



Unit 12

Creating Successful Global Business

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Describe the complexities of doing business in a global context
- ✓ Discuss trends in global business
- ✓ Apply strategies and tools needed to help shift a regional business into a global enterprise
- ✓ Closely evaluate your current business operation and determine its readiness for moving into a global marketplace
- ✓ Create an international business plan and prepare it for implementation

Unit 12

Creating Successful Global Business Strategies

Understanding the Global Business Environment

The global business arena is a worthwhile challenge, facilitating the shift from small regional operations to an international force to be reckoned with. The same shift can simply help a business be more efficient and profitable its local area.

In this session, you'll define globalization, learn what factors are involved in entertaining a global business, and discuss the top trends in this area.

Defining Globalization

It wasn't that long ago that the notion of a small or medium sized business working in the global marketplace was something of a novelty. Only large, well-funded companies seemed able to work in an international setting profitably, but that's all changed. With advances (including lower prices) in technology, communication, and travel, even small companies can establish an international presence and conduct trade within a global environment.

The concept of **globalization** relates to the interdependence between economies and nations in terms of economic, cultural, political, and technological influences. A company that can import and/or export their goods and services in more than just one or two countries can grow to leverage their position into even more of a global enterprise as they learn about culture, business practices, and the intricacies involved.

Making Connections

Consider this statement: “Technology, communication, and a strong desire to have global influence make it possible for companies to achieve globalization.”

In the chart below, record the pros and cons of doing business globally with the above statement in mind.

Pros	Cons

Factors in Globalization

The Evolving Marketplace

The influence of different cultures, the nature of competition, and the ever-changing nature of technology means that the global marketplace is evolving constantly, but at a varying scale. Being good at doing business in one country (your own to start with) does not prepare you for working in an international setting where things can be very different in what can be perceived as the most basic way. For example, the way we introduce ourselves, offer a business card, exchange greetings, or sign off an e-mail all require different types of expertise as you move around the globe. We haven't even touched on legal contracts, currency exchange, or obtaining insurance yet.

In addition, the dynamics present in global trade are changing what we might refer to as "traditional" methods of resourcing materials, navigating supply chains, and dealing with influential economies, while also giving us access to new products, services, and supports aimed solely at global commerce.

Your Presence in the Marketplace

It is partly our access to effective, efficient, and relatively inexpensive communication that makes globalization so tempting. If I am at a computer in Malaysia and can speak with partners in North America at a moment's notice and for an insignificant price, the seemingly smaller world we function in seems like an ideal place to do business.

Another element of globalization is your potential presence in the marketplace. A global business may mean that you can offer services 24 hours a day by routing calls through different time zones. While many companies have done this for many years within their own countries, (where they may deal with a few time zones), the access to a global workforce who can serve clients across time zones and through language barriers (leading to uninterrupted service) is becoming more common.

The Role of Human Resources

Diversity is, and will remain, a highly important element of global business success. A high degree of cooperation will have to be negotiated in areas such as ethical human resource practices, human rights, and workplace health and safety, as well as issues like environmental responsibility. We have seen this where countries are pushed to upgrade working conditions, salaries, and safety training before they can successfully sell to international markets.

Open for Business

Access to the target marketplaces is another major consideration. Some countries are more welcoming of foreign business than others. You'll need to understand and work with considerations such as the flow of products between the United States and China, the European Union, the Commonwealth of Independent States (an alliance of former Soviet republics), and others, as well as how you can potentially fit into the environment and what you bring.

Top Trends

Introduction

The development of global business has and will continue to change the way companies do business. There is a lot of discussion about the complete disappearance of strictly "domestic" companies as we rely more on outsourcing and offshore development, and continue to leverage communication and technology.

Some of the trends in global business include the following items.

"Green" Business

Not that long ago, businesses declaring themselves to be green were very novel. Now there is a lot of support, demonstrated results, and increased demand for organizations to frame their operations to facilitate the preservation of environments, natural resources, and people. This is beyond using washable dishes in a lunchroom, and has developed into entirely new areas, including sustainability, environmental protection, and reclamation.

Fair Trade

While initially impacting trade in specific areas like handcrafted items, coffee, and cocoa, fair trade has expanded to include specifically defined elements such as child labor, access to healthcare, and human rights. This places responsibility on all aspects of the supply chain, and is having impact on supply chain management in addition to resource development.

Non-Governmental Organizations (NGO's)

While once considered a fringe operation and not a consideration for global business operations, NGO's have developed into strong voices and influencers in shaping global business. NGO's have amassed political strength as the issues that they stand for become higher profile and higher priority. They are a part of the mainstream in international trade and global business.

Integrative Trade

When businesses review their costs to get products and services to market, and compare it with costs of building a business that draws from global partners, they often see that integrative trade will have a direct impact on their results. As accessibility improves, for example, you can see how accessing resources from different countries can lessen your production costs and lead to more profitable results. One current example of this is food being produced in one country, packaged in another, and then sold in a third.

Virtual Access, 24/7

With the development of technology comes the ability for customers and clients to reach your company 24 hours a day. Virtual access also means that you can deliver those products and services around the clock, especially if you have set up fulfillment and customer service responses that can provide service within their time zone while also serving others. This often allows businesses to transition from keeping 24 hour staff at one location to serving their clients through different locations that are available around the globe, where each office or location is open for regular business hours in that area.

Merger and Acquisition Trends

This is a trend that has actually been around for quite a while, and it persists. Mergers in industries like telecommunications, technology, energy, utilities, financial services, and natural resources have enabled the growth of some very large and powerful multinationals. As smaller companies find it increasingly difficult to compete with larger forces, more mergers are a natural next step. In addition, issues around privatization and deregulation will continue to be factors in this area.

Financial Investments

As things continue to evolve, we see the continued use of investment vehicles. While the leading funds used in this capacity, including hedge funds, are located in London and New York, their focus has been on emerging markets. However, as we see new sources of investment grow and a strong appetite for international investment, it is likely that investments will grow.

The interrelationship of global investments cannot be understated. While connectedness will facilitate business financing, the very real presence of fast-changing economies also makes them a higher risk. As quickly as investments can be directed to a particular area, those investments can be halted or withdrawn.

THE GLOBAL TRADE MARKET

The global market has shrunk with advances in computers, communication, and transportation. It makes more sense than ever to explore the feasibility and potential benefits of doing business in a global context.

In this session, you'll begin learning about the options available to you, the governing associations, and trade agreements in place.

Evaluating Your Options

Developing Your Strategy

As you consider your own business, where are you inclined to expand as you begin to step into the global market (or take additional steps if you are already there)?

Business strategists normally recommend that you consider moving into one region or country at a time, so as not to put too much demand on your existing business. The implications of shifting from a domestic to global enterprise are significant, and you'll often find unexpected issues to deal with as you go. Your speed and efficiency for taking a business global will be impacted by the amount of money you can spend, your tolerance for risk, access to human capital, the availability of resources, and the welcome you receive in your new operating areas. This is not a simple decision, but the move to become a player on the international stage is an enticing one.

Supporting Organizations

Among your considerations right now are that, in addition to working with different economies, political systems, currencies, and languages, there are trade affiliations that are well established in many places. You will need to know what they are, and also recognize that new associations are created as needs change. The current associations will also change over time, and may be influenced by additional factors like China's relationships with, and developing interests in doing business in, Africa and India.

Formal associations include:

- WTO: The World Trade Organization, with 160 member countries and 29 observers
- NAFTA: The North American Free Trade Agreement between United States, Canada, and Mexico
- CIS: Commonwealth of Independent States (containing 11 former Soviet republics)
- MERCOSUR: In South America
- ASEAN: In Asia
- CARICOM: In the Caribbean regions
- COMESA: In Africa

Understanding Trade Agreements

In 1995, the **World Trade Organization (WTO)** was established to replace the **GATT Treaty** of 1947. The idea of GATT and the WTO is to facilitate international business by promoting free trade, reducing tariffs (taxes on traded goods), and reducing nontariff barriers like restrictions and preferential treatment.

The WTO includes protections for members so that all countries have the same status as trading partners. For example, they cannot tax different rates depending on a favored status. As well, members cannot export products at a price that is lower than the price normally charged at home, or lower than the cost of production.

The WTO has the power to settle trade disputes among members, and the agreements within it are designed so that member countries participate in fair and open trade policies. Rulings cannot be ignored and offenders must meet the requirements or face financial penalty and/or trade sanctions. With 160 member countries, and 29 countries with observer status, the WTO is a powerful aspect to doing business globally.

How Trade Transactions Work

The New Face of Trade

In old-fashioned sales transactions, a salesperson might do whatever they could think of to persuade a buyer, even when the result was what we call a “win-lose” outcome. These heavy-handed sales tactics have been abandoned in many places, where a standard of professional behavior has been adopted. This more collegial or collaborative relationship is sometimes referred to as a “partnership.” However, there can be legal implications with this term, so we will refer here to collaborative relationships and strategic alliances instead.

It’s common for suppliers to develop strong relationships with their customer firms. In a global operation, however, the supply chain has become a lot longer and more complicated. This means that there are more steps required for trade to take place.

A purchaser’s role has evolved from being someone who provides an item at the right time and the lowest price to a role where they must also manage a supply base that protects the competitive advantage of the company. As barriers to transactions are reduced, the relationship between the company, the components of the supply chain, and the buyer all have to be considered.

Transactional Dealings

The most basic and common type of transaction is termed “**transactional**,” where things are done at arm’s length and neither party is really bothered about each other. They can both move from one contract to another without developing a long-term relationship; their deals can be considered independent of one another. There is little time required to make a purchase, and little support offered if there is a problem. This method of transaction works nicely for electronic purchasing.

Collaborative Transactions

A “**collaborative**” transaction takes place when both parties are aware of their interdependence, and they are also aware that cooperation makes this process a win-win. This kind of relationship has both parties looking after each other’s interests, helping each other through problems, and pursuing opportunities for both businesses to operate profitably.

An example of collaboration occurs when a supplier can import goods more easily or less expensively in some way, and then passes the savings along to their client.

Supply Alliances

Lowering costs, improving quality, and improving availability (and continuity) of supply are elements of **supply alliances**. These kinds of arrangements result from the synergies created when parties really work together and become even closer than those involved in collaborative transactions. Supply alliances can result in reductions in direct and indirect costs, including production and labor, machinery usage and maintenance, and overhead.

Products and Services

Considering how services and goods are traded is an important step in deciding how, when, and why you wish to move into the global market, whether you plan to trade in products or services.

In this session, you’ll review how services and goods are traded, and how intangible products fit into the mix.

How Services Are Traded

The World Trade Organization (WTO) has created a list of four methods by which services are exported. These are handy to understand as you consider what services or products your company will offer, in addition to setting up processes that can track what you do.

Cross-Border Delivery

In this method, the service crosses an international border but people don’t. This happens in the delivery of management consulting, marketing, and transportation services. It also applies to virtual products and services, such as the online ordering of studies, reports, and books; eLearning; distance education; and even tele-health services.

Consumption Abroad

This takes place when the consumer (buyer) travels across a border, as they do in travelling for holidays or education, or accessing out-of-country health services. It also applies if you were seeking legal advice in a

different country, and travel to that country to meet with the service providers that you need.

Commercial Presence

When you decide to open an office in a target country, you set up an operation with some kind of physical presence (such as a bank, project office, warehouse, or factory for example). This can also include small operations, such as working from a home office.

Movement of Natural Persons

When the supplier travels across the border themselves, they fit into this category. This is common in arts and culture (actors, producers, performers); recreation and sporting (coaches, trainers, promoters); education and training; and the movement and services provided by tradespeople.

How Goods Are Traded

An **export** takes place when a resident in one country pays for a service or product from another country, and the goods are brought into the purchasing country. For example, if someone in England places an order for a blanket made in China, the English purchaser imports the blanket, and the China-based seller exports the blanket.

An **import** is conducted when a resident in one country pays for a product or service from another country, and brings it across the border.

When exports involve products or merchandise that are physically shipped, they are easy to track through the supply chain. However, tracking services (where no product is actually shipped) can be much more difficult.

It's not always easily possible to separate products from services: development, design, and consultation are all services that go into the creation of a product. All of them can be provided through what can be considered an export, but they can be very subtle and aren't as easy to track as a final, finished product.

What kind of goods are you planning to export?

How Intangible Products Fit In

Adding Value with Intangible Services

People with high levels of expertise and knowledge are in demand around the world. When you add highly skilled, valuable, knowledgeable people to your team, you can offer more value to your customers. More value means more profits.

By being aware of what your customers need, you can add highly valued services to your product offering. Market testing and focus groups can be a good way for companies to learn, for example, that people in one country prepare beer with more head (the amount of foam on the top of a glass of beer) than in other countries, or prefer more sugar, or more hops.

When a product or service-based firm can add a selection of intangible services, this can help them forge relationships in new regions. Marketing, ad design, packaging design, focus groups, and consulting can all be part of relationship building efforts, and all of them can become intangible offers.

In addition, it's becoming more and more common for companies to focus on outsourcing tasks so that they can focus on their core competencies. Things like market research; advertising promotions (including website development, brochures, presentations); and communication systems can all be outsourced.

There is also an opportunity for bundled services, where for example, health and dental services can be combined with tourism. This is an area known as **medical tourism** that is becoming more and more popular throughout the world.

Contractual Entries

When a company is unable to trade in an open market because their products are intangible, they may want to explore licensing, franchising, or turnkey (ready-made) projects as a way to move highly specialized skills in other markets.

What kind of intangible services could you add to your current planned service or product offerings?

What's Your Value?

The Importance of the USP

When we plan for businesses, and create strategy, we frequently discuss the distinguishing value of the company before we implement a marketing plan. These distinguishing factors are often termed a “**unique selling proposition.**” While you need to be clear on your distinguishing factors to operate in a domestic market, you need to be much clearer to take on a global enterprise. You need to know what you offer, certainly, but you also need to know what is important to people in countries where you operate.

Definition

A **value proposition** spells out the benefits, terms, and cost of a purchase that a client is considering, and how buying from you is preferred to other solutions.

Values Mismatch

For example, education of children might be a value where you live, so you don't mention it in your mission and values statements related to the company. However, if you are going to expand the business to a region that doesn't value education and uses child labor to fulfill contracts, you're going to have a misalignment of values to deal with even before you add this country to your supply chain or fulfillment strategy.

Developing Your Value Proposition

When you are arranging conversations, developing marketing material, and creating relationships in your target areas, you'll need to make sure your statements are clear and concise.

When you write your value statements:

- Avoid a blanket-style, one-size-fits-all value proposition
- Don't make unsubstantiated statements like “industry leaders”
- Don't overstate the benefits or features of your services or products
- Don't write long, complicated, or hard to remember USPs

Make sure your value statements:

- Demonstrate an understanding of the clients' needs
- Promise satisfaction to the client
- Pay close attention to value and the bottom line

Mechanics of a Trade Transaction

Like a well-designed car, there are many moving parts in any trade transaction. The major pieces are presented here, but as with anything, remember that there can be other pieces present as well.

Exporter

An exporter is someone with vision, innovation, and an entrepreneurial spirit. Their primary role includes creating profitable business opportunities. The exporter is the person responsible for setting things in motion that will move business activities into the global marketplace as they take action to sell goods and services outside of their original country.

Importer

The importer is working in their comfort zone: the domestic environment. They might source and identify an innovative product they'd like to see in their home market. They often have a vision for the potential benefits to their community, whether it is a new technology, product, service, or something else that will enhance the lives of the people in their community.

Importers and exporters can be represented by the same person, especially in cases of integrative trade.

Financier

There can be a large number of people involved in the financing of a business, so activities can be coordinated by one financier, who ultimately finances the transaction. Bankers, export credit agencies, and investors can be relied upon to support the business activities, all coordinated by the financier.

Transporter

Transportation of goods is serious business. The transporter knows the most secure and optimal routes to ensure secure transportation. They also understand transportation rules and regulations, and the costs involved in these processes.

Customs Broker

The customs broker is often the first point of contact for goods moving across the border to their destination. The broker may collect taxes and duties on the imported goods, and can store them temporarily until monies are collected and any special permissions for import are reviewed.

Agent

Agents are professionals in business and commerce. They typically have excellent connections in the originating (home) market. They may travel considerably and represent the exporter in the destination market.

Government

Regulations, taxes, negotiating with other governments, membership in trade organizations (including the World Trade Organization), and many other elements will fall under the purview of the government in all countries involved in doing trade business.

Additional Resources

Shipment inspectors, purchasers, lawyers, and potentially many others can be involved in the process, depending on the nature of the business.

E-Commerce on the Global Stage

When computers or technology are involved in imports, exports, and domestic transaction, e-commerce is at work. It can also be applied to specific applications like customer service and collaboration.

In this session, you'll learn the essential elements of e-commerce, including protection of information and different models of operation.

What is E-Commerce?

E-commerce continues to expand in scope. It involves the use of computers to buy, sell, and exchange products and services; provide customer service; and collaborate on business.

E-commerce and the continuing evolution of technology are making it easier for international partners to do business by importing and exporting, and drawing components from around the globe to assemble final products somewhere else. The World Wide Web was invented in 1989, and in the short time since, the Internet and e-commerce have literally penetrated all aspects of business.

When you order a product from within your own country and it arrives on your doorstep, you've been a part of an e-commerce transaction. Order a product from outside your own country, and you're now a part of the international movement to be a small, independent importer. When you order from a country that has a trade association with your country, you might not have to pay much in the way of taxes or duties in addition to what the cost of your item is. However, if your country is not part of an association and you order something, your taxes and duties could reflect that through levying of duties and tariffs (and sometimes these costs are a substantial part of your transaction).

A company that is involved in global enterprise has additional considerations to a strictly domestic operation, in the context of e-commerce. Gathering and storing information related to imports, exports, and specific transactions takes specialized knowledge in order to protect the information collected. Financial details, personal information, and company activities must all be protected from theft and compromise, as do intellectual property, trade secrets, and even basic things like customer lists.

Protection of Information

Your Business' Role

Although we speak about the protection of information, it's not enough to promise to look after a customer's personal or business information (such as their credit card and banking information, addresses, phone numbers, and identification details). We must also protect the integrity and security of that information.

What we have seen is that as we do more business online, crime is keeping pace, and the sophistication of thievery also evolves. Your role includes having mechanisms in place to protect your business, and protect the integrity of your clients' information. Whether someone enters credit card information on your website, applies for credit with your company using an online form, or you are manually adding payment details to a Customer Relationship Management (CRM) system, that information is vulnerable to theft.

Security Checklist

In order to protect your commercial enterprise, and your reputation, there are some key things you must do:

- Your e-commerce site, if you are selling or offering goods through an online platform, must be properly protected. This means that you must work with a financial provider, a bank, or a commerce provider that is the equivalent of PayPal or Amazon. (This is not an endorsement of PayPal or Amazon, but a reference point for you.)
- You must have a privacy policy, and it should be posted on your website and included as part of your documentation.
- Use high-security passwords that are a combination of uppercase letters, lowercase letters, numbers, and special characters.
- Only ask for the information that you need so there is not extra information floating around that could make you vulnerable.
- Install, maintain, and upgrade appropriate security.
- Monitor your system for threats regularly.
- Encrypt your information.
- Consult with financial transaction and accounting specialists, in addition to your banking representative, to ensure that you have the best security available to manage your payment systems.

Basic E-Commerce Business Models

The Four Models

For many people, the term **e-commerce** evokes the idea of placing individual orders over the Internet (usually from a website) and then having things arrive in the mail. This is an example of a Business-to-Consumer (B2C) transaction. However, there are four basic models related to commerce that are also represented through e-commerce:

- Business-to-Consumer (B2C)
- Business-to-Business (B2B)
- Consumer-to-Business (C2B)
- Consumer-to-Consumer (C2C)

The B2C Model

In **B2C** arrangements, the **business sells to an individual consumer**. This could be a retail operation selling and delivering products to an individual household. It also includes electronic delivery of items like e-books,

articles, patterns, and newspapers.

The B2B Model

In **B2B** selling, **businesses sell goods and services to one another**. These products and services are used by the buyer to further their business. It can include things like drywall being purchased by a construction company, new cars being purchased by a taxi company, or a retail shop purchasing paper towels for staff to use in polishing display cabinets.

The C2B Model

With the **C2B** model, things turn around as consumers sell products and services to businesses. Websites like Odesk.com or Elance.com, for example, allow businesses to list projects and provide a platform for freelancers to bid on them. The freelancer is a consumer in this case, approaching a business to secure contracts.

The C2C Model

In **C2C** e-commerce transactions, a website serves as a facilitator in a transaction between two buyers (consumers). Auction sites like eBay and crafting sites like Etsy allow individual sellers to sell to individual buyers, with the website acting as a transaction platform.

Give It A Go

In the space below, provide three examples of sales transactions for each of the business models described in the previous session. These can be e-commerce transactions or traditional commerce transactions.

B2C

Example One: Buying a quart of milk at the local grocery store

Example Two: _____

Example Three: _____

B2B

Example One: _____

Example Two: _____

Example Three: _____

C2B

Example One: _____

Example Two: _____

Example Three: _____

C2C

Example One: _____

Example Two: _____

Example Three: _____

E-Commerce Goals and Models

E-commerce is not restricted to only one of the four ways described in the previous section. Although the models are described separately, more than one model can be used by a business. Many successful e-commerce businesses use a combination of these methods.

Big businesses such as Amazon have made the most of this by using a blended approach. They warehouse and ship directly to consumers (B2C). They also provide opportunities for businesses to sell directly to consumers with Amazon acting as a fulfillment/transaction center (C2C), plus Amazon sells directly to other businesses (B2B).

Making Connections

What could you offer through e-commerce?

Which model(s) would you follow?

Outline your goals for successful achievement of these plans.

Working in the Global Context

There are plenty of considerations to be made as you consider making your business a regional operation. Of particular importance are the cultural issues and a potential gap between one country or region and another.

In this session, you'll define the term "cultural gap," and consider which countries can offer you the best opportunity for business success.

Bridging the Cultural Gap

Key Questions

Prior to undertaking international business, you'll need to assess your target country's potential to be your host. This requires that you answer some important questions:

- What languages are spoken there?
- What is the business climate like?
- What is the regional climate like?
- Are residents there open to new ideas?
- Do governments in your target area welcome new business?
- Are residents open to new ways of conducting business?
- Is the country stable in terms of political climate so that the business and employees are not put into unacceptable situations?

Looking at Culture

When people from different regions of the world work together to do business, they bring their own backgrounds, values, expectations, and ways of communication. All of these things are part of their **culture**.

In planning to establish a business somewhere else, it's essential that you develop a high level of awareness and knowledge of the culture in your target area. Bridging the cultural gap between you and other countries can run into significant complexity or it can be quite simple. It all depends on where you wish to operate.

Keeping an Open Mind

One of your goals must be to avoid any notion of **ethnocentricity** – the belief that one's own ethnic group or

culture is superior to anyone else's. Many efforts have failed because leaders ignored some element of local culture and brought about a backlash from potential customers, their government, and others in the community. Success in global business requires developing **cultural literacy**, a commitment to functioning effectively within the target market.

It's important as you work your way through this course that you do so with an open mind, and a commitment to avoid ethnocentricity for yourself and your business operations. A good place to start is to consider what things you have in common across cultures, and to focus on similarities as a starting place rather than fixating on differences.

Stepping Over the Cultural Gap

Creating a Global Mindset

To help yourself and your employees develop a global mindset, there are several concrete strategies you can apply. These are important to help your employees successfully represent you at home and abroad.

Cultural Adaptability

People will need the ability to change their behavior in order to work effectively with people from other cultures. Learning about unfamiliar cultures and eliminating notions of stereotypes, bias, and racism are part of this development. One helpful strategy is to join organizations where members of the new culture will be present. Chambers of Commerce, associations, and networking communities can facilitate this.

If you focus on working with your managers who have a global mindset, they will be more capable at leading and working as part of multicultural teams on behalf of your company.

Bridging the Gap

There are large gaps that can become firmly entrenched if cultural literacy is not a goal. For example, Western ideas of leadership can be quite different from how Asian cultures lead. In addition, practices of different countries in the way they introduce people to one another, exchange business cards, and use color in their websites can vary widely. Developing your cultural literacy reduces these gaps and helps your company be more successful in your target areas.

Leveraging Testing

Building a global mentality isn't easy, and it becomes more complicated in some cultures than others. You can apply formal testing to measure the global attitudes of your managers and team leaders. A global mindset style of testing can measure a range of objectives, including an individual's openness, flexibility, and even their ability to implement strategy.

Testing can also identify areas where training may be needed. Learning to apply a global attitude can require managers to make some fundamental shifts in their thinking, as well as put aside cultural assumptions and biases.

Maximizing Flexibility

Each culture can apply pressure on the business, and it is inherent that managers and leaders show respect for everyone involved. You'll soon realize that respect is defined differently from one culture to another. Western leaders working in the Middle East have to learn to work within a rigid hierarchy to achieve success. North American managers are typically groomed to be independent thinkers, whereas Japanese and Korean managers are accustomed to waiting for instructions and then acting on them.

Building Relationships

Creating meaningful relationships will help to develop the business, and it is with that goal in mind that you can teach your managers and leaders (in addition to yourself, naturally) to build strong connections.

Debrief

Here are some tips for building relationships across cultural gaps.

Introductions

Be sure to use titles and proper forms of address, including "doctor" and "mister" or "miss." Only address people by their first name unless you are invited to do so, and avoid the temptation to shorten their names (e.g. Elizabeth to Liz) or use nicknames.

Making Time

Time is something that is treated differently by different cultures. Certain cultural groups will arrive for appointments ten minutes ahead of time, while other cultures have a tendency to have a less rigid approach to time. As well, different cultures eat at different times, so you must plan accordingly and know if an evening meal is typically at 6:00 p.m. or at 8:00 p.m.

Personal Space

Culture reinforces what we find appropriate distance between two people. Middle Eastern and Latin American cultures maintain much less space than North American culture. In addition, some cultures are far quicker to hug in greeting or saying goodbye. Others do not touch physically at all, particularly men to women in handshakes. This may also affect proximity of seating in a meeting, and many other situations.

Religious Standards

Make sure you learn the main religions and their standards of conduct as part of your cultural learning. Set times for prayer are very important to some religions and need to be considered when setting up meetings or travel. Hugging, kissing, bare skin, bare feet, or having men in close proximity to women can upset religious practices.

Be certain that your behavior and manners don't offend anyone.

Business Cards

Different cultures handle their business cards in very particular ways. Japanese culture is very formal about treatment of a business card, traditionally handing it across with two hands and a small bow. Some cultures appreciate that you acknowledge receipt of the card by giving it a good look over, or that you ask before you make a note on the card. Be aware of the expectations that exist where you're doing business.

Humor

When you are operating in a second or third language, you need to use humor cautiously. It often does not translate well, and jokes or slang are open to misinterpretation. In addition, you need to avoid using inside jokes (which only a limited number of people would understand), and using gestures or body language that might feel comfortable to you but mean something rude to other cultures.

Is There a Global Culture Developing?

Considering the Culture

As companies continue to expand their global reach and cultures become more and more intertwined, they influence one another. We see this on days where employees bring a dish of regional cuisine as part of a celebration lunch at work (often called a potluck or smorgasbord) and there are many influences behind the food that is supplied.

With the rapid pace of change and the interconnectedness of so many countries, enabled through easy travel to many parts of the world and inexpensive communication, is there a global culture emerging?

The Economics of Global Business

Doing business globally requires very specific knowledge, and the basics of these matters are not something that you can delegate. Complex issues, such as international trade and coordination with different links along the supply chain, all demand your attention.

In this session, you'll learn about the basics of trade finance, from managing multiple currencies to making sure you get paid.

Managing Multiple Currencies

Domestic vs. Transactional Currencies

Complexities with managing currencies and cash are expected as you undertake business on a global scale. While the majority of trade transactions are currently done in U.S. dollars, the Euro is also gaining acceptance in international trade opportunities.

Whatever you choose to use, importers and exporters are busy converting from **domestic currencies** (such as a regional form of the dollar) to **transaction currencies** (such as U.S. dollars and Euros). The continued stability and reliability of U.S. dollars and Euros is expected, as is their availability. As China's economy continues to grow, their currency is also likely to have an increased presence in global business.

The Currency Conversion Process

If, for example, you are an importer purchasing in U.S. dollars, you need to purchase enough U.S. currency to pay for your upcoming transaction. Then an exporter, upon receiving payment, might also have to sell U.S. dollars in order to acquire domestic currency. Although some companies will create accounts in currencies they use most, this is not widely available just yet. Risk occurs (along with the opportunity to continue to make money) during these transactions, especially where money prices are volatile.

Mitigating Your Risks

Without cash flow, your business cannot thrive. If you have big receivables, and large sums of money tied up in contracts or potential deals, you can quickly run into trouble in global business where it's more difficult to secure financing than in your domestic market.

Small businesses tend to manage on their cash flow, where they are doing regular transactions (cash) and the revenue must be coming in to the business (flow) within short and predictable timeframes.

Larger businesses tend to look for financing, so larger corporations and global enterprises will be very active in mitigating their risk. Small businesses have less complicated operations and thrive when their cash flow is healthy. In entering the global marketplace, small businesses may forge joint ventures or partnerships which can quickly move them into the larger business arena, so they might be on a steeper learning curve when it comes to their financial risks.

Trade financiers have access to products, services, and other specialists to help their clients secure adequate cash flow and working capital throughout a trade transaction. Check with other global businesses in your industry or your domestic areas to get references for experienced, well-respected referrals.

Basics of Trade Finance

Introduction

When commercial terms have been met by an exporter or seller, there are instruments and techniques available that ensure the secure and prompt payment of currency due. Trade finance is necessary given the numerous jurisdictions involved in transactions, the fluctuations in currency values, and the impacts of different methods of payment (including checks and requests from purchasers to extend terms or credit).

One helpful advance in payments is the extension of electronic transfer and its increased acceptance. Instead of waiting for several weeks for a check to clear after its deposit in the bank, an electronic payment can be sent and received almost instantly. This is one result of advances in communication and trade systems being adopted around the globe, and in particular through trade financiers.

Financing

There are many opportunities to provide financing for parties in a trade transaction, and are available from sellers, buyers, and banks. These are key in the resources available through what are called **trade finance instruments**.

A financing request can come at any stage of a trade transaction, from production events that take place well before shipping, to settlement costs post-delivery, and with many places in between. The ability of an exporter (or seller at any stage along the supply chain, for that matter) to provide attractive financial arrangements can be a powerful competitive advantage, and help to retain customers in addition to attracting new ones. It's also an excellent example of added value.

One additional complexity to financing includes purchases by credit cards. While they allow for almost instant access to cash, each credit card company has its own rules about managing sales, returns, and shipping. In addition to trade banks, there are large companies (including GE Capital and UPS Capital) who are very active in financing international trade arrangements.

Mitigating Risk

Any entrepreneur understands that there is risk involved in managing a business. There are also benefits in working with trade financiers who have developed a range of mitigation processes and procedures that help secure the conduct of parties involved in international commerce.

Risk mitigation requires that trade financiers and the banks also minimize their own risks. There are many types of risks that can be mitigated, including financial crisis in either country, civil unrest, or commercial risks (including insolvency or breach of contract by the buyer or seller).

For banks, this is done through credit insurance. There are also several tools that trade financiers use, which are described below.

Secure conduct is critical in carrying out business, and is also important in reducing the overall risk of individual transactions. For example, documentary letters of credit are very effective at shifting the obligation to pay from

an importer (which could be a small business) to an established international bank. Doing so reduces the risk in the transaction for small business in an example of credit enhancement.

Other examples of credit enhancement include payment undertakings that are transitioned from a local bank situated in a highly volatile market to a large global financial institution positioned in a secure market.

Export Credit Agencies

Financial institutions can also provide specific risk mitigation solutions in partnership with government entities that are commonly called ECA's, or **export credit agencies**.

ECA's can manage international trade risks such as:

- **Commercial risk:** Associated directly with the trading partner, including insolvency.
- **Bank risk:** A type of commercial risk specific to the bank acting on behalf of a trading business.
- **Sovereign or country risk:** Related to the country connected to the foreign bank or trading partner. These include risks of a political nature or events like an economic crisis.
- **Currency or foreign exchange risk:** Related to volatility of currencies, including how they can make a transaction more or less profitable for the importer or exporter.

Documentation

Recordkeeping and transaction tracking is facilitated through technology and includes ready access to accurate and highly detailed information. This can include tracking shipping information step-by-step, reporting the specifics of financial details, and tax tracking.

As the speed at which we can conduct international business increases, the demand for real-time information increases. Complete visibility offers opportunities for importers and exporters to offer support, solutions, and even amended financing options to their clients.

Getting Paid

The most common forms of payment in the global market are open account, documentary collections, and documentary letters of credit. We will discuss each of these forms in this session, followed by a few additional methods that you may also encounter.

Open Account

In cases where trade is taking place between stable and secure markets and between trusted partners, an open account transfer takes place from the buyer to seller. It can be completed at the time of order or at the time of delivery.

Documentary Collections

When a bank acts as an intermediary, they are facilitating payment to the exporter once shipping documents have been presented to the intermediary bank. These documents can include paperwork confirming transfer of title of the cargo, as well as confirmation of shipment. They can also include a bank draft.

In comparison to an open account, the documentary collections process does offer some risk protection to both parties. In this method, the importer knows that the exporter doesn't receive any money without the exporter having presented documents to a third party, and the exporter knows that once shipping is underway, payment will be issued.

Documentary collections are commonly transacted, and although they do not eliminate all risk, having the bank as an intermediary does offer some assurances to exporters and importers alike.

Documentary Letters of Credit

These are considered the most secure instrument in trade-finance as they protect the interests of both buyers and sellers. The banks serve as facilitator for payment once they are presented with the shipping documents, but they are held to a higher standard and must verify that terms and conditions have been fully executed. This process includes a detailed review of the documents presented, with particular attention to verifying descriptions of the goods, inspection certificates, transportation certificates, customs clearances, and then releasing payment.

Confirmed Documentary Letters of Credit

If an exporter remains uncomfortable with a transaction, and is concerned about receiving full payment even with a documentary letter of credit, they can enlist the services of a bank in their country that they trust to confirm the documentary letter of credit. Instead of relying on the documentary letters of credit that might be processed by an unknown or untrusted bank to the exporter, their trusted bank will also review the documentation, allowing the exporter to receive funds once the confirmation is issued.

Sight or Term Payments

Whether documentary letters of credit are used or not, purchases can be set up as sight or term payments. With payment at sight, the payment takes place as soon as documents are presented. Term payments mean that, as agreed between buyer and seller, payments are future dated. Terms may be set up as payable 60 days following sight, based on the shipment date, or based on operating days after the goods are placed on a ship.

Trade Finance

When an exporter needs capital, or an importer needs to extend payment terms to allow for time to sell the newly acquired goods, trade finance can be arranged. The provisions of financing extend beyond importers and exporters. As older style trade-finance offerings evolve, the opportunities to secure financing can be arranged at several different junctions. Some providers of trade finance, including related technology, are indicating that over the course of a trade deal, there are anywhere from five to over 40 opportunities where financing can be provided.

In large scale operations, financing extends well beyond buyers and sellers. Large transactions can sometimes challenge the financial resources of banks and even governments, particularly in what are termed as emerging markets. Trade finance can facilitate lending money to banks over extended periods.

Trade Finance and Technology

Accessibility of goods and services through international trade is evolving rapidly, pushed along by the needs of financiers, banks, importers, exporters, and people involved in all aspects of business, and helped enormously by the Internet.

Sophisticated trading resources, including **trade-financing solutions and trading platforms**, have been deployed globally and are used in the most sophisticated markets. This includes software developed by companies like Oracle with their global trade management (GTM) software (<http://www.oracle.com/>) as well as GTNexus (<http://www.gtnexus.com/>). We do not recommend or endorse these companies, but rather mention them as a basis for further investigation.

The Logistics of Global Business

Supply chain management, like all aspects of business, is constantly evolving. Understanding the basics of supply chain management will assist you leading a stronger, more viable business, and entering the global market successfully.

In this session, you'll learn the fundamentals of supply chain management, which is also known as materials management. Topics will include documentation, security, safety, and negotiation.

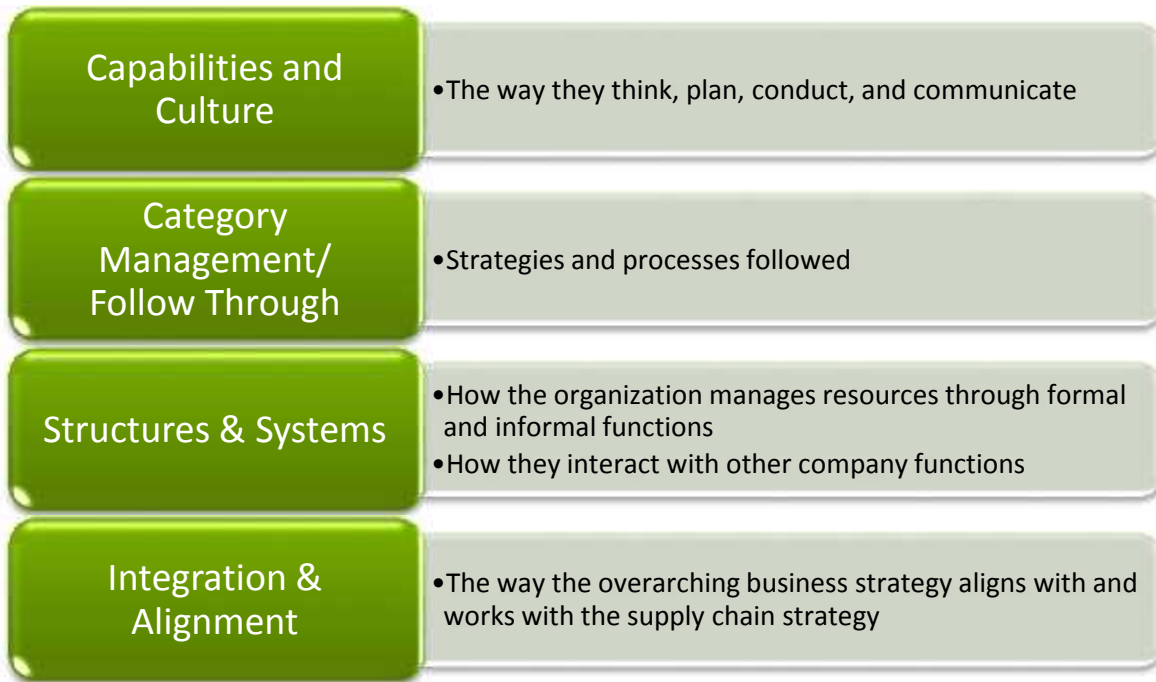
Introduction to Supply Chain Management

Supply Chain Management

Supply chain management has evolved at a rapid rate in order to provide expertise needed to run and lead profitable companies. You might hear other terms for supply chain management, including materials management.

Effective supply chain management processes deliver huge value to companies, regardless of the industry. Leaders in supply chain management can find large savings in operations functions, and lowering the costs of products sold.

In terms of global purchasing excellence, there are four areas identified that cause leading supply chain managers to get the best results.



Of all the areas that supply chain management has influence over, it is the ways that specialists think, plan, conduct, and communicate that have the greatest financial return for the company.

The Need for Excellence in Supply Chain Management

Procurement that excels in each of the four dimensions creates notable value for the company, but there is more to do. As the business environment continues to change, there is also instability in economies, world politics, and resource allocation to consider, all of which lead to a demand for closer management.

Consider that just 40 years ago there was not an easy way to make an overseas purchase, expedite payment, and fulfill an order within the same hour. However, in most regions today, it's expected and quite normal.

The impact of the last financial crisis was hugely amplified because of the amazing pace of integration occurring around the globe. The other side of that financial crisis has been the emergence of much bigger influences on business and economics demonstrated by countries such as China and India.

The Supply Chain

The supply chain, in simple form, involves coordination and support for all the functions involved from getting raw materials to delivering them to the end user. The supply chain looks like this for products:



The Supply Management Leader

One way for the organization to really benefit from its supply chain is to assign a chief supply officer at the same level of senior marketing, engineering, and operations leaders. This will facilitate the communication needed for success, and demonstrates senior management's commitment to the process.

A supply management leader has four key responsibilities:

- **Leadership** in identifying new opportunities in the marketplace and bringing them to the attention of the organization for follow through.
- **Identifying** opportunities to reduce costs through adequate outsourcing.
- **Managing** systems and relationships with proper interpretive mechanisms in place.
- **Creating** strategies, systems, and options, including packages of value for the company that may encompass multiple departments and teams. This includes seeking and creating revenue opportunities.

Identifying and Meeting Documentation Requirements

Required Documentation

There are several pieces of documentation that can be part of any transaction, and each country will issue requirements as to what's needed to import or export in their particular area. Documents must be completed with great attention to details. A spelling mistake or missing details can completely halt a transaction. These can result in shipping delays, payment delays, and even having shipments rejected (especially at the border or as they are processed through customs).

Common documents include:

- **Invoice:** Clearly identifies the supplier and customer, price of transaction, and applicable taxes and duties.
- **Letter of Credit:** Outlines banking information and terms required to release/receive payment.

- **Bill of Lading:** Identifies the supplier, contents, delivery address, and transportation arrangements.
- **Certificate of Origin:** Clearly identifies the country of origin so that the shipment meets compliance and trade regulations.
- **Dangerous Goods Certificate:** Ensures that dangerous goods are authorized and properly identified for shipment.

Packaging and Labeling

When preparing to ship, make sure you are paying attention to packaging and labeling requirements. You need to learn, and work with, local regulations in the countries you are working with to make sure shipments are in compliance, and to avoid delays or surcharges.

Labeling regulations may refer to packaging, but they also include labeling placed on the individual products and with which the products are sold. It's not unusual that the exporting country has one regulation and the importing country has another. For example, all food products sold in Canada must be labelled in English and French. If food is imported with English-only labels (or other languages), they must be relabeled in English and French prior to sale in Canada.

Experienced export packaging companies and exporters are skilled at determining the specific labeling requirements so that the products are:

- Exported without damage
- Received by the importer without damage or spoiling the products or the environment
- Shipped at the most reasonable cost

Security and Safety

Threats To and From Shipments

Security of shipments is and probably always will be an issue, depending on where you are trading, until international cooperation and governments are able to stop acts of treachery in their entirety. In addition to keeping shipments safe from physical damage, they must also be kept safe from theft, insurrection, riots, and other catastrophes.

Threats to shipments have been lessened with the development of containerization, where products are locked and secured at the suppliers' location. Steel containers, which can only be opened at customs and under supervision, are less likely to be vulnerable. An entire specialty within supply chain management has evolved to make sure that goods arrive safely at their destinations.

Threats from shipments include the potential for using transportation networks as a facilitation method for illegal activities, including the movement of illegal drugs, weapons, the slave trade, smuggling, and more. Advances in technology have allowed for more sophisticated scrutiny on incoming containers through things like electronic scanning and improved inspections. The C-TPAT (Customs-Trade Partnership Against Terrorism) is one program established in the United States where foreign suppliers can voluntarily participate in enhanced security measures.

Although voluntary security programs may demand additional paperwork, cost, or time, they can benefit the importer/exporter relationship when the results include a slightly faster shipment and efficient clearance at customs.

Transporting Dangerous Goods

Another very relevant threat from shipments comes when hazardous goods are transported. There are special regulations and considerations in order to minimize the risks associated with products like toxic chemicals, corrosive goods, and flammable materials. These materials need extra precautions and special handling to ensure they are not released into the environment or putting people in harm's way. Some of these special handling methods may include extra insulation and double linings in rail cars or ships' cargo holds.

Seeking Out Specialists

Compared to the regional, local way that most of our businesses start, global business requires that we get accustomed to longer distances, more regulation, and multiple border crossings as components are gathered, manufactured, and shipped as a complete unit. For these reasons, in addition to expertise in navigating the supply chain, logistics specialists have skill in freight issues and working with customs brokers and transporters. They can be a big part in keeping transportation costs down while increasing the efficiencies of the system.

Negotiating Market Entry

Introduction

A global business owner or manager is continually negotiating and starting trade deals and contracts. A cooperative atmosphere and strong relationships between potential partners is essential, and relies on interested partners approaching negotiations as a mutual benefit. Managers should be aware of the process, which normally occurs in four stages with two influential elements.

The Negotiation Process

Stage 1: Preparation

Negotiators must understand the company's goals and vision. Negotiation strategy and each party's ability to be flexible will depend on whether both parties are considering a one-time arrangement, or whether this is the first step in a long partnership.

Stage 2: Opening

Each side states its opening position, which will include each party's desired terms and outcomes.

Stage 3: Bargaining

Bargaining strategies and approaches vary culturally. Some people are not fond of hard bargaining and will try to avoid conflict or call off negotiations if a dispute arises. Others see softer bargaining tactics as a sign of weakness and will take advantage of the other party.

Stage 4: Agreement

Negotiations at this stage are a success. The signing of the contracts signals the end of negotiations and the commencement of a working relationship.

Influencing Elements

Two important elements in international business negotiations include **cultural elements** and **political-legal elements**.

Negotiating styles, just like all areas of communication, differ between cultures. Asian cultures concern themselves with protecting the other party from being embarrassed, and traditionally aim to meet the other party mid-way. Western negotiators often aim to win a negotiation, without concern for causing embarrassment to the other party.

Political-legal elements are peppered throughout many negotiations, and negotiators may hold political motives. A rigid position might be adopted to demonstrate that negotiators are representing the company's or government's interests. In addition, interest groups, unions, and associations might lobby government officials or governments to make sure that any agreements being negotiated also offer benefit to themselves.

Rules and Regulations

No matter what your current industry is, there are rules and regulations that you must follow in domestic jurisdictions. Rules can vary even within a single country, and the international arena makes this more challenging.

In this session, you'll learn the essentials of international regulation, extraterritoriality, and issues that you must pay attention to in the global context.

International Regulations

Introduction

International trade and global commerce go hand-in-hand with an armful of legal and regulatory elements, as well as public policy, health and safety, and environmental issues that you will have to be knowledgeable about. An executive or company leader who is operating uninformed about these elements can be disastrous to global business, as well as damaging to domestic enterprise. Although the system can be challenging to navigate (hence the availability and development of multiple specialty areas involved in import and exportation), the regulations are intended to facilitate the flow of legal goods.

Policies, legal intricacies, and regulatory issues may seem to be at odds frequently, but they are created to protect the interests of an individual and the viability of business. Governments engaged and encouraging their own business environments come together to work within what we term "common ground."

Let's explore some of the common types of regulations that you may encounter.

Public-Trade Law

This area of law comprises the agreements between countries, and is different than that which governs private companies or individuals. International agreements establish the structure for cross-border trade and define the elements necessary to protect their own domestic markets doing trade with foreign exporters.

Trade Agreements

On January 1, 1994, Canada, the United States, and Mexico signed the **North American Free Trade Agreement** (NAFTA). This agreement includes measures to protect basic products as well as cultural industries, social services, and the Auto Pact. While NAFTA is frequently regarded as an excellent example of effectiveness and success for international trade agreements, it has some problems too. Allegations against the agreement include lost employment, reduced trade values, exposure to sensitive industry sectors, loss of sovereign independence, and risks associated with increased integration.

Certificates of Origin

Administration and enforcement of NAFTA (as well as other agreements) works with a document called the **certificate of origin**. This document certifies that the goods being transported are as described in the documentation. A valid certificate of origin can be provided by a manufacturer or an exporter, and falsifying those certificates is subject to severe penalties. Customs services in member countries have powers of both verification and audit, with remedies available to assist manufacturers, exporters, and importers.

Extraterritoriality and Fair Trade

Extraterritoriality

Extraterritoriality is a practice adopted by some countries and regions – most notably the United States and the European Union – where those entities apply their own legal standards to affiliates or subsidiaries of domestic companies who are operating in foreign jurisdictions.

Typically, countries don't actually try to apply their laws across borders, but the United States and the EU frequently consider the effects that their domestic companies can have on their own economy because of their behaviors abroad. This includes such things as a **price cartel** implemented through subsidiaries, agents, or branch offices, even while the offenders are actually under the jurisdiction of the other country.

Price Cartels

A **price cartel** is defined as an entity created through a formal agreement between a group of producers (of products or services), to control the supply available in an effort to regulate or manipulate prices. A cartel can be formed by a collection of businesses or countries. In the United States, cartels are illegal; however, you may be interested to note that OPEC (the Organization of Petroleum Exporting Countries) is the world's largest cartel, and that it is protected by foreign trade laws of the United States.

The Role of the World Trade Organization

Fair trade is a concern internationally, of course, so there are entities such as the World Trade Organization (WTO) to assist companies involved in global business, and to protect the interests of countries involved in the import and export of goods. As of 2014, there were 160 member countries in the WTO and 29 observer countries. The WTO is a complex, sophisticated entity, in part because of its broad ambitious mandate, and in part because of the essential services it coordinates.

Health and Environmental Regulations

Evolving Issues

Health and environmental issues are becoming higher priorities in global trade. Related regulations impact businesses at many stages, including at home. Issues about sustainability and sustainable development are raised frequently, and the use of environmental impact assessments, requirements for land reclamation, and fair trade are common in the global business arena.

Changes – or perhaps they could be referred to as improvements – to the weight applied to health and the environmental issues can be attributed in large part to lobbying and political action, the influence of countries who join governing associations, public policy, and domestic regulations, all of which place pressure and importance on these issues.

The Role of ECA's

Earlier, we discussed how governments have established what are known as **export credit agencies** (ECA's for short). They play a significant role in financing trade and international projects, and they are actively involved in health and environmental regulations as well. These agencies will classify projects in terms of risk, as well as social and environmental impact, and they will decline support for high-risk projects.

It is expected that ECA's will continue to be scrutinized closely by non-governmental organizations (as well as the public) since there have been agencies that either directly or indirectly (though not necessarily deliberately but perhaps through inattention) contributed to environmental damage, destruction, danger to communities, and funding of corruption or other undesirable activities.

Getting the Right Advice: The Legal Bits

The Complexity of Global Legal Issues

If you get into some kind of a dispute in a trade transaction or contract domestically, you probably already have a sense of the complexities and time that go into reaching a resolution. When looking at international trade, things are instantly much more complicated.

If things go wrong, not only are you considering litigation internationally, you also will be considering the different trade agreements that apply, the legal remedies available in different countries, and so on.

For example, consider:

- Do you and the other party belong to the World Trade Organization?
- Are other associations involved?
- Are there unfair trade practices, currency issues, or other matters involved that are under legislative jurisdiction?

Considering the Remedies

Litigation can be a costly undertaking, even when you win your case. Preparation costs alone can be staggering (in the tens of thousands of dollars), and it can take several years to resolve a case. You may also have to consider travel, translation, and many other issues. If you are at the other end of a litigation, then your defense costs can be staggering. Often times the potential for spiraling costs will encourage the affected parties to consider a settlement instead (wherein the parties negotiate an agreement to settle the issues without going to court).

In addition, there are remedies available through arbitration and mediation.

Mediation

When a dispute is mediated, a neutral third party helps the two parties discuss the issue and attempt to settle the problem between themselves. The mediator's job is to make sure that both sides can air their grievances and come to agreement on resolution. A mediator has no vested interest in the outcome of the mediation. Unlike a court action, the mediation is non-binding (the parties are not bound by the mediator's decision if the mediator makes one).

In some agreements, especially long-term contracts or contracts with public bodies, there may be clauses included that outline a formal, set mediation process that both parties must follow before they can consider arbitration or litigation.

Arbitration or Litigation

If a dispute cannot be settled through negotiation or mediation, the next step is for the claiming party to decide whether to arbitrate or litigate (sue).

Arbitration is a formal form of dispute resolution. In an arbitration, the disputing parties nominate a neutral third party, and they agree to be bound by the arbitrator's decision, no matter how they may feel about that decision personally. Although the process is similar to mediation at first glance, the big difference is that the arbitrator's decision is final, and it binds the parties to whatever that decision is.

To decide whether to arbitrate or take a step further and litigate the issue in court, the contract has to be reviewed. The global trend is to resolve issues outside of court, so if the contract contains a valid arbitration clause that addresses the problem(s) identified, it is expected that suing in court will not be an available remedy. However, sometimes issues arise that are not anticipated.

Over time, arbitration is becoming more popular in international trade issues. This makes sense when we consider that one of the parties involved would be operating in unfamiliar legal territory in terms of being sued

in a different jurisdiction, with unfamiliar laws, procedures, and potential outcomes.

However, if one party claims that the other is not really interested in resolution, then arbitration or mediation won't be effective, so litigation may be the preferred route. (This would be an anticipated outcome in cases of fraud, for example.)

Where to Litigate

If the plaintiff (the claiming party) decides to sue, they must first decide where. In international disputes, a plaintiff can either select the jurisdiction where they base their business (at home) or abroad, in the defendant's jurisdiction. When there are complex global transactions taking place and numerous defendants, there are a correspondingly larger number of possible jurisdictions.

Government Agencies

In addition to court systems, remedies can also be provided by certain government agencies. For example, if there are charges of unfair trade practices, the Canadian International Trade Tribunal and the Canadian Competition Bureau are often involved with Canadian companies. In the United States, the International Trade Commission is an independent government agency that can make decisions on allegations of issues, including the infringement of US patents and trademarks.

Beyond the Rules – Ethical Concerns

Moving into a global context for business includes exposure to different ways of doing business. Preparation, openness to ongoing learning, and being receptive to new ways of behaving will all help make business flow.

In this session, you'll learn about how to settle ethical questions, about corporate social responsibility, and what sustainability is all about.

The Ethical Conundrum

Introduction

Moving into the global marketplace exposes our managers and company leaders to unfamiliar cultural rules and practices. Although trade agreements and legal systems set boundaries for lawful behavior, they don't help much when it comes to ethical dilemmas or issues involving social responsibility.

Definitions

- **Ethics:** A moral obligation to determine right from wrong
- **Ethical behavior:** Personal behavior that follows principles of good conduct and morality
- **Ethical dilemma:** A situation where moral ideals and imperatives are in conflict. Often described as having no right or wrong answer, but instead the solution is the **most ethically defensible decision**.

Ethical Dilemmas

One of the issues we must face is that of the **ethical dilemma**. Ethical dilemmas can arise in a myriad of circumstances, and often where someone is faced with two clear choices, but neither one of them resolves a situation in a satisfactory way. The decision maker must review the options in view of all the available information, including facts, values, principles, and moral issues.

There is no clear formula or model for resolving an ethical dilemma, although there are guidelines that can be applied. And, of course, an issue may be an ethical dilemma to some and not to others. (The reality of child labor is one place that this arises.) Questions to ask as you work through an ethical dilemma include:

- Is the proposed issue a legal one?
- Is the decision fair and balanced to all stakeholders involved?
- Does the proposed solution justify actions that must be taken?
- How will the proposed decision make me feel?
- What is the most ethically defensible decision I can put forward?
- How will I feel about the proposed decision when I discuss it with my family, company, and community?

Can we really be faced with ethical dilemmas on a regular basis? The simple answer is yes! Here are some real examples.

- When your job requires that you accept shipments for a local port authority and a foreign customs agent asks for a “tip” before releasing a shipment, you are being invited to participate in bribery and corruption.
- You are importing for a clothing company, and you hear that workers at the overseas manufacturer report unsafe work conditions, pay that is below minimum wage, 20-hour work days, and abuse by their supervisors.
- You work with a company that publishes textbooks for university students in multiple languages. You visit a university in a developing country, and discover that students are carrying around photocopies of your best-selling textbooks. When you speak with students, you discover that if they have to pay the \$100 cost per textbook, they could not afford university, but you know that citizens must be educated in order for this economy to flourish.

In addition to the examples already listed, ethical dilemmas can arise when a company finds itself dealing with partners who are involved with organized crime. Because organized crime can infiltrate operations at any level, and large crime operations are present all over the world, this is not unexpected and can have massive ramifications on the business.

Different Points of View

Introduction

There are different philosophies of ethics. Your beliefs, identified company values, and the jurisdictions you work in will all factor into what applies to you.

There are four commonly considered philosophies of business ethics. Whether you follow one or the other, it's a good idea to know what they are so that you can understand what other companies and jurisdictions are also considering.

The Friedman View

Described by its main supporter, Milton Friedman, this perspective says that while operating within the law, a company's only responsibility is to maximize profits. In this way, a company could move its pollution-generating operations to a country that does not have strict or expensive environmental protection laws. It could also move manufacturing to a country with lower minimum wage costs and where employees can be required to work more hours per week than they can domestically.

Although stakeholders and managers who appreciate the Friedman View would support these decisions, and argue that the company is meeting its duties by increasing profits, there are also plenty of people who disagree with this approach, since this position does not consider corporate social responsibility obligations.

Cultural Relativist View

This perspective states that each company operating in another jurisdiction should adopt local ethics so that belief systems stay within a cultural context. Cultural relativism sees truth as relative, and positions arguments of what's right and wrong within a specific situation. This is the essence of the phrase, "When in Rome, do as the Romans do." So, for a company that operates where child labor is common practice, they too would hire child laborers. Many find this position of ethical reasoning intolerable.

Righteous Moralist View

This position can also be difficult for people to accept because it states that a company should maintain its domestic ethics regardless of where it operates, mainly because proponents believe that their own views are superior to anyone else's. In a negative light, local managers accustomed to bribing officials or suppliers in order to accomplish their goals may be required to stop, making doing business extremely difficult for them. In a positive light, a socially responsible company may start donating to local charities and building schools or water wells, even though these kind of projects are not commonly entertained by other companies operating in the same region.

Utilitarian View

No matter what region it operates in, a company exercising a utilitarian view focuses on maximizing positive outcomes and minimizing negative outcomes. The utilitarian view implements the right behaviors to ensure the greatest good for the greatest number of people. So, where the righteous moralist manager is not allowed to bribe local officials, a utilitarian approach would support paying a bribe if more people will benefit than will be harmed by this action.

Conclusion

It's worth a mention here that when businesses develop guidelines and policies to support ethical behavior and social responsibility, issues will continue to arise on a regular basis, but managers will have methods to assist

them in decision making.

Corporate Social Responsibility

Defining Corporate Social Responsibility

When a company decides to do more than they are legally obligated or ethically bound to, and they actively balance their obligations with a desire to do more, we can say that they are practicing **Corporate Social Responsibility (CSR)**. This might mean that these companies take on giving to the poor, building schools/hospitals, or protecting the environment, as a few examples.

The Three Levels

In a formal manner, CSR contains three elements or layers. First is **traditional philanthropy**, which may see a corporation donating money, or allowing employees to work on a social cause. Second is an element of **risk management**, where a company implements a code of conduct that it will apply in global operations, at the same time it agrees to operate with transparency. Thirdly is the element of **strategic CSR**, where a business incorporates social responsibility to create value and position them with a competitive advantage.

Organizations are cautioned against promoting themselves as having embraced CSR in their operations unless they have incorporated all three principles. Smart business leaders realize that the future acceptance of their companies will rely heavily on building relationships and their enterprise with a commitment to transparency and trust. They must also commit to supporting a healthy workforce and looking after the environment. These are not small undertakings.

Sustainability

Going Green

Protection and reclamation are no longer left to governments or non-government organizations. Concern and remediation are now expected, and many companies have taken on “green” (environmentally friendly) projects to reduce the effects they are having on the planet. These green initiatives have to be balanced with reducing or maintaining operating costs, as well as profit margins.

The idea of sustainability is that a business will meet its current needs and continue to develop without compromising the business itself, social needs, and natural environments for future generations. This is a serious shift in how some companies have traditionally done business, which could involve a casual attitude toward ethical behavior, human rights, and environmental protection.

Since the 1990’s, corporations have adopted sustainability practices to demonstrate their commitment to the environment. Some of them have strict **sourcing requirements**, including companies like Loblaw in Canada, who commit to obtaining seafood only from sustainable sources.

Carbon footprints are another element of sustainability, and a hot topic as companies determine their impact

on the environment. (A carbon footprint is the environmental impact of greenhouse gas, and is measured in units of carbon dioxide. A **primary footprint** includes direct carbon dioxide emissions from direct energy use and the burning of fossil fuels. These can be found in things like generating electricity, burning gasoline, and transportation. A **secondary footprint** includes carbon dioxide emissions from the entire lifecycle of a product, from manufacturing to breakdown.)

Codes of Conduct

The Evolution of the Code of Conduct

Many companies have codes of conduct, and indeed, they have been part of business for decades. Early codes of conduct often addressed rules for employees and company leaders to follow so that they could avoid conflicts of interest in their work. These have evolved over time to include terms that commit employees to behave ethically, follow the law, and manage safe workplace practices. Over time, codes of conduct have been enhanced to also include community and environmental issues.

Developing a Code of Conduct

A code of conduct does not just have to include rules for behavior of employees within a company. They can be extended as a positive message for the public to see the intentions and priorities of an organization. They can also generate heavy scrutiny by the public, other companies, and watchdog agencies.

Codes of conduct can also be extended to suppliers. Ethical considerations can be included so that issues such as child labor can be addressed, human rights can be protected, and intellectual property guarded.

Choosing Your Growth Strategy

There are several ways that we can approach growth and start to make the transition into a global market. Part of doing so strategically requires that we look at things from different perspectives.

In this session, you'll learn about the AAA Approach, and consider whether you will start with adaptation, aggregation, or arbitrage.

The AAA Approach

Introduction

Products and the ways that we source, develop, market, and sell them have all changed (and will continue to do so). The AAA approach provides a framework where you can work through the options and make some decisions about what you want to do. The elements in the approach are **adaptation**, **aggregation**, and **arbitrage**.

Adaptation

If you consider the way a chameleon changes color depending on its environment, you'll be thinking about a good example of **adaptation**. In a business sense, adaptation is about maximizing your local relevance in order to boost revenue and market share. Many companies use this strategy as they expand beyond their original market and open up business units in each new country they will operate in.

Aggregation

In aggregation, the business creates new operating locations with **standardized** products or services, while **grouping** the development and production processes together. A good example of this is a licensed or franchise business, where standardization is key so that customers have a similar experience no matter which location they visit.

Arbitrage

Arbitrage requires **exploitation of differences** between national or regional markets, most often by locating different parts of the supply chain in different national or regional markets. One example would be a company with their call center in India, cocoa harvesting and manufacturing in Africa, and retail sales in Western Europe.

Leveraging Triple A

Choosing the Right Approach

Most companies will exhibit different A's at different times in their lifespan. Although some will leverage all three at one time or another, others certainly won't. In an organization where the company is the focus, **adaptation** is probably the emphasis. Where cross-border grouping is present, through the use of global business or product divisions, those are likely examples of **aggregation**. And where the focus is on some kind of vertical or functional system that balances supply and demand across organizational boundaries, you'd see a clear demonstration of **arbitrage**.

To apply all three A's at once would lead to complexity throughout the organization that could be very difficult to manage, although combining some elements as needs arise would be helpful.

A Strategic Approach

When leaders first hear about the Triple A strategy, they sometimes want to try all three approaches. However, it's not that simple. A strategic look at the three approaches will help leaders determine which elements will most closely meet their needs, and help them reach their objectives.

In the context of the three A's, we can look at the following questions.

Should we globalize for competitive advantage?

- **Adaptation** would help achieve local relevance while leveraging some economies of scale. We move in, fit into the local area, and start to establish ourselves.
- **Aggregation** could achieve scale and scope objectives through international standardization. We move in, copy what we do at our main location, and get started.
- **Arbitrage** could facilitate profit through international specialization. We start exploiting resources from multiple areas around the globe to grow our profits.

Where should we locate our overseas operations?

- **Adaptation:** Locations in countries that are similar to ours in economy, language, and legal systems will lead to the smallest amount of adjustments so that we can quickly get established and grow.
- **Aggregation:** We will set up our locations with the same signs, layout, procedures, and products as our flagship stores, and teach our employees at all locations to do things in the same way. We can even bring employees to one location so they can take training together and all receive the same information.
- **Arbitrage:** Access to services and resources in a variety of countries will allow us to establish a more global presence and continue to discover (and exploit) unexplored markets. We'll put our call center in India, where call centers are well established and popular, do some manufacturing in Mexico and some in China, and then we'll arrange for packaging and distribution from fulfillment centers in the United States and China.

Building Your Growth Plan

The quote, "Failing to plan is planning to fail" may seem trite, but it's accurate. The best results in business come from establishing, implementing, reviewing, and revising a workable plan. There's no way around it!

In this session, you'll learn the essential elements required for taking your big ideas and putting them into action in a global way.

A Business Framework

Planning in the Global Context

Planning is a process that is highly underrated to some people, and yet businesses that plan carefully and follow those plans by having the right people carrying them out are more successful than those who don't. Since the shift from doing business domestically is such a big one, and given that the changes require so many moving pieces, a plan for being a global business enterprise is essential.

Working in international markets carries a lot more risk and requires following significantly more rules and processes. Rather than discovering that you cannot flourish in the global market after you've invested significant money and resources and suffered a failed launch, it seems infinitely smarter to figure all that out in advance.

Think of creating your plan as a way to mitigate risk, and use it as such.

The Purpose of the Plan

An international plan is a blueprint for success. It will identify your objectives and establish benchmarks to measure your success. Although this is highly dependent on individual business situations, you should typically plan for a three-year commitment so that you have the opportunity to establish your presence in a foreign market, develop relationships for successful trade, and follow through on your plan. Maintaining commitment is a crucial component of your success, and your plan will help you to assess the feasibility of when, where, and how to carry out your steps.

Your plan should be used as a tool for you to:

- **Set goals** for performance
- Provide the **framework** for evaluating and revising performance
- **Share** messages with stakeholders, including managers and employees, board members, suppliers, potential investors, and the public
- Identify the **financial elements** of the plan, including cash flow, credit, and borrowing
- Establish **benchmarks** and **deliverables** to compare progress and performance over defined periods of time

The secondary purpose of the plan is to give you good control at risk mitigation. As the plan unfolds, the application of benchmarks and evaluation techniques will allow you to anticipate some events and react more effectively. In a global business, undertakings are more complex and carry more risk than domestic business, and as a result, international exporters and importers must get comfortable working within the complexities and develop a sophisticated set of skills to be successful.

Outlining the Plan

Introduction

Planning is really a cyclical process, which means that once the plan is finished, it's open for review and troubleshooting as things get underway. Below you will find the suggested components to include in your global business plan. Beneath each section is space for you to make a note of who can provide you with the most accurate and reliable information for each section. After you have finished the course, you simply need to keep moving ahead and filling it all out.

Global Business Plan Worksheet

This is where you outline what currently exists about the business and what the key foundation pieces are, including corporate structure, key people, and desired outcome. We have included some sections that you might want to consider below.

Business Structure

- Ownership
- Business setup (corporation, partnership, franchises, etc.)

- Location and nature of divisions

History

- How we were founded
- Key accomplishments
- Noteworthy news
- Major changes to the business
- Awards

Objectives

- Mission
- Vision
- Value statements
- Short- and long-term goals with timeframe for each

Executive and Key Staff

- List of names
- Positions of each person
- Education and business background
- Individual contributions

Description of the Business Today

- Customers served
- Customer demographics
- Assets
- Operations

Market Analysis

- Location(s) currently served and location(s) proposed
- Size
- Description
- Trends forecast
- Perceived opportunities
- Competitor analysis

Product Evaluation

	Features	Advantages	Life Cycle	Warranty
Product A				
Product B				
Product C				

(Use additional pages if needed)

Human Resources

- Size of operation
- Skill levels
- Performance gaps with current staff

Suppliers

- Relationships
- Scalability (can they serve your global presence?)
- Turnover
- Reliability

Finances

- Current financial state
- Financial forecasts
- Financing strategy

The Planning Process

Introduction

Now that we have outlined what the plan will contain, let's look at bringing it all together. On the following pages you will find some tips to help you create a stellar plan that gets used. Writing a plan that people can understand and will use is important. Otherwise the plan will just sit in a drawer (or on a computer somewhere) and people won't refer to it.

Planning Worksheet

Set your objectives for the plan. Who will read it? What will they need to do with the information they read? Being clear on this will help you decide what to include and how much detail each section needs.

The plan is only good if it's excellent. Make sure enough time and resources are available to research, write, and produce the plan. Use this space to schedule the time that you will work on your plan. (Tip: Working in half day chunks can be very helpful.)

Share early drafts with others and be open to people’s feedback. Because you are moving into a global business situation, it’s a good idea to get feedback from inside and outside the organization, including legal, financial, and logistics advice. Who will you share the plan with?

The plan must be original and specific to your business situation. Don’t buy someone else’s plan or copy it thinking that it will do the job. You need to put emphasis on areas of the plan that reflect what’s most important in your business, not someone else’s. Which areas of your plan will you emphasize?

The plan should flow like a good story, with each section linking together to demonstrate how and why the business will succeed. Plans that borrow from other plans are typically disjointed. Some sections could contradict what you want to say or important issues might get missed if you use someone else’s plan. How will your plan be structured?

Before you write the meat for each section, make sure you start with a few key points in bullet form. Before you sign off on the plan, review each section carefully and make sure it is telling the story you are after. Are you a strong writer? A detail person? If not, who will you recruit for help to get your plan written and have it read?

Financial projections have to be realistic. Many of the readers of your plan will focus on the financials more closely than any other area as you identify the financing needs and profit potential. At the same time, the financial section should give the reader confidence that you really understand the business, risk, and reality of your plan. How will you make sure that your financial numbers are solid?

The executive summary is placed first in the plan, but gets written last. This is a very important because some readers will only read this section, and others will pick out some aspects of the executive summary and then read further into those parts of the plan, avoiding most other areas. What key elements might you want to include in your executive summary?

Market Evaluation

Performing a Market Evaluation

The market is your source for sales, and without sales, there is no business. This section of your business plan, then, is critical to launching your operations in new areas.

Establishing yourself in a foreign market is a complex task. If you've completed a market analysis on your domestic market (and hopefully that's been part of your due diligence in expanding into an international force to be reckoned with), you know it's complicated enough. Going global is exponentially more difficult.

The key steps in your market evaluation must include:

- Gathering adequate information so that the key members of the company can make an informed decision.
- Arranging details so that they reflect the reality of the situation.
- Creating a readable plan that is comparable to other information that members of the company currently encounter. For example, it should measure the same things and set goals in the same area.
- Validating the accuracy and reliability of the information throughout the process.

Pulling the Pieces Together

A market evaluation can contain a lot of moving parts, and you will have to make sure that the things you investigate and report on make sense and are accurate.

Some of the information you must gather at this stage might include:

- The size of your target market in terms of spending and as a percentage of the economy overall
- Recent and forecasted trends
- The impact of current imports (in terms of creating competition in the market)
- Customer profiles
- Purchasing experience and expertise
- Factors that may influence your potential buyers
- Stability of the economy you are operating in
- Cultural issues
- Distribution channels
- Government regulations and elements
- Trade agreements
- And anything else you can think of!

You also have to do lots of research so that in addition to finding out what's necessary, you can answer questions, provide a risk mitigation strategy, and deal with unanticipated problems (because there will be some).

Implementing Your Growth Plan

Now that you've determined where you are going and how you'd like to get there, the next steps involve getting your products or services into global markets.

In this session, you'll learn some additional strategies for getting your products and services accepted into the foreign market.

Getting Your Product or Service to Global Markets

Supply and Demand

Once your business plan is complete, it's time to focus on how you will get your product into the market. Ask yourself:

- Does your product or service respond to a pressing, urgent need?
- Or is it something nice to have, but not urgent?
- If it's nice to have, but not urgent, how will you create urgency in the mind of the consumer so that they buy it?

If there is no natural demand for your product, you will need to create marketing that helps people see one. For example if you are going to export fruit into a winter climate, the availability of something that reminds people of summer might help. However, if you have access to fruit they cannot get any time of year, you might have an extra edge. On the other hand, if you are exporting fruit they've never tried, that might or might not give you an edge (depending on people's tastes and desire to try new things).

The demand that already exists for your products or services will help you determine how quickly you need to get established in the new market, and what kind of reception you will get.

As you consider your options, you may also look at the feasibility of a joint venture, where you can leverage someone who is known locally to help spread the word. You could also consider pre-selling your products and then just shipping what is already wanted.

Creating the Right Strategy

No matter what approach you choose, your market entry strategy has to be carefully considered. If you make mistakes at this stage, they can cost you more than just money. You could lose your market share, someone else could poach your ideas and beat you into the new market, or you could see your products being sold on the black market. If you are a service provider who will go into an area and provide a niche service, it's also possible for other companies to get wind of what you are doing and get in front of you.

Marketing Your Product or Service to Global Markets

Marketing Plan Worksheet

What distribution strategy will you select?

- Approaching customers directly
- Arranging distribution
- A combination of the two methods

*Setting up distribution channels can take a long time, although you could partner with a company or retailer who already has distribution set up in the target area, if that makes sense for your business.

Does your solution provide an opportunity for immediate action, or are there requests (such as proposals, delegations, or trade shows) that need to be completed?

How quickly is the market changing? While things like electronics change quite quickly and are driven by consumer demand and upgrades, other markets (like natural resource management) may be slower.

How quickly are other companies moving into the region with solutions of their own? Often, it's easier for small companies to respond to opportunities than it is for larger businesses, but larger businesses may have more infrastructure and resources readily available. Where do you fall on the continuum?

Do you have the internal resources needed to move into global business, or do you have development work to take care of first?

Based on your research and analysis, how confident are you that your plans will lead to success?

Contingency Plans

Cost-Benefit Analysis

One critical step needed before you launch an international enterprise is to look at the cost-benefit analysis. The anticipated costs have to lead to a profit in order to have a viable start. Even in a not-for-profit enterprise, there has to be enough money generated to meet expenses and to bring some kind of benefit back to stakeholders in the form of success, recognition, etc.

A cost-benefit analysis will lead you to one of three conclusions:

- Costs are too high in context of the potential benefit, and the plan must be abandoned.
- More planning and strategy is needed to reduce costs before proceeding.

- Forecast benefits are sufficient enough to justify additional costs, therefore we will implement the plan.

Exit Strategy

An exit strategy should also be part of your international business plan, in addition to a contingency plan. No one wants to enter a marriage knowing they will get divorced, just as no one wants to start a plan without the potential to succeed. However, as responsible business leaders we must be prepared for the unexpected, whether these include economic challenges, regulatory issues, or an inability to make headway in a new market.

Make sure that your plan is a working plan, where it is reviewed regularly, and you take stock of where you are at in terms of progress compared to what is outlined in the plan. When things get off track, immediately take action to correct problems. Make sure you are communicating with decision makers and stakeholders so no one is ever taken by surprise by what's going on.

Diagnosing Issues

Issues can often be remediated through good planning and follow through. When problems occur once you have started work in your target market, there are two options available to you: fix the problem, or exit the market. Consider these potential problems and causes, and see if anything gives you a sense that you should be heightening your awareness.



Developing Product Names

What Does Your Brand Say?

There are several issues around branding and naming that you need to be aware of as you enter the global business market.

Your **brand** is the way potential buyers perceive your company. After a while it seems as though the brands we are familiar with blend into the background and we don't notice them.

You'll want your brand to be noticeable, and your products to be recognized. Most Western languages stem from the same Indo-European source, so it's pretty straightforward to create a brand name with similar meanings in multiple places. Other names won't have that same ease of introduction into the marketplace.

Color Choices

Color is another consideration related to your brand. Some colors create certain messages in some countries. For example, Ikea uses the bright yellow and blue of the Swedish flag. While you might prefer the contrast of black and white for your website, Asian visitors may associate that with a funeral.

Further Reading:

- ✓ Cocker, Barry, and Stuart Emmett. *The Relationship-Driven Supply Chain: Creating a Culture of Collaboration Throughout the Chain*. Gower Publishing Limited, 2006.
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- ✓ Pinkerton, Richard L. "Business-to-Business Procurement: The Current Revolution Within Supply Chain Management." *World Markets Series Business Briefing: European Purchasing & Supply Chain Strategies* (World Markets Research Centre), 2001.
- ✓ Wild, John J., and Kenneth L. Wild. *International Business: The Challenges of Globalization (7th Edition)*. Pearson, 2013.
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