The Challenges of Global Expansion

Key Topics

- The Global Expansion of Entrepreneurship
- Venturing Abroad
- Why Internationalize?
- Researching the Foreign Market
- International Product Adaptation
- The Global Manager/Entrepreneur
- International Threats and Risks
- Risk/Reward Analysis
- Key Questions and Resources
- International Web Resources

The Global Expansion of Entrepreneurship

Capitalism has become the dominant economic system, replacing many of the socialist and centrally planned systems worldwide. While entrepreneurship has been labeled the “engine” of the U.S. economy, less is known about development in Europe and Asia.

Europe

In a competitive arena, the concept of a level playing field is often identified as being an ideal environment. Within a particular country, government policies attempt to provide competitive or economic policies that apply equally to all businesses. With globalization, differences in national policies make the playing field uneven as countries adopt different policies based on size, economic structure, and approach. As a result, the European Union
The Challenges of Global Expansion

Table 1
Major Instruments Applied in the Field of Start-Ups

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Common Feature</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Un)returnable grants or subsidies</td>
<td>Linked to specific characteristics of a start-up (i.e., age of the founder(s), sector etc.)</td>
</tr>
<tr>
<td>Subsidized loan</td>
<td>Requires founder's equity of min. 15 percent; linked to start-up capital and equipment</td>
</tr>
<tr>
<td>Loan guarantee</td>
<td>Often unsecured, covering up to 80 percent of the loan sum</td>
</tr>
<tr>
<td>Guarantee to providers of venture capital</td>
<td>Offered to providing agents or individuals</td>
</tr>
<tr>
<td>participative loans</td>
<td></td>
</tr>
<tr>
<td>Public venture capital funds</td>
<td>Venture capital for start-ups in new sectors with new technologies</td>
</tr>
<tr>
<td>Tax holiday</td>
<td>First 1 to 3 years</td>
</tr>
<tr>
<td>Information lines, offices, booklets</td>
<td>Offer general start-up specific information</td>
</tr>
<tr>
<td>Feasibility studies</td>
<td>Identify viable projects</td>
</tr>
<tr>
<td>Consultancy services</td>
<td>Vouchers or reimbursements on start-up consultancy</td>
</tr>
<tr>
<td>entrepreneurship courses</td>
<td>Business plan, accounting, taxation</td>
</tr>
<tr>
<td>Start-up centers or parks</td>
<td>Offer infrastructure (office rooms, joint secretary etc.)</td>
</tr>
</tbody>
</table>


(EU) has been created, confident in the belief that the small and medium enterprise (SME) sector is an important, if not the most important, factor in economic development. De reports that although there are meaningful differences across European countries, the overall objectives focused on SME’s fall together with those in the context of general economic policy.1

- Create employment
- Foster economic growth
- Improve competitiveness
- Regional/Structural development

Table 1 provides an overview of various instruments/programs provided by EU countries to stimulate SME development. These range from subsidies, grants, and loan guarantees, to information and start-up services in incubators. Mugler has identified three main categories of indirect start-up incentives in the form of business infrastructure provided by the government:2

1. Business incubators and technology parks
2. Business advisory services, education, and training facilities

3. Intermediaries that combine advice and financial assistance to entrepreneurs in the context of a larger development strategy

Transition Economics

The socialist countries in Europe had built a rigid central planning model adopted by its satellites as well as the Peoples Republic of China. Unlinked from demand and supply, the lack of attention to market forces resulted in misallocated resources, and lack of competition and innovation eventually led to massive inefficiencies. The value added by their economy was less than one, leading to decreased gross domestic product (GDP). Centralized allocation prevented effective channels of distribution, and entrepreneurship was discouraged since the state owned the means of production.

“During communist domination, concepts such as private ownership, free and democratic behavior, individual responsibility and entrepreneurial and managerial spirit were eliminated from the system to different degrees.” However, by the late 1980s, the iron curtain disappeared and eastern and central Europe decided to allow an entrepreneurial economy to shape their economic future. Legislative measures thoroughly reformed the Soviet foreign-trade apparatus where national agencies, large enterprises, and research institutes negotiated their own foreign transactions. The socialist countries began to form joint ventures by inviting in foreign investors who wanted to expand their markets. In fact, trade with the EU jumped dramatically while dropping precipitously with the former Soviet Union.

Generating positive attitudes toward entrepreneurship was an uphill battle in some cases. During the transition period, many people suffered from structural disruptions and their attitudes were generally negative. In eastern Europe, the entrepreneurial culture is widely associated with criminality and corruption. If entrepreneurship is not valued by the general public, government subsidies and other forms of economic encouragement may be ineffective. “The negative image of the entrepreneur involved in dubious transaction, trying to evade tax liabilities, has to be replaced by a more positive set of entrepreneurial qualities, highlighting professional skills, organizational and managerial efficiency, readiness to accept challenge, creativity and hard work in order to succeed at home and abroad.”

Asia

Asia has long been a hotbed of entrepreneurial activity. This vast continent accounts for almost half the annual growth in world trade. The trade-driven economies of the region have the world’s largest pool of savings, the most advanced technologies, and fastest growing markets. Therefore, companies with interests in the region are observing Asian Pacific Economic Cooperation (APEC) developments closely.

What is APEC? The Asian Pacific Economic Cooperation proposed by Australia in 1989 is an annual forum composed of Australia, New Zealand, Japan, China, Hong Kong, Taiwan, South Korea, Canada, and the United States. It was initially modeled after the Organization for Economic Cooperation and Development (OECD), which is a center for research and high-level discussion. Since 1989, APEC’s goals have become more ambitious. At present, APEC has 21 members with a combined GNP of $18 trillion, nearly 44 percent of global trade, and is the third largest economy in the world.

3Ibid., p. 151.
The key objectives of APEC are to liberalize trade by 2020, to facilitate trade by harmonizing standards, and to build human capacities for realizing the region’s ambitions.

It appears that market forces such as the EU may compel the Asian economies to move toward formal integration. European and American markets are significant for the Asian producers, and some type of organization or integration may be needed to maintain leverage and balance against the two other blocs. Also, since much of the growth in trade for the nations in the region is from intra-Asian trade, having a common understanding and policies will become necessary. A future arrangement may be based on the most established arrangement in the region, the Association of the Southeast Asian Nations (ASEAN). Before 1991, ASEAN had no real structures, and consensus was reached through information consultations. In October 1991, ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam and, since 1997, Cambodia, Myanmar, and Laos) announced the formation of a customs union called ASEAN Free Trade Area (AFTA), with completion expected by 2010.

Providing an overview of Asian entrepreneurship, Dana writes:

In Cambodia, the Khmer Rouge extinguished entrepreneurship, a sector which is slowly re-establishing itself, in an environment of uncertainty. In China, entrepreneurship is being promoted as a supplement to the socialist economy. In Indonesia, where the Chinese minority has been at the forefront of entrepreneurship, the state has been trying to promote entrepreneurship among the indigenous prilunis. In Japan, small-scale entrepreneurship is a complement to large corporations, and cultural values propagate inter-firm linkages. Credit policy in Korea resulted in chaebols squeezing many entrepreneurs out of business; government measures intervened to assist small-scale entrepreneurship. In Laos, cultural values discouraged entrepreneurship among Lao men, resulting in opportunities for women and foreigners.

In response to the domination of entrepreneurship in Malaysia, by ethnic-Chinese entrepreneurs, Malaysia adopted a policy of giving preferential treat-
ment to indigenous bumiputras. The Chinese minority also dominates the entrepreneurship sector of the Philippines. In Singapore, multinationals saturated the domestic markets forcing the internationalization of formerly local entrepreneurship. Taiwan has more entrepreneurs per capita than has any of its neighbors.5

But the fastest growing country is China.

China

Historically, China had evolved from feudalism since 221 B.C. and had maintained its agricultural base through the communist regime.6 However, since the late 1970s, the development of rural entrepreneurship has been associated with the emergence and development of rural township and village enterprises (TVEs). “Appearing out of nowhere” in 1987 TVEs have become an important force in China’s national economy. The term TVE appeared in 1984 in connection with the breakup of the people’s commune. Before they were recognized, they were regarded as “illegal” and “unstandardized” being forced to stay outside the state planning system. However, their rogue status turned out to be their greatest advantage, because they were guided by a marketing orientation from the outset and were not part of the declining state-owned enterprise system.7

More recently, Matthews and Qin8 recounted three types of entrepreneurial ventures which have emerged:

1. Township and village enterprises (TVEs)
2. Sino-foreign joint ventures and wholly foreign-owned subsidiaries
3. Collective of privately owned joint ventures

TVEs are an important sector of the modern Chinese economy and an important seedbed for the merging new breed of entrepreneurs. Fan and Kirby characterize these entrepreneurs as leaders, founders of enterprises, members of the party, having a strong belief in the “cause,” possessing total commitment to the business, hard working, determined self-achievers, having a strong sense of responsibility, able to identify and grasp opportunities, flexible, and having the ability to learn and improve.

In addition to rural initiatives, the role of semiprivate and private nonagricultural enterprises had been increasing rapidly in light industries, such as manufacturing, service and merchant activities. These entrepreneurial initiatives have resulted from individuals’ ability to successfully exploit gaps in the industrial structure and to respond to substantial unsatisfied demand in sections previously repressed. With many opportunities beckoning, it appears that Chinese entrepreneurs have the necessary motivation, desire, and commitment to make significant sacrifices to grow their businesses.9

Recently, China has been pursuing entrepreneurship in several areas. The progress China has made in high-tech is breathtaking. Nearly as many engineers and scientists graduate from its first-rate universities as do in the United States. A team from the Beijing Genomics Institute was among the first to decode the rice genome. As many as ten new semiconductor chip plants could one day make China the world’s second-largest chipmaker. China plans a manned space flight as early as 2004. U.S. and European companies are pouring more of their investments into China every day, abandoning the rest of the developing world. By trading fat domestic contracts for technology and by leveraging its cheap reservoir of engineers, China is moving into telecom, chips, and software—the building blocks of an advanced economy and a sophisticated military.

The rise of China as a potential technological giant is being bolstered by five pieces of evidence:

- **Precedents**—Chinese manufacturers have successfully made the leap from electronic toys to chips, telecom, and software.
- **Silicon**—Their progress has been especially rapid in semiconductors, which are the building blocks for all other tech products.
- **Partnerships**—To play in China’s huge domestic market, Western companies must partner with Chinese players, speeding their advance up the tech ladder.
- **Human capital**—China boasts a huge pool of bright techies who work at a fraction of what their counterparts in Silicon Valley are paid.
- **Spirit**—Shanghai, in particular, boasts entrepreneurial energy, fine universities, and increasingly, an international climate—just like Silicon Valley.  

**VENTURING ABROAD**

For many years, U.S. entrepreneurs shuddered at the thought of “going international” because it was just too big a step, too risky, and too uncertain. On the other side of the ocean, Lenin wrote that foreign investment represented the final stage of capitalism. It is, therefore, ironic that the world’s greatest boom in foreign investment took place in the dying years of Lenin’s communism. From 1983 to 1990, foreign investment grew four times faster than world output and three times faster than world trade. Entrepreneurs rushed enthusiastically to those countries that were blighted by communism, state socialism, or authoritarian, isolationist governments. Prime targets included China, India, other parts of Asia, Latin America, and eastern Europe.

Historically, the United States was a major exporter, especially after World War II when goods were in short supply and the worldwide market was insatiable. After production of more goods began in other countries, U.S. exporters found themselves being squeezed out of markets by European and Japanese producers who took the initiative away from them. Japanese businesses have learned that they have to export or die, while American businesspeople have grown up saying, “I’d rather die than export.” For many entrepreneurs, exporting is the biggest hurdle.

Marx and Lenin taught others to fear business initiatives from abroad. They believed foreign entrepreneurs were ruthless and greedy and would exploit the poor, manipulate governments, and flout popular opinion.

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WHY INTERNATIONALIZE?

Whether their motives are for pure economic gain or to share some of their knowledge and resources, entrepreneurs tend to act in a rational way. They acquire raw material and capital where they are most abundant, manufacture products where wages and other costs are lowest, and sell in the most profitable markets. If everyone does their assigned tasks, the economic law of comparative advantage will benefit everyone.11

Countries vary with respect to the quantity and proportion of resources they possess, which forms the basis for a competitive advantage of nations. Resource-rich countries (those having extractive assets) include the OPEC block nations and many parts of Africa. Labor-rich, rapidly developing countries include Brazil, Sri Lanka, India, the Philippines, and South and Central America. Market-rich countries such as Europe, Brazil, Mexico, and the United States have purchasing power, in contrast to India or China, which possess large populations but suffer from lack of purchasing power. Each country has something that others need, thus forming the basis of an interdependent international trade system.

Internationalization can be viewed as the outcome of a sequential process of incremental adjustments to changing conditions of the firm and its environment. This process progresses step by step as risk and commitment increase and entrepreneurs acquire more knowledge through experience. The entrepreneur’s impression of the risks and rewards of internationalizing can be determined by feasibility studies of the potential gains to be won.

An entrepreneur’s willingness to move into international markets is also affected by whether he or she has studied a foreign language, has lived abroad long enough to have experienced culture shock, and is internationally oriented. Another factor is the entrepreneur’s confidence in the company’s competitive advantage in the form of price, technology, marketing, or financial superiority. This advantage might include an efficient distribution network, an innovative or patented product, or possession of exclusive information about the foreign market.

Decentralization is the key to Nebraska-based American Tool Company’s international marketing strategy. Gunnar Birnum, director of marketing for the firm’s international division, says “We delegate responsibility for running the local operations in foreign countries to our resident managers. They are, almost exclusively, natives of the country. They know the subtleties and peculiarities of their homeland the way no outsider can. The point is to bring as much responsibility to our local managers as possible. This is really the same approach most Japanese manufactures use to market here in the United States. They hire Americans to move their products through our distribution chain—as we know, that’s worked rather well for them.”12

Deteriorating market conditions at home may propel entrepreneurs to seek foreign markets to help offset declining business, or a countercyclical market may be sought to balance the fluctuations of a single market subject to one set of local economic conditions.13

Some small businesses internationalize immediately and do not wait to expand their horizons. Multinational from inception, these companies break the traditional expectation that a business must enter the international arena incrementally, becoming global only as it grows older and wiser. (See Table 2 for proactive and reactive reasons to internationalize).

According to Oviatt and McDougall, seven characteristics of successful global start-ups are (1) global vision from inception; (2) internationally experienced management; (3) a strong international business network; (4) preemptive technology or marketing; (5) a unique intangible asset; (6) a linked product or service; and (7) tight organizational coordination worldwide.14

As global opportunities expand, entrepreneurs are becoming more open-minded about internationalizing. The primary advantage of trading internationally is that a company’s market is expanded significantly and growth prospects are greatly enhanced. Other advantages include utilizing idle capacity; minimizing cyclical or seasonal slumps; getting acquainted with manufacturing technology used in other countries; learning about products not sold in the United States; learning about other cultures; acquiring growth capital more easily in other countries; and having the opportunity to travel for business and pleasure.15

### RESEARCHING THE FOREIGN MARKET

Before entering a foreign market, it is important to study the unique culture of the potential customers. Different concepts of how the product is used, demographics, psychographics, and legal and political norms are usually different from those in the United States. Therefore, it is necessary to conduct market research to identify these important parameters.

- **Government regulations**—Must you conform to import regulations or patent, copyright, or trademark laws that would affect your product?
- **Political climate**—Will the relationship between government and business or political events and public attitudes in a given country affect foreign business transactions, particularly with the United States?

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• **Infrastructure**—How will the packaging, shipping, and distribution system of your export product be affected by the local transportation system, for example, air, land, or waste?

• **Distribution channels**—What are the generally accepted trade terms at both wholesale and retail levels? What are the normal commissions and service charges? What laws pertain to agency and distribution agreements?

• **Competition**—How many competitors do you have and in what countries are they located? On a country-by-country basis, how much market share do they have, and what prices do they charge? How do they promote their products? What distribution systems do they use?\(^\text{16}\)

• **Market size**—How big is the market for your product? Is it stable? What is its size in each country? In what countries are markets opening, expanding, maturing, or declining?

• **Local customs and culture**—Does your product violate cultural taboos?

How can small businesses learn about international cultures and thus know what is acceptable and what is not? A number of approaches can be employed. One of the most helpful is international business travel. This provides the individual with firsthand information regarding cultural *dos and don’ts*. Other useful methods include training programs, formal educational programs, and reading the current literature. For example, when doing business in Mexico, researchers have recently reported that it is useful to follow these nine rules:

1. Exploit and become a functioning partner in Mexican social and business networks.
2. Allow Mexican employees to reveal failure or error without losing face.
3. Do not underestimate Mexican expertise and adaptability in cutting-edge technologies.
4. Work within Mexican cultural parameters for male/female workplace relationships.
5. Clarify expectations at the start and throughout the working relationship.
6. Embrace Mexican cultural values that enhance and facilitate teamwork.
7. Tailor employee reward systems to cultural and economic circumstances.
8. Cultivate and support employee initiative and decision making.
9. Understand and adapt to the transitional aspects of Mexican business and culture.\(^\text{17}\)

**INTERNATIONAL PRODUCT ADAPTATION**

Every small business would like to sell the same product on a worldwide basis. However, this is not always possible. In many cases, the good must be adapted for different local markets. Two basic reasons for this are the nature of the product and the culture.

In some cases, a product will need little adaptation. An industrial good, such as a factory robot, will need only minor adaptation because the most important factor is the way the machine works. The company may need to rewire the unit to meet local electrical standards, but usually very few other changes are necessary. In contrast, consumer


goods often require much more adaptation. For example, in some countries in the
Middle East, toothpaste is given a spicy taste, and in Latin countries, some soft drinks are
sweeter than they are in the United States.

Culture affects product adaptation because the basic product needs to be changed to
meet the values and beliefs of the local culture. For example, in Japan, Levi’s jeans are
snugger than they are in the United States because the Japanese like tighter-fitting
pants. Similarly, in Japan, the McDonald’s trademark character’s first name is Donald
(not Ronald) because it is easier for the Japanese to pronounce this word. Inside the
fast-food franchise in Germany, beer is sold, while in France, wine is sold.

Another factor in product adaptation is governmental regulation. For example, in
many countries, imported liquid products must identify their contents in metric mea-
surements, such as liters. Many nations also regulate the content of products and do not
allow aerosol spray containers or food processed with particular chemicals. Some of
these regulations are designed to provide consumer or environmental safety. In other
cases, regulations are formulated to provide protection to local industries. Auto
exporters, for example, often find they must modify their cars in order to sell them in
most other countries. Japan carefully regulates the import of all pharmaceutical prod-
ucts, which must be tested in Japanese laboratories. In Europe, many countries require
that all postal and telecommunication equipment be developed according to uniform
standards, thus forcing all exporters to modify their machines.18

Although Domino’s Pizza executives in Ann Arbor, Michigan, believed they could
sell a pizza anywhere, it took a few modifications to succeed in selling their pizzas in cer-
tain foreign markets. After all, everyone might like pizza, but not the same kind.

In Germany, where pizzas are smaller and eaten individually, Domino’s delivered
personal-size pizzas. In Japan, pizzas were also reduced in size because the people will
not buy bigger portions, according to David M. Board, Jr., Domino’s vice president for
international operations. Modifications were also made to suit regional tastes. For exam-
ple, popular toppings in Japan are tuna and sweet corn, while in Australia, prawns and
pineapple are favorites.

The basic recipe and menu choices, however, have remained primarily standard
Domino’s fare—two sizes, 12 topping choices, and a cola beverage.

In some instances, Domino’s promotional themes also needed slight alterations. In
England, the “One call does it all,” slogan could hardly be used since the king’s English
considers a call a personal visit. In Germany, where pizza is seen as a snack food, the com-
pany advertisements were designed to emphasize the nutritional value of pizza and its appeal
as a full meal in order to expand market potential. For a company that prides itself on
consistency, the diversity of international markets has posed some interesting challenges—
challenges that have been met only with flexibility and minor modifications.19

By making use of market research done for its Russian restaurants, McDonald’s has
managed to create a gleaming island of quality, service, and satisfaction where indiffer-
ent waiters, filthy surroundings, and ghastly food were commonplace. Opening just
three years ago, serving 40,000 customers a day, and selling more food in three weeks
than the average McDonald’s restaurant sells in a year, the Moscow McDonald’s is the
busiest one in the world.

Journalists predicted in 1990 that the Moscow McDonald’s would fail: Within a few
months the restrooms would be trashed, employees would grow nasty, and the food

18Richard M. Hodgetts and Donald F. Kuratko, Effective Small Business Management, 7th ed. (Ft. Worth, TX: Harcourt
Communications, 1990).
would turn rancid. Not only has this not happened, but three years later two other smaller restaurants in downtown Moscow have been opened. McDonald’s accomplished its foreign objectives with liberal doses of clout and savvy and huge amounts of patience.

Understanding where to find information on the selected foreign market may be the most important step. Some of the most common sources of secondary research include the U.S. government and foreign governments, international organizations, service organizations, trade organizations, directories and newsletters, and databases.

The U.S. Government Printing Office publishes *Country Studies* for more than 100 nations. Each of these publications offers a wealth of information to small firms interested in doing business abroad. The government also provides information through the Department of State, Department of the Treasury, U.S. Trade Department, and the American embassies abroad. Other countries also offer information, such as trade data and information related to domestic industries. This information often can be obtained from the respective country’s embassy or consulate in the United States.

Some international organizations provide statistical data on trade and on specific products exported and imported on a country-by-country basis, as well as population and other demographic information. Examples include (1) the *Statistical Yearbook*, published by the United Nations; (2) the *World Atlas*, published by the World Bank and providing information on population, growth trends, and gross national products; (3) the Organization for Economic Cooperation and Development, which publishes quarterly and annual trade data on its member countries; and (4) the International Monetary Fund and the World Bank, which publish periodic staff papers that evaluate region- or country-specific issues in depth.

A large number of service organizations, such as accounting firms, airlines, universities, and banks, provide data on international business practices, legislative and regulatory requirements, political stability, and trade. For example, Price WaterhouseCoopers, the internationally known accounting firm, has a series of publications titled *Information Guide for Doing Business in* [Name of Country]. The Language and Intercultural Research Center of Brigham Young University publishes *Briefing Programs* for more than 60 countries, and a more extensive series called *Building Bridges for Understanding with the People of* [Name of Country]. The Hong Kong and Shanghai Banking Cooperation offers a *Business Profile Series* that is particularly useful, especially for firms intending to do business in the Middle East.20

**The Global Manager/Entrepreneur**

Individuals who internationalize and carry out a coordinated strategy are characterized as being *integrators*; that is, they work across country boundaries to ensure the dissemination and development of core competence. “They create personal relationships to increase the speed and effectiveness of programs being implemented. They understand and mediate conflicts between divisions and worldwide product and country operations, with a decidedly overall local focus. Their travels and contacts make them useful for the collection and dissemination of information that is vital to the establishment of feedback and control systems.”21

*Global entrepreneurs* are opportunity-minded and open-minded, able to see different points of view and weld them into a unified focus. They rise above nationalistic

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differences to see the big picture of global competition without abdicating their own nationalities. They have a core language plus working knowledge of others. They confront the learning difficulties of language barriers head-on, recognizing the barriers such ignorance can generate. The global entrepreneur is required to wear many hats, taking on various assignments, gaining experience in various countries, and seizing the opportunity to interact with people of different nationalities and cultural heritages.\textsuperscript{22}

\section*{INTERNATIONAL THREATS AND RISKS}

Capturing foreign markets is not as simple as picking fruit from a vine. Instead, a series of dangers must be monitored carefully. \textit{Ignorance} and \textit{uncertainty}, combined with \textit{lack of experience} in problem solving in a foreign country, top the list. \textit{Lack of information} about resources to help solve problems contributes to the unfamiliarity. \textit{Restrictions} imposed by the host country often contribute to the risk. Many host countries demand development of their exports and insist on training and development of their nationals. They can also demand that certain positions in management and technological areas be held by nationals. Many seek technologically based industry rather than extractive industry. In other instances, the host country may require that it own controlling interest and/or limit the amount of profits or fees entrepreneurs are allowed to take out of the country.

\textit{Political risks} include unstable governments, disruptions caused by territorial conflicts, wars, regionalism, illegal occupation, and political ideological differences. \textit{Economic risks} that need to be monitored include changes in tax laws, rapid rises in costs, strikes, sudden increases in raw materials, and cyclical/dramatic shifts in gross national product (GNP). Social risks include antagonism among classes, religious conflict, unequal income distribution, union militancy, civil war, and riots. \textit{Financial risks} incorporate fluctuating exchange rates, repatriation of profits and capital, and seasonal cash flows.\textsuperscript{23}

The costs and penalties for not complying with export regulations can be substantial. For example, an Irvine, California, company was recently fined $100,000 for violating the Export Administration Act by failing to obtain a “Swiss Blue” import certificate, which would have protected the company’s product from unauthorized re-export.

In another instance, a New York electronics company executive was given a three-year suspended prison sentence for failing to notify the Department of Commerce of changes in his license application to export a high-tech integrated circuit test system. Penalties for other violations can reach into the millions of dollars.\textsuperscript{24}

Foreign government import regulations can affect a company’s ability to export successfully. These regulations represent an attempt by foreign governments to control their markets—to protect a domestic industry from excessive foreign competition; to limit health and environmental damage; or to restrict what they consider excessive or inappropriate cultural influences. Most countries have import regulations that are potential barriers to export products. Exporters need to be aware of import tariffs and consider them when pricing their prod-

\begin{thebibliography}{10}

\bibitem{22}Ibid.


\end{thebibliography}
uct. While most countries have reduced their tariffs on imported goods, there are still other major restrictions to global trades, such as nontariff barriers (NTB). These include prohibitions, restrictions, and conditions or specific requirements that can make exporting products difficult and sometimes costly. An example of a NTB is when a country requires all labels and markings to be in a specified language.

In France all labels, instructions, and other printed material for imported goods must be in French. In addition, certain products must now be labeled with their country of origin when foreign merchandise has a trademark or name that suggests that the product may have originated in France.

In Sweden, sanitary certificates of origin testifying to the good condition of a product and its packaging at the time of export are required for meat, meat products, and other items of animal origin, margarine, vegetables, fresh fruits, and plants.25

Most entrepreneurs avoid international trade because they believe it is too complicated and fraught with bureaucratic red tape. They also believe that international trade is only profitable for large companies that have more resources than smaller businesses. Some other perceived drawbacks of international trade include becoming too dependent on foreign markets; foreign government instability that could cause problems for domestic companies; tariffs and import duties that make it too expensive to trade in other countries; products manufactured in the United States that may need significant modification before they are accepted by people in other countries; and foreign cultures, customs, and languages that make it difficult for Americans to do business in some countries.26 Table 3 identifies some additional complications of international operations.

International sales were not a problem for Thermal Bags by Ingrid of Des Plaines, Illinois. A single trade show in England led to the sale of $160,000 worth of insulated bags. The company ran into difficulty financing the sale, however, and President Ingrid Skamser thought they might have to pass on the large English orders because she lacked the capital to produce enough bags. “Up to this point, we thought we had no choice but to get full payment in advance—a policy that lost us a lot of orders,” she said.

When Skamser contacted the Illinois District Export Council, she was pleasantly surprised to learn that financial assistance was available to her from the Foreign Credit Insurance Association and the Illinois Export Authority. As a result, Thermal Bags by Ingrid was able to fulfill the international orders it received at the trade show.27

McDonald’s Corporation also has some difficulties with its overseas operations. In Russia, employee theft is a problem even though company-issued uniforms have only a single small pocket. There is also rising worker discontent over salaries that are not keeping pace with Russia’s runaway inflation. Employees who press their case for labor unions are threatened with dismissal. Employees also claim they can earn faster promotions if they are willing to act as informers against their fellow workers. The entrepreneur claims that his 51 percent partner, the city of Moscow, is not pulling its share of the weight, yet it is getting half of the profits.

Some of the raw materials McDonald’s needs, such as iceberg lettuce, grow outside Russia in an independent country where an ethnic group is fighting for its own independence. Other factors must also be dealt with, such as a shabby man who hawks

25Ibid.
TABLE 3
Comparing U.S. and International Operations

<table>
<thead>
<tr>
<th>Factor</th>
<th>U.S. Operations</th>
<th>International Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language</td>
<td>English used almost universally</td>
<td>Domestic language must be used in many situations</td>
</tr>
<tr>
<td>Culture</td>
<td>Relatively homogeneous</td>
<td>Varies between countries and within a country</td>
</tr>
<tr>
<td>Politics</td>
<td>Stable and of varying importance</td>
<td>Often volatile and of decisive importance</td>
</tr>
<tr>
<td>Economy</td>
<td>Relatively stable</td>
<td>Wide variations among countries and between</td>
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<tr>
<td></td>
<td></td>
<td>regions within countries</td>
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<tr>
<td>Government interference</td>
<td>Minimal and reasonably predictable</td>
<td>Extensive and subject to arbitrary interventions</td>
</tr>
<tr>
<td>Labor</td>
<td>Skilled labor available</td>
<td>Skilled labor often scarce, requiring training or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>redesign of production methods</td>
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<tr>
<td>Financing</td>
<td>Well-developed financial markets</td>
<td>Poorly developed financial markets; capital flows</td>
</tr>
<tr>
<td></td>
<td></td>
<td>subject to government interference</td>
</tr>
<tr>
<td>Market research</td>
<td>Data easy to collect</td>
<td>Data difficult and expensive to collect</td>
</tr>
<tr>
<td>Advertising</td>
<td>Many media available; few restrictions</td>
<td>Media limited; many restrictions; low literacy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>rates rule out print media in some countries</td>
</tr>
<tr>
<td>Currency</td>
<td>U.S. dollar used without restriction</td>
<td>Must change from one currency to another;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>changing exchange rates and government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>restrictions are problems</td>
</tr>
<tr>
<td>Transportation/Communication Control</td>
<td>Among the best in the world</td>
<td>Often difficult and sporadic</td>
</tr>
<tr>
<td></td>
<td>Ability to define when centralized control will be effective</td>
<td>A worse problem; must walk a tightrope between over-centralizing and losing control through too much decentralizing</td>
</tr>
<tr>
<td>Contracts</td>
<td>Once signed, are binding on both parties, even if one party makes a bad deal</td>
<td>Can be voided and renegotiated if one party becomes dissatisfied</td>
</tr>
<tr>
<td>Labor relations</td>
<td>Collective bargaining; can lay off workers easily</td>
<td>Often cannot lay off workers; may have mandatory worker participation in management; workers may seek change through political process rather than collective bargaining</td>
</tr>
<tr>
<td>Trade barriers</td>
<td>Nonexistent</td>
<td>Extensive and complicated</td>
</tr>
</tbody>
</table>


pornography just outside the front door, and young toughs packing handguns that protrude from beneath their leather jackets who barge to the front of the entrance line. However, by withdrawing from Russia, McDonald’s would be abandoning its $77 million investment and the tantalizing prospect of huge future earnings. Russia would lose fresh tax revenues and thousands of new jobs. Neither side can afford to withdraw.28

RISK/REWARD ANALYSIS

In pursuing international trade, entrepreneurs face the risks of confiscation, expropriation, nationalization, and other government interference. Entrepreneurs may take out insurance to cover some political and economic risks. The Overseas Private Investment

Corporation (OPIC) can cover three types of risk: currency inconvertibility insurance, expropriation insurance, and political environment insurance. However, entrepreneurs can also protect themselves by doing extensive research on the following comprehensive list of considerations in the evaluation of economic environments (see Table 4).

### TABLE 4
**Issues in Researching Risk/Reward**

<table>
<thead>
<tr>
<th>Financial Considerations</th>
<th>Technical and Engineering Feasibility Considerations</th>
<th>Marketing Considerations</th>
<th>Economic and Legal Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Projected cash inflows (years one, two, and so forth)</td>
<td>9. Geography/climate</td>
<td>17. Distribution costs</td>
<td>24. Host attitude toward this particular investment</td>
</tr>
<tr>
<td>4. Projected cash outflows (years one, two, and so forth)</td>
<td>10. Site locations and access</td>
<td>18. Competition</td>
<td>25. Restrictions on ownership</td>
</tr>
<tr>
<td>6. Monetary exchange considerations</td>
<td>12. Availability of local management</td>
<td></td>
<td>27. Import/export restrictions</td>
</tr>
<tr>
<td></td>
<td>13. Economic infrastructure (roads, water, electricity, and so forth)</td>
<td></td>
<td>28. Capital flow restrictions</td>
</tr>
<tr>
<td></td>
<td>14. Facilities planning (preliminary or detailed)</td>
<td></td>
<td>29. Land-title acquisitions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>30. Inflation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Political and Social Considerations</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>31. Internal political stability</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>32. Relations with neighboring countries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>33. Political/social traditions</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>34. Communist influence</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>35. Religious/racial/language homogeneity</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>36. Labor organizations and attitudes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>37. Skill/technical level of the labor force</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>38. Socioeconomic infrastructure to support families</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>39. Restrictions on ownership</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>40. Tax laws</td>
</tr>
</tbody>
</table>


International marketing research is critical to the success of small business efforts to sell goods and services in overseas markets. Although small enterprise owners can tap a host of sources to obtain the needed information, these efforts should be directed toward answering the following three questions.

1. **Why is the company interested in going international?** The answer to this question will help the firm set its international objectives and direct the marketing-research effort. For example, if the small business owner wants to establish and cultivate an overseas market, then the firm will be interested in pinpointing geographic areas where future market potential is likely to be high. If the business owner wants to use the market to handle current overproduction, then the company will be interested in identifying markets that are most likely to want to make immediate
purchases. Regardless, the firm will have established a focus for its marketing-research efforts.

2. What does the foreign-market assessment reveal about the nature and functioning of the markets under investigation? The answer to this question, which often is comprehensive in scope helps identify market opportunities and provide insights regarding the specific activities of these individual markets. For example, if the firm identifies potential markets in Spain, Italy, and Mexico, the next step is to evaluate these opportunities. This can be done by gathering information related to the size of the markets, competition that exists in each, the respective government’s attitude to foreign businesses, and steps that will have to be taken to do business in each location. Based on this information, a cost/benefit analysis can be conducted and a decision made regarding the market(s) to be pursued.

3. What specific market strategy is needed to tap the potential of this market? The answer to this question involves a careful consideration of the marketing mix: product, price, place, and promotion. What product should the firm offer? What specific features should it contain? Does it need to be adapted for the overseas market, or can the firm sell the same product it sells domestically? At what stage in the product life cycle will this product be? How much should the firm charge? Can the market be segmented so that a variety of prices can be used? How will the product be moved through the marketing channel? What type of promotional efforts will be needed: advertising, sales promotion, personal selling, or a combination of these?

Once these questions have been answered, the small business owner can begin implementing the international phase of the firm’s strategy.

INTERNATIONAL WEB RESOURCES

Many excellent resources are available on the Web for entrepreneurs concerning global business opportunities. Entrepreneurs can research markets, countries, trade barriers, currencies, legal issues, financing, cultural issues, tax issues, and investment and partnerships opportunities, among others.

http://ciber.bus.msu.edu/busres.htm
Michigan State University’s Center for International Business Education and Research (CIBER) Web site has excellent links and resource offerings for entrepreneurs. This site is a must-see for entrepreneurs interested in international business opportunities.

http://www.hg.org/guides.html
This site provides in-depth “Doing business guides” for more than 50 countries.

http://www.state.gov/www/about_state/business/com_guides/
The U.S. Bureau of Business and Economic Affairs contains business reports for nearly every industrial country in the world. The reports are updated annually by the U.S. embassies located in the given countries.

http://www.inc.com/challenges/details/0,6279,CHL10,00.html
Inc. Online Global has a wealth of valuable information for entrepreneurs.

http://www.sbaonline.sbs.gov/OIT/info/Guide-To-Exporting/
The SBA’s guide to small business exporting is found here.
http://www.InternationalWorkz.com
This site provides a variety of resources for global small business.

http://www.ita.doc.gov/tic/
This U.S. Department of Commerce Web site offers specific country information as well as tariff, legal, financing, and exporting information and information on a wide variety of other topics.

http://www.iiee.org
Institute of International Education

http://www.cyberatlas.com
CyberAtlas

http://www.worldeconomicforum.org
World Economic Forum

http://wto.org
World Trade Organization

http://www.worldlike.co.uk
World Link

http://www.globalreach.com
Global Reach