considering the journey.

Ucbasaran, Deniz; Paul Westhead; and Mike Wright. (March 2009). The Extent and Nature of Opportunity Identification by Experienced Entrepreneurs. *Journal of Business Venturing*, vol. 24, no. 2, p. 99.

A seasoned entrepreneur is better able to recognize a business opportunity than the immature entrepreneur: the authors of this article observed 630 entrepreneurs to test this hypothesis. Entrepreneurs with some business ownership under their belts demonstrated a heightened sensitivity to unexploited areas of commerce. According

to the study's results, a veteran entrepreneur is not only better able to envisage possibilities for profit, but he also tends to be a more accurate handicapper of an option's viability. The authors—in their research—analyze the possible relationship between the quality and quantity of an entrepreneur's past performance; apparently the number of failed businesses in an entrepreneur's portfolio, proportional to the number of businesses owned, did affect the prolificacy of opportunities detected.

Watkins-Mathys, Lorraine; and M. John Foster. (May 2006). Entrepreneurship: The Missing Ingredient in China's STIPs? *Entrepreneurship and Regional Development*, vol. 18, no. 3, pp. 249–74.

This article uses China's Science Technology Industry Parks (STIPs) as its focus. In its continual drive for sovereignty, the Chinese government has championed technological advancement for its citizens. These industry parks are intended to corral the country's research and development talent and resources and encourage this industry to grow and flourish. The Chinese government supports companies in these high-tech zones with financial incentives such as tax breaks and large salaries. The authors of the article developed their research approach by questioning whether these parks help or hinder innovation in technology. Especially interesting is the authors' consideration of Chinese technology companies located outside of the parks: despite enjoying less capital than government-supported companies, the non-STIP companies were far more enthusiastic about pursuing entrepreneurial activities than their STIP counterparts.

Williams, Colin C.; and John Round. (2009). Evaluating Informal Entrepreneurs' Motives: Evidence from Moscow. *International Journal of Entrepreneurial Behaviour & Research*, vol. 15, no. 1, pp. 94–107.

This research paper is the collaborative effort of two British college professors at two different universities in two different U.K. cities: the first author teaches public policy, and the second, human geography. The authors' respective scholarly interests—entrepreneurship, small businesses, and socioeconomic transformation in the countries of Eastern and Central Europe—support the framework of this methodology. Based on a 2005–2006 survey conducted in Moscow, Russia, more than a quarter of the respondents were identified as entrepreneurs. In developing countries whose infrastructures are in the embryonic stages, a large part of a nation's labor force and GDP frequently passes under the nose of government, untaxed and unregulated. The authors study the impetus for entrepreneurs operating in such informal economies: Do these entrepreneurs choose self-employment out of need or because they smell opportunity?

Woodward, David. (November 2007). A Place in the Sun. *Director*. vol. 61, no. 4, pp. 52–57.

This article profiles five young British technology entrepreneurs who decided to leave England and move to the United States to pursue their careers in technology. Their hometown of London, however, is starting to invest handsomely in its fledgling Internet start-ups. Why, then, would these bright, up-and-coming self-starters not want to remain on their side of the pond and ride the crest of London's tech wave? The author interviews the young men about their respective career paths, and, in the process, reveals the draw and unique advantages of California's Silicon Valley.

APPENDIX 5A EXAMPLE OUTLINE OF AN INTERNATIONAL BUSINESS PLAN

I. EXECUTIVE SUMMARY

One-page description of the project.

II. INTRODUCTION

The type of business proposed, followed by a brief description of the major product and/or service involved. A brief description of the country proposed for trade, the rationale for selecting the country, identification of existing trade barriers, and identification of sources of information (research resources and interviews).

III. ANALYSIS OF THE INTERNATIONAL BUSINESS SITUATION

A. Economic, Political, and Legal Analysis of the Trading Country

1. Describe the trading country's economic system, economic information important to your proposed product and/or service, and the level of foreign investment in that country.
2. Describe the trading country's governmental structure and stability, and how the government controls trade and private business.
3. Describe laws and/or governmental agencies that affect your product and/or service (i.e., labor laws, trade laws, etc.).

B. Trade Area and Cultural Analysis

1. Geographic and demographic information, important customs and traditions, other pertinent cultural information, and competitive advantages and disadvantages of the proposed business opportunity.

IV. PLANNED OPERATION OF THE PROPOSED BUSINESS

A. Proposed Organization

Type of ownership and rationale; start-up steps to form the business; planned personnel (or functional) needs; proposed staffing to handle managerial, financial, marketing, legal, and production functions; proposed organization chart; and brief job descriptions, if necessary.

B. Proposed Product/Service

1. Product and/or service details include potential suppliers, manufacturing plans, and inventory policies, if applicable. Include necessary supplies if a service is provided.
2. Transportation information includes costs, benefits, risks of the transportation method, and documents needed to transport the product.

C. Proposed Strategies

1. Pricing policies include what currency will be used, costs, markups, markdowns, relation to competition, and factors that could affect the price of the product (e.g., competition, political conditions, taxes, tariffs, and transportation costs).
2. Promotional program details include promotional activities, media availability, costs, one-year promotional plan outline, and local customs related to business readiness.

V. PLANNED FINANCING

A. Projected Income and Expenses

1. Projected income statements for first year's operation.
2. Balance sheet for the end of the first year.
3. A brief narrative description of the planned growth of the business, including financial resources, needs, and a brief three-year plan projection.

VI. BIBLIOGRAPHY

VII. APPENDIX