

# Outside–USA Strategic Planning

## Chapter Two

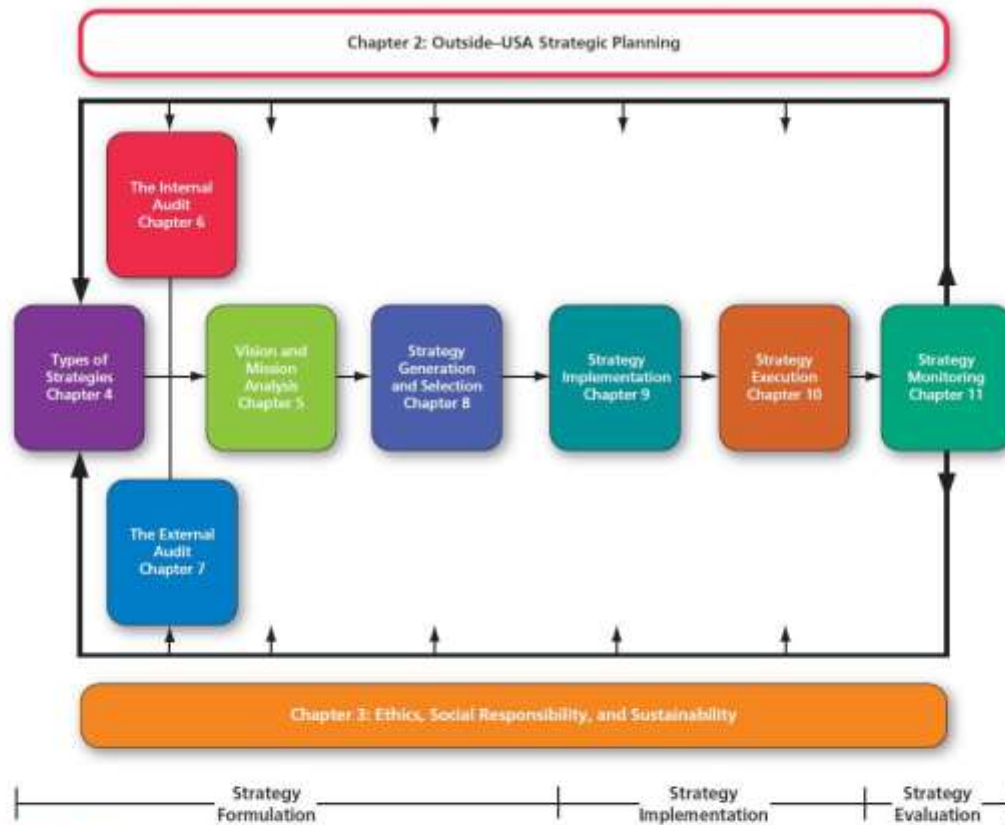
# Learning Objectives

1. Discuss the nature of doing business globally, including language and labor union issues.
2. Explain the advantages and disadvantages of doing business globally.
3. Discuss the global challenge facing firms and why this is a strategic issue.
4. Discuss tax rates and tax inversions as strategic issues.

# Learning Objectives (cont.)

5. Compare and contrast American business culture versus foreign business cultures; explain why this is a strategic issue.
6. Discuss the business culture found in Mexico, Japan, China, and India; explain why this is a strategic issue.
7. Discuss the business climate in Africa, China, Indonesia, India, Japan, Mexico, and Vietnam; explain why this is a strategic issue.

# A Comprehensive Strategic-Management Model



**FIGURE 2-1**  
A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40, © Fred R. David.

# Global/International Issues

- ❖ The underpinnings of strategic management hinge on managers gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide.
- ❖ The price and quality of a firm's products and services must be competitive on a worldwide basis, not just on a local basis.

# The Nature of Doing Business Globally

- ❖ Exports of goods and services from the United States account for only 13.5 percent of U.S. gross domestic product.

# Globalization

## ❖ Globalization

- ❖ process of doing business worldwide, so strategic decisions are made based on global profitability of the firm rather than just domestic considerations

## ❖ Global Strategy

- ❖ includes designing, producing, and marketing products with global needs in mind, instead of considering individual countries alone

# Multinational Firms

## ❖ **Multinational Corporations**

- ❖ Organizations that conduct business operations across national borders



# Advantages of Global Business

1. Firms can gain new customers for their products.
2. Foreign operations can absorb excess capacity, reduce unit costs, and spread economic risks over a wider number of markets.
3. Foreign operations can allow firms to establish low-cost production facilities in locations close to raw materials or cheap labor.
4. Competitors in foreign markets may not exist, or competition may be less intense than in domestic markets.

# Advantages of Global Business

5. Foreign operations may result in reduced tariffs, lower taxes, and favorable political treatment.
6. Joint ventures can enable firms to learn the technology, culture, and business practices of other people and to make contacts with potential customers, suppliers, creditors, and distributors in foreign countries.
7. Economies of scale can be achieved from operation in global rather than solely domestic markets.
8. A firm's power and prestige in domestic markets may be significantly enhanced if the firm competes globally.

# Disadvantages of Global Business

1. Foreign operations could be seized by nationalistic factions.
2. Firms confront different and often little-understood social, cultural, demographic, environmental, political, governmental, legal, technological, economic, and competitive forces.
3. Weaknesses of competitors in foreign lands are often overestimated, and strengths are often underestimated.
4. Language, culture, and value systems differ among countries, which can create barriers to communication.
5. Gaining an understanding of regional organizations is difficult.
6. Dealing with two or more monetary systems can complicate international business operations.

# The Global Challenge

- ❖ America's economy is becoming much less American.
- ❖ A world economy and monetary system are emerging.
- ❖ Markets are shifting rapidly and in many cases converging in tastes, trends, and prices.

# Corporate Tax Rates Across Countries in 2015

| Country                    | Corporate Tax Rate (%) |
|----------------------------|------------------------|
| United Arab Emirates (UAE) | 55.00                  |
| Chad                       | 40.00                  |
| USA                        | 35.00                  |
| Brazil                     | 34.00                  |
| France                     | 33.33                  |
| Germany                    | 33.00                  |
| India                      | 30.00                  |
| Mexico                     | 30.00                  |
| Italy                      | 27.50                  |
| Japan                      | 25.50                  |
| Israel                     | 25.00                  |
| Austria                    | 25.00                  |
| China                      | 25.00                  |
| Portugal                   | 25.00                  |
| Finland                    | 24.50                  |
| U.K.                       | 23.00                  |
| Ukraine                    | 21.00                  |
| Estonia                    | 21.00                  |
| Russia                     | 20.00                  |
| Greece                     | 20.00                  |
| Croatia                    | 20.00                  |
| Libya                      | 20.00                  |
| Netherlands                | 20.00                  |

# Corporate Tax Rates Across Countries in 2015 (cont.)

|                |       |
|----------------|-------|
| Turkey         | 20.00 |
| Poland         | 19.00 |
| Czech Republic | 19.00 |
| Hungary        | 19.00 |
| Singapore      | 17.00 |
| Canada         | 15.00 |
| Hong Kong      | 16.50 |
| Romania        | 16.00 |
| Latvia         | 15.00 |
| Lithuania      | 15.00 |
| Ireland        | 12.50 |
| Serbia         | 10.00 |
| Bulgaria       | 10.00 |
| Cyprus         | 10.00 |
| Bermuda        | 0.00  |

# American Versus Foreign Business Culture

- ❖ To be successful in world markets, U.S. managers must obtain a better knowledge of historical, cultural, and religious forces that motivate and drive people in other countries.
- ❖ For multinational firms, knowledge of business culture variation across countries can be essential for gaining and sustaining competitive advantage.

# Cultural Pitfalls to Avoid to be a Better Manager

- Waving is a serious insult in Greece and Nigeria, particularly if the hand is near someone's face.
- Making a “good-bye” wave in Europe can mean “No,” but it means “Come here” in Peru.
- In China, last names are written first.
- A man named Carlos Lopez-Garcia should be addressed as Mr. Lopez in Latin America but as Mr. Garcia in Brazil.
- Breakfast meetings are considered uncivilized in most foreign countries.
- Latin Americans are, on average, 20 minutes late to business appointments.
- Direct eye contact is impolite in Japan.
- Do not cross your legs in any Arab or many Asian countries—it is rude to show the sole of your shoe.
- In Brazil, touching your thumb and first finger—an American “Okay” sign—is the equivalent of raising your middle finger.
- Nodding or tossing your head back in southern Italy, Malta, Greece, and Tunisia means “No.” In India, this body motion means “Yes.”
- Snapping your fingers is vulgar in France and Belgium.
- Folding your arms across your chest is a sign of annoyance in Finland.
- In China, leave some food on your plate to show that your host was so generous that you could not finish.
- Do not eat with your left hand when dining with clients from Malaysia or India.
- One form of communication works the same worldwide. It is the smile—so take that along wherever you go.



# Cultural Differences between U.S. and Foreign Managers

- ❖ Americans place an exceptionally high priority on time, viewing time as an asset. Many foreigners place more worth on relationships.
- ❖ Personal touching and distance norms differ around the world. Americans generally stand about three feet from each other when carrying on business conversations, but Arabs and Africans stand about one foot apart.

# Cultural Differences between U.S. and Foreign Managers

- ❖ Family roles and relationships vary in different countries.
- ❖ Business and daily life in some societies are governed by religious factors.
- ❖ Time spent with the family and the quality of relationships are more important in some cultures than the personal achievement and accomplishments espoused by the traditional U.S. manager.

# Cultural Differences between U.S. and Foreign Managers

- ❖ Many cultures around the world value modesty, team spirit, collectivity, and patience much more than competitiveness and individualism, which are so important in the United States.
- ❖ Punctuality is a valued personal trait when conducting business in the United States, but it is not revered in many of the world's societies.

# Cultural Differences between U.S. and Foreign Managers

- ❖ Eating habits differ dramatically across cultures
- ❖ Rules of etiquette vary and managers must learn the rules of others.
- ❖ Americans often do business with individuals they do not know, unlike businesspersons in many other cultures.

# Communication Differences Across Countries

- ❖ Americans sometimes come across as intrusive, manipulative, and garrulous; this impression may reduce their effectiveness in communication.
- ❖ Managers from the United States are much more action-oriented than their counterparts around the world; they rush to appointments, conferences, and meetings—and then feel the day has been productive.
- ❖ U.S. managers often use blunt criticism, ask prying questions, and make quick decisions.

# Mexico's Business Culture

- ❖ Employers seek workers who are agreeable, respectful, and obedient, rather than innovative, creative, and independent.
- ❖ Mexican employers are paternalistic, providing workers with more than a paycheck, but in return they expect allegiance.

# Japan's Business Culture

- ❖ The Japanese place great importance on group loyalty and consensus, a concept called *Wa*.
- ❖ When confronted with disturbing questions or opinions, Japanese managers tend to remain silent.

# China's Business Culture

- ❖ The Chinese rarely do business with companies or people they do not know.
- ❖ Your position on an organizational chart is extremely important in business relationships.
- ❖ Arriving late to a meeting is an insult and could negatively affect your relationship.
- ❖ Meetings require patience because mobile phones ring frequently and conversations tend to be boisterous.



# India's Business Culture

- ❖ People in India do not like to say “no,” verbally or nonverbally.
- ❖ Rather than disappoint you, they often will say something is not available, or will offer you the response that they think you want to hear, or will be vague with you.

# India's Business Culture

- ❖ Indians prefer to do business with those whom they have established a relationship built upon mutual trust and respect.
- ❖ Punctuality is important.
- ❖ Indians generally do not trust the legal system and someone's word is often sufficient to reach an agreement.

# Business Climate Across Countries

- ❖ Ease of doing business rankings based on how easy it is to:
  - ❖ start a business
  - ❖ deal with construction permits
  - ❖ register property
  - ❖ get credit
  - ❖ protect investors
  - ❖ pay taxes
  - ❖ trade across borders
  - ❖ enforce contracts
  - ❖ resolve insolvency
  - ❖ get electricity

# Africa's Business Climate

- ❖ Recently, 25 African countries held democratic elections, whereas two decades ago only 3 African countries were considered democracies.
- ❖ Currencies in Africa are stabilizing and many countries are fund-raising to build modern highways, ports, and power grids.
- ❖ Many African and non-African companies are launching operations in Africa due to the rapidly growing middle class and an average GDP growth of 5 percent for the continent through 2017.
- ❖ The World Bank says food demand across Africa will double between 2012 and 2020.

# China's Business Climate

- ❖ The International Monetary Fund (IMF) recently reported that China, the world's most populous country, has overtaken the United States as the world's number-one economic powerhouse.
- ❖ China's economic output in 2014 reached \$17.6 trillion, compared to the USA's \$17.4 trillion.
- ❖ China now accounts for 16.5 percent of the world economy, compared to the 6.3 percent recorded by the United States.
- ❖ Experts have predicted this monumental shift in economic power for years, but it has come much faster than expected.
- ❖ Hundreds of companies are scurrying to set up business in China.

# Indonesia's Business Climate

- ❖ A Pacific archipelago comprised of thousands of islands, Indonesia's stock market was the top performer in 2014 among all Asian countries, and was also the top performer in five out of the last seven years in Asia.
- ❖ Indonesia's currency is the rupiah and its economy is one of the fastest growing in Asia, behind China and the Philippines.
- ❖ Indonesia's GDP is expected to grow 5.7 percent in 2015.
- ❖ As Southeast Asia's largest economy, Indonesia elected a new legislature and president in 2014.

# India's Business Climate

- ❖ The GDP of India in 2015 is expected to reach 8.3 percent, making it the world's fastest-growing large economy, and the first time that India's growth rate has exceeded that of China since the 1990s.

# Japan's Business Climate

- ❖ Japan's new Prime Minister Shinzo Abe was reelected on a mandate to revive the economy.
- ❖ Hopes for Abe's "Three Arrows" of hyper-easy monetary policy, government spending, and reforms such as deregulation were tarnished after Japan's economy slipped into a recession in Q3 2014, following a national sales tax increase from 5 to 8 percent aimed primarily at reducing Japan's huge public debt, the worst among advanced nations.



# Mexico's Business Climate

- ❖ The country of Mexico is now (2015) the fourth-largest auto exporter in the world, behind Japan, Germany, and South Korea.
- ❖ Mexico auto industry now employs one of every six Mexican factory workers and comprises one third of all exports from Mexico.
- ❖ No country was hurt more in the last decade by the rise of China than Mexico, but Chinese policy today is to boost wages and therefore boost consumer spending.
- ❖ Foreign direct investment (FDI) in Mexico has surged to exceed \$30 billion annually.

# Vietnam's Business Climate

- ❖ Internet penetration has grown to 44 percent among Vietnam's 90 million people, up from 12 percent a decade ago.
- ❖ Unlike another communist country, North Korea, Vietnam is booming for business.
- ❖ The market for e-commerce in Vietnam generates \$4 billion in revenue annually.
- ❖ Telecommunications companies in Vietnam, such as Viettel Mobile and Vietnam Mobile Telecom Services, provide the lowest data prices in the world at just over \$3 per gigabyte.
- ❖ Vietnamese are among the most prevalent watchers of videos on smartphones in the world.