

# Chapter 2 - Outside-USA Strategic Planning

## Overview

Chapter 2 explains how to identify and manage global issues in formulating, implementing, and evaluating strategies. Special topics include business culture, business climate, labor unions, protectionism, tax rate variation, and management style variation across countries. Chapter 2 describes how communication and business practice vary across countries so that strategic planning can be more effective.

The Chapter 2 Learning Objectives as stated in the textbook are as follows:

1. Discuss the nature and implications of labor union membership across Europe.
2. Discuss income tax rates and practices across countries.
3. Explain the advantages and disadvantages of entering global markets.
4. Discuss protectionism as it impacts the world economy.
5. Explain when and why a firm (or industry) may need to become more or less global in nature to compete.
6. Discuss the global challenge facing U.S. firms.
7. Compare and contrast business culture in the United States with many other countries.
8. Describe how management style varies globally.
9. Discuss communication differences across countries.
10. Discuss Africa as the newest hotspot for business entry.

## Teaching Tips

1. The first important issue in this chapter is the “Advantages and Disadvantages” section, because virtually all firms either have global customers or seek global customers.
2. The second important issue in this chapter is the “United States versus Foreign Business Cultures.” Ask students who have traveled or lived outside the USA and ask them to speak about differences between business cultures across countries. Tell students that being knowledgeable of business culture across countries can help you be a more effective businessperson – because almost all firms have global customers.
3. Regarding culture across countries, go to <http://www.worldbusinessculture.com/> and spend some time here viewing business culture in various countries.

4. The third important issue in this chapter is “Business Climate Across Countries” which compares and contrasts key business factors across countries. This whole chapter is important for AACSB purposes and because most industries are becoming more and more global each day.

5. At the end of Chapter 2, direct student attention to the “Special Note to Students” because this is important information as the team prepares and ultimately delivers their oral case analysis presentation later in the course.

6. Regarding the end-of-chapter review questions, consider assigning one half of them one day in class giving each student a question, and letting them tell the class the answer, with you commenting on their answers. Do the other half another day. This is a fun day in class and it goes pretty quickly.

7. Several of the end-of-chapter Assurance of Learning Exercises can be used as excellent homework or classwork assignments to be completed as an individual or as a group of students. We cover at least two of these exercises each semester in each class.

## Answers to End-of-Chapter Review Questions

**1. Honda Motor Company has been very successful in recent years. What percentage of Honda’s revenues comes from the United States versus Europe? How does this percentage compare with rival firms?**

Answer:

	Cars Sold - North America (in 000s)	Cars Sold – North America (as % of Europe and N.A. units sold)	Cars Sold - Europe (in 000s)	Cars Sold – Europe (as % of Europe and N.A. units sold)
Honda Motor Co.	1,731	91.0%	171	9.0%
General Motors Co.	3,234	67.55%	1,556	32.45%
Toyota Motor Corp.	2,469	75.6%	799	24.4%

\* Figures reported are based on 2013 annual reports.

**2. Explain why consumption patterns are becoming similar worldwide. What are the strategic implications of this trend?**

Answer: Advancements in telecommunications, such as internet, web technology and travel are drawing countries, cultures and consumption patterns closer together.

With higher income and a higher level of education, consumers worldwide are more affluent. Consumers are able to buy foreign goods through the net without having to be physically travel abroad to purchase the products.

With low cost air transportation, more and more people have the opportunity to travel and they are exposed to other consumption patterns worldwide and hence become more and more similar.

The strategic implications are for firms to look outside its domestic market, not only selling the goods produced at home but producing the goods at host countries or other low cost producing countries so that goods could be sold globally at competitive prices.

### **3. What are the advantages and disadvantages of beginning export operations in a foreign country?**

Answer: The advantages include:

1. Increase overall sales volume, improve market share, and generate profit margins that are often more favorable
2. Increase economies of scale and therefore reduce per-unit costs of manufacturing.
3. Diversify customer base, reducing dependence on home markets.
4. Stabilize fluctuations in sales associated with economic cycles or seasonality of demand.
5. Minimize risk and maximize flexibility, compared to other entry strategies. Firm can quickly withdraw from an export market.
6. Lower cost of foreign market entry since the firm does not have to invest in the target market or maintain a physical presence there.
7. Leverage the capabilities and skills of foreign distributors and other business partners located abroad.

The disadvantages include:

1. Fewer opportunities to learn about customers, competitors, and so on.
2. Exporting usually requires the firm to acquire new capabilities and dedicate organizational resources to properly conduct export transactions.
3. Exporting is much more sensitive to tariff and other trade barriers, as well as fluctuations in exchange rates.

Exporters run the risk of being priced out of foreign markets if shifting exchange rates make the exported product too costly to foreign buyers

### **4. What are the major differences between U.S. and multinational operations that affect strategic management?**

Answer: The major differences are: social, cultural, demographic, environmental, political, government, legal, technological and competitive opportunities and threats.

### **5. Why is globalization of industries a common factor today?**

Answer: Globalization is the process of doing business worldwide, so strategic decisions are made based on global profitability of the firm rather than just domestic considerations.

- Seek opportunities for growth through market diversification
- Earn higher margins and profits
- Gain new ideas about products, services, and business methods
- Better serve key customers that have relocated abroad
- Be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products

### **6. Compare and contrast U.S. versus foreign cultures in terms of doing business.**

Answer: Students should consider the following:

- The importance of time
- Personal space
- Communication
- Customs
- Religious factors

### **7. List six reasons why strategic management is more complex in a multinational firm.**

Answer: Six reasons include:

1. Foreign operations could be seized by nationalistic factions
2. Firms confront different and often little-understood social, cultural, demographic, environmental, political, governmental, legal, technological; economic and competitive forces. These forces can make communications difficult.
3. Weaknesses of competitors in foreign countries are often overestimated and strengths are underestimated. Keeping informed about the number and nature of competitors is more difficult when doing business internationally.
4. Language, culture, and value system differ among countries, creating barriers in communications.
5. Gaining an understanding of regional organizations is difficult but is often required in doing business internationally.
6. Dealing with two or more monetary systems can complicate international business operations.

**8. Do you feel that protectionism is good or bad for the world economy? Why?**

Answer: Student answers may vary. Protectionism refers to countries imposing tariffs, taxes and regulations on firms outside the country to favor their own companies and people.

Most economists argue that protectionism harms the world economy because it inhibits trade among countries and invites retaliation.

**9. Why are some industries more “global” than others? Discuss.**

Answer: Student answers may vary.

Different industries become global for different reasons. The need to amortize massive R&D investments over many markets is a major reason why the aircraft manufacturing industry became global.

When firms manufacture a product, they select the lowest-cost source, which may be Japan for semiconductors, Sri Lanka for textiles, Malaysia for simple electronics, and Europe for precision machinery.

**10. *Wa*, *guanxi* and *inhwa* are important management terms in Japan, China, and Korea respectively. What would be analogous terms to describe American management practices?**

Answer: Student answers may vary.

**11. Why do many Europeans also find the notion of “team spirit” in a work environment difficult to grasp?**

Answer: Student answers may vary.

**12. In China, *feng shui*, is important in business, whereas in Japan *nemaswashio*, is important. What are analogous American terms and practices?**

Answer: Americans place an exceptionally high priority on time; punctuality is a valued personal trait when conducting business in America.

**13. Describe the business culture in Mexico.**

Answer: Mexico is an authoritarian society in terms of schools, churches, businesses and families. Employers seek workers who are agreeable, respectful and obedient; Mexican workers tend to be activity oriented rather than problem solvers. Mexicans desire harmony rather than conflict which is part of the social fabric in worker-

manager relationship. Mexican employers are paternalistic, providing workers with more than a paycheck, but in return they expect allegiance.

In Mexico, business associates rarely entertain each other at their homes; business meetings and entertainment are nearly always done at a restaurant. Preserving one's honor, saving face and looking important are also exceptionally important in Mexico.

Mexicans do not feel compelled to follow rules that are not associated with a particular person in authority they work for or know well.

#### **14. Describe the business culture in Japan.**

Answer: The Japanese place great importance on group loyalty and consensus, a concept called *Wa*. *Wa* requires that all members of a group agree and cooperate resulting in constant discussion and compromise. Japanese managers evaluate potential attractiveness of alternative business decisions in terms of long-term effects on different groups' *Wa*. Discussion is generally conducted in informal settings; entertaining is an important business activity.

Many Japanese managers are reserved, quiet, distant and/or introspective and other oriented.

#### **15. Compare tax rates in the United States versus other countries. What impact could these differences have on "keeping jobs at home?"**

Answer: European countries have the lowest corporate tax rates and are further lowering tax rates to attract investment. Average corporate tax rate among European Union countries is 26 percent, compared with 30 percent in Asia – Pacific region and 38 percent in United States and Japan. Ireland and Soviet-bloc nations of Eastern Europe slashed its corporate tax rates to nearly zero. Germany corporate tax rate is just under 30 percent and Great Britain is 28 percent; France is 27 percent.

U.S. trade liberalization / globalization policies have encouraged corporations to seek the lowest-cost locations for their operations. This will result in loss of jobs back home in U.S. for example, the new 1,200 worker Intel semiconductor plant in Vietnam.

Ralph Gomory, president of Alfred P. Sloan Foundation and former top executive at IBM warns that it is in the self-interest of companies to invest in America, otherwise, living standards will inevitably decline and American will severely weaken economically.

#### **16. Discuss requirements for doing business in India.**

Answer: Joint ventures are mandatory for foreign companies doing business in India. In investment-banking industry, the Indian government has eased the joint venture restriction but not in other areas.

However, many joint ventures fail. Of 25 major joint ventures between foreign and Indian companies between 1993 and 2003; only three survive, This prompted John Band, president of Zoom Cortex in Mumbai to say: “Anyone that gets into a joint venture in India should assume it will fail and should be comfortable with the terms of what happens when it does fail.”

**17. Select four countries. Evaluate Honda Motor Company’s operations in those countries.**

Answer: The Honda Motor Company is a multinational corporation (MNC) with operations in four regions of the world. Demand for automobiles in Japan increased 9%. Sales of Honda vehicles in Japan exceeded industry demand with sales growth of 18.5%. Continued growth in demand led Honda to complete the construction of its Saitama Factory’s Yori automobile plant resulting in improved production capacity by 250,000 vehicles per year. Total demand for automobiles increased by 8% in North America. Yet, demand for Honda automobiles increased 1.5%. In order to capture the growth in demand of small cars Honda opened a new plant in Mexico which resulting in an increased production capacity of 200,000 vehicles per year. The outlook in Europe remained bleak in the automobile market with demand declining by 2%. Commiserate to market changes, Honda’s automobile sales declined by 2% with a significant reduction in production. Much like in Europe demand for automobiles in Asia declined by 2%. Despite broad decline in the market Honda was able to grow its Asian automobile sales (ex-Japan) by 1.1% with commiserate increases in production at Honda’s Asian production facilities.

**18. Compare business practice and culture in northern Europe versus southern Europe.**

Answer: Students’ answer will be based on page 372; “Brazil – Business Culture; Germany – Business Culture.”

**19. Explain how the Arab Spring movement in the Middle East will likely impact Pfizer.**

Answer: Students’ answer may vary, however, they should know the different business culture as explained in this Chapter.

**20. What five countries in Asia have the highest GDP? What are the implications for Adidas?**

Answer: Students’ answers will vary.

**21. Africa is rapidly joining the world economic community. Give 10 examples of this.**

Answer: Students' answer may vary, depending on the examples given.

**22. Which six African countries do you feel are most attractive for foreign investment?**

Answer: Students' answers may vary, depend on the countries chosen

**23. Compare business practice and culture in the USA versus your own country.**

Answer: Students' answers may vary.

**24. Explain in your own words the "Special Note to Students" section at the end of the chapter.**

Answer: Students are encouraged to be prescriptive and insightful" rather than "descriptive and mundane."

**25. Select three countries in South America. Prepare a one- page summary for each to reveal their attractiveness for foreign direct investment.**

Answer: Students' answers will vary, depending on countries chosen.

**26. Compare sexual harassment policies and practice across continents and countries.**

Answer: Students' answer will vary, depending on the countries selected.

**27. Discuss Australia as a continent for doing business.**

Answer: Students will have to show an understanding of "United States versus Foreign Business Culture," as stated in page 367.

**28. In terms of presenting flowers as business gifts, compare and contrast practice and custom across six countries.**

Answer: Students answer will vary.

**29. Discuss how business etiquette at dinner varies across countries.**

Answer: Students' answers will vary, depending on countries selected.

# Answers to the End-of-Chapter Assurance of Learning Exercises

## ASSURANCE OF LEARNING EXERCISE 2A: THE ADIDAS GROUP WANTS TO ENTER AFRICA. HELP THEM.

### Purpose

More and more companies every day decide to begin doing business in Africa. Research is necessary to determine the best strategy for being the first mover in many African countries (i.e., being the first competitor doing business in various countries).

### Instructions

Step 1: Print a map of Africa.

Step 2: Print demographic data on 10 African countries.

Step 3: Gather competitive information regarding the presence of shoe companies doing business in Africa.

Step 4: List in prioritized order eight countries that you would recommend for adidas to enter. Country 1 is your best, and Country 2 is your next best. Based on your research, indicate how many adidas/Reebok/TaylorMade stores you would recommend building over the next three years in each country. List in prioritized order three cities in each of your eight African countries where you believe adidas should build most of its stores.

### Teaching Notes

In answering this question; students should be aware of the dangers of globalization:

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

**ASSURANCE OF LEARNING EXERCISE 2B:  
ASSESSING DIFFERENCES IN CULTURE ACROSS COUNTRIES**

**Purpose**

Americans can be more effective in dealing with businesspeople from other countries if they have some awareness and understanding of differences in culture across countries. This is a fun exercise that provides information for your class regarding some of these key differences.

**Instructions**

Step 1: Identify four individuals who either grew up in a foreign country or have lived in a foreign country for more than one year. Interview those four persons. Try to have four different countries represented. During each interview, develop a list of eight key differences between American style/custom and that particular country's style/custom in terms of various aspects of speaking, meetings, meals, relationships, friendships, and communication that could impact business dealings.

Step 2: Develop a 15-minute PowerPoint presentation for your class and give a talk summarizing your findings. Identify in your talk the persons you interviewed as well as the length of time those persons lived in the respective countries. Give your professor a hard copy of your PowerPoint presentation.

**Teaching Notes**

Students may find the template below useful in completing this exercise.

	<b>1<sup>st</sup> Interviewee</b>	<b>2<sup>nd</sup> Interviewee</b>	<b>3<sup>rd</sup> Interviewee</b>	<b>4<sup>th</sup> Interviewee</b>
Interviewee Name				
Foreign Country				
Time spent in country				
Differences in speaking customs				
Differences in meeting customs				
Differences in meal customs				
Differences in relationship customs				
Differences in friendship customs				
Differences in communication				

**ASSURANCE OF LEARNING EXERCISE 2C:  
HONDA MOTOR COMPANY WANTS TO ENTER THE VIETNAMESE  
MARKET. HELP THEM.**

**Purpose**

More and more companies every day decide to begin doing business in Vietnam. Research is necessary to determine the best strategy for being competitive in Vietnam. Review the opening chapter boxed insert and Honda Motor Company's website.

**Instructions**

Step 1: Print off a map of Vietnam.

Step 2: Print off demographic data on 10 cities in Vietnam.

Step 3: Gather competitive information regarding the presence of automobile companies doing business in Vietnam.

Step 4: List in prioritized order the five cities that you would recommend for Honda to expand their business operations into.

**Teaching Notes**

Answers do vary amongst students. However, students should show understanding of the principles of globalization, advantages and its pitfalls.

**ASSURANCE OF LEARNING EXERCISE 2D:  
DOES MY UNIVERSITY RECRUIT IN FOREIGN COUNTRIES?**

**Purpose**

A competitive climate is emerging among colleges and universities around the world. Colleges and universities in Europe and Japan are increasingly recruiting U.S. students to offset declining enrollments. Foreign students already make up more than one-third of the student body at many U.S. universities. The purpose of this exercise is to identify particular colleges and universities in foreign countries that represent a competitive threat to your college.

**Instructions**

Step 1: Select a foreign country. Conduct research to determine the number and nature of colleges and universities in that country. What are the major educational institutions in that country? What programs are those institutions recognized for offering? What percentage of undergraduate and graduate students attending those institutions are citizens of your country? Do these institutions actively recruit students from your country? Are any of the Schools of Business at the various universities AACSB-International accredited?

Step 2: Prepare a report for the class that summarizes your research findings. Present your report to the class.

**Teaching Notes**

Students' answer will vary, depending on the countries on the country selected.