**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.

**Learning Objectives**

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

1. Discuss the nature of doing business globally, including language and labor union issues.
2. Explain the advantages and disadvantages of doing business globally.
3. Discuss the global challenge facing firms and why this is a strategic issue.
4. Discuss tax rates and tax inversions as strategic issues.
5. Compare and contrast American business culture versus foreign business cultures; explain why this is a strategic issue.
6. Discuss the business culture found in Mexico, Japan, China, and India; explain why this is a strategic issue.
7. Discuss the business climate in Africa, China, Indonesia, India, Japan, Mexico, and Vietnam; explain why this is a strategic issue.

**Teaching Tips**

1. Go to the author website at [www.strategyclub.com](http://www.strategyclub.com) and review the author video for Chapter 2, as well as the updates for Chapter 2. Since students’ case analyses are likely well along now in class, also go over a sample case analysis in class and the case presentation guidelines, all at this website.

2. The topics on page 71 regarding different languages globally and labor unions across Europe can represent strategic issues for many firms.

3. The section in this chapter on “Advantages and Disadvantages of Doing Business Globally” on pages 72-73 is important because virtually all firms either have or desire to have global customers.

4. Focus on the corporate tax rate and tax inversion sections on pages 75-76 so students realize this is an important variable in deciding where to expand. The new Academic Research Capsule 2-2 back on page 74 also addresses the “where to expand” decision that commonly faces firms.

5. An important issue in this chapter is the “American vs. Foreign Business Cultures.” Ask students who have traveled or lived outside the USA 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.

6. Draw attention to the “Communication Differences Across Countries” section, which compares and contrasts key business factors across countries. This whole chapter is important for AACSB purposes because most industries are becoming more and more global each day.

7. Regarding culture across countries, go to <http://www.worldbusinessculture.com/>

and spend some time here viewing business culture in various countries. Draw students’ attention to pages 79-82 regarding the business culture across countries narrative.

8. The “Business Climate Across Countries” section that begins on page 82 is important because many case companies will be considering expanding operations to other countries.

9. At the end of Chapter 2, direct student attention to the “Implications for Strategists” and “Implications for Students” sections because these provide important information as student teams prepare and ultimately deliver their case analysis presentation later in the course.

10. 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.

11. 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 2 Review Questions

**2-1. 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: Students should use data from the company’s current annual report and answer along the following lines:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 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.

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

Answer: Continuous telecommunication advancements, such as the Internet, Web technology, and superior modes of transportation are drawing countries, cultures, and consumption patterns closer together. With people earning higher annual incomes and receiving higher levels of education, many consumers across countries are becoming more affluent. Technological advancements have made it possible for such affluent consumers to buy foreign goods without having to physically travel to the manufacturing countries. At the same time, low-cost aviation services have enabled more people to travel around the world. This in turn exposes the travelers to other consumption patterns.

It is this exposure to different types of consumption patterns, and the constant interaction between consumers and producers around the world that gives rise to certain similarities.

The strategic implications for firms include them having to look outside the domestic markets, not only producing and selling their goods at home, but also producing and selling in host countries or other countries with low production costs. This would enable different firms to sell their goods and services globally at competitive prices.

**2-3. What are the major differences between the United States operations and multinational operations that affect strategic management?**

Answer: The major points of differences between U.S. operations and multinational operations include social, cultural, demographic, environmental, political, government, legal, technological, and competitive opportunities and threats.

**2-4. 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

**2-5. Compare and contrast the United States with foreign cultures in terms of doing business.**

Answer: Students should consider the following:

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

**2-6. 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.

**2-7. 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.

**2-8. How many different languages are their globally?**

Answer: Pioneering work to document the number of different languages spoken has been done by the [Summer Institute of Linguistics](http://www.sil.org/) (SIL) International. That organization today publishes 2,508 translations of the Christian Bible, and has compiled a catalog of the world’s languages, called the [Ethnologue](http://www.ethnologue.com/), which lists 6,909 distinct languages being spoken. Of that total, only 230 are spoken in Europe and 2,197 in Asia. But in Papua-New Guinea, 830 different languages are spoken by 3.9 million people, and in France, the Ethnologue cites ten languages being spoken, including Picard, Gascon, Provençal, Allemannisch, Alsace, Breton, and French.

**2-9. 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.

**2-10. 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: In Japan, business relations operate within the context of Wa, which stresses group harmony and social cohesion. An analogous American term could be team spirit or collegiality. In China, business behavior revolves around guanxi, or personal relationships. An analogous American term could be trust or confidentiality. In South Korea, activities involve concern for inhwa, or harmony based on respect of hierarchical relationships, including obedience to authority. An analogous American practice could be to follow the chain of command.

**2-11. Why do many Europeans also find the notion of “team spirit” in a work environment difficult to grasp?**

Answer: Student answers may vary. Many Europeans find the notion of team spirit difficult to grasp because the unionized environment has dichotomized worker-manager relations throughout Europe.

**2-12. In China feng shui is important in business, while in Japan nemaswashio is deemed 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. Proxemics is an analogous American business term that deals with the spatial arrangement of furniture for various types of meetings, and even the location of meetings in various places (your office or golf course, for example) to create an environment for the most effective communication. American managers strive to be considerate and respectful, so both private and public meetings are widely utilized to enhance communication.

**2-13. 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.

**2-14. 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.

**2-15. 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.

The United States’ 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 the United States; 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.

**2-16. Discuss the requirements for doing business in India.**

Answer: Joint ventures are mandatory for foreign companies doing business in India. In the investment-banking industry, the Indian government has eased the joint venture restriction but not in other areas. However, many joint ventures fail. From 1993 till 2003, only three of the 25 major joint ventures between foreign and Indian companies have survived. 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.”

[Source: Peter Wonacott and Eric Bellman, “Foreign Firms Find Rough Passage to India,” *The Wall Street Journal*, Feb 1, 2007.]

**2-17. Select any four countries in which Honda Motor Company operates. Evaluate their operations in those countries.**

Answer: The Honda Motor Company is a multinational corporation (MNC) with operations worldwide. Students’ answers may vary.

**2-18. Based on the points of comparisons discussed in this chapter compare and contrast business practices and cultures in Europe with the U.S. business culture.**

Answer: Students’ answer will be based on page 85; “Brazil – Business Culture; Germany – Business Culture.”

**2-19. In 2016, China devalued its currency substantially. What impact does that have within and outside China?**

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

In China, greetings are formal and the oldest person is always greeted first. Like in the USA, handshakes are the most common form of greeting. If invited to a Chinese person’s home, foreigners should consider this a great honor and should arrive on time. The Chinese rarely do business with companies or people they do not know. Like in the USA and Germany, punctuality is very important in China. The Chinese are shrewd negotiators, so an initial offer or price should leave room for negotiation. The Chinese have an excellent sense of humor. Gender bias is usually not an issue in China. Unlike Americans and Europeans, the Chinese do not mix business and socializing.

**2-20. What five countries in Asia have the highest GDP? What are its implications for Nestlé?**

Answer: Students’ answer may vary.

**2-21. Africa is rapidly joining the world economic community. Give 10 examples to justify this.**

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

**2-22. Which six African countries do you feel are most suitable for foreign investment?**

Answer: Students’ answers may vary depending on the countries they choose. According to Table 2-5, the top African countries in terms of ease-of-doing-business are: 1) South Africa, 2) Tunisia, 3) Ghana, and 4) Egypt. South Africa and Ghana have rich resources and a stable political and economic situation. Recent regime changes in Egypt and Tunisia may spur further investment in Africa as democracy and capitalism strengthens.

**2-23. Compare business practice and culture in your own country versus the United States.**

Answer: Students’ answer may vary depending on their native country.

**2-24. What is required to be done in a strategic-management case analysis?**

Answer: Students need to refer to the section titled “Implications for Students.”

**2-25. Select three countries in South America. Prepare a one-page summary for each to reveal their attractiveness for foreign direct investment. For each of the three countries, prepare a one-page summary analyzing their suitability for foreign direct investment.**

Answer: Students’ answers will vary depending on countries chosen.

**2-26. Compare sexual harassment policies and practices in your country with those in the United States.**

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

**2-27. Discuss the business culture in Australia.**

Answer: Refer to the website [www.worldbusinessculture.com](http://www.worldbusinessculture.com) to gather data on Australia’s business culture.

**2-28. In terms of presenting flowers as business gifts, compare and contrast the practices and customs across three countries.**

Answer: Students need to refer to the section “Business Culture across Countries.”

**2-29. Discuss how business etiquette at dinner varies across countries.**

Answer: Students need to refer to the section “Business Culture across Countries.” They should focus on the following topics:

* The relationship
* Business cards
* What to wear
* Business meetings
* Negotiating

**2-30. Make a good argument for keeping the statutory corporate tax rate in the United States the highest in the world. Make the counterargument.**

Answer: The United States requires companies to pay the difference between lower foreign taxes and the United States corporate-tax rate of 35 percent when they bring their international earnings home. In contrast, the territorial system that many other countries use allows companies to pay little to no taxes on foreign profits above what they have already paid abroad. The USA is the only nation that imposes taxes on foreign earnings. Thus, to avoid paying U.S. taxes on income made in other countries, many U.S. companies are cash-rich outside the United States, but cash-poor inside the USA, and they bring cash back to the United States only as needed. For example, Microsoft has $15+ billion in cash reserves on its balance sheet, but only about 15 percent of that money is housed in the United States. General Electric and Apple have a similar policy to avoid paying USA corporate taxes. Emerson Electric has $2 billion in cash with almost all of it in Europe and Asia, so the firm borrows money in the United States rather than bringing its cash back and paying a 35 percent corporate USA tax on corporate profits minus whatever tax it has already paid overseas. Johnson & Johnson keeps virtually all of its $24+billion in cash outside the USA, as does Illinois Tool Works, Inc. Whirlpool has 85 percent of its cash offshore. Bruce Nolop, former CFO of Pitney Bowes explains it this way: “You end up with the really peculiar result where you are borrowing money in the USA, while you show cash on the balance sheet that is trapped overseas. It is a totally inefficient capital structure.” The U.S. tax system, unfortunately for Americans, is structured so that companies can cut their tax bill by shifting income offshore to lower-tax countries. Implications for companies is to strive to maximize shareholders’ value, using all means that are both legal and ethical, including keeping cash offshore consistent with all laws.

**2-31. Is the number languages increasing or decreasing globally? What are the strategic implications?**

Answer: The total number of languages spoken globally is decreasing. For example, in North America, many Native American languages are disappearing yearly, a common phenomenon all over the world. Whenever the youth cease to learn a language it generally does not survive beyond its current native speakers. In North America, about 75 languages are spoken by only a handful of older people, and those languages are expected to become extinct. About 25 percent of the world’s languages have fewer than a thousand remaining speakers. By the year 2099, analysts estimate that roughly one half of the 6,909 languages listed by Ethnologue will disappear.

**2-32. Which country recently achieved its goal of having the most business-friendly tax system of the Group of Seven (G-7) nations—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States of America.**

Answer: Canada recently achieved its goal of having the most business-friendly tax system of the Group of Seven (G-7) nations, which include Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. In January 2014, Canada's federal corporate tax rate automatically fell to 15 percent from 16.5 percent as the last installment of a series of corporate rate cuts launched in 2006 by the administration of Prime Minister Stephen Harper, who had campaigned on the promise to lower Canada's overall federal corporate tax rate by one third. More recently, the United Kingdom lowered its federal tax rate to 23 percent.

Answers to the End-of-Chapter 2 Assurance of

Learning Exercises

**ASSURANCE OF LEARNING EXERCISE 2A:**

**NESTLÉ S.A. WANTS TO ENTER AFRICA. HELP THEM.**

ANSWER: Students can use this website to answer this exercise:

http://www.doingbusiness.org/rankings

Students can see from the above website all countries in Africa and their relative attractiveness for doing business – and select their eight countries from the list. This exercise is more about Africa than about Nestlé S.A., but Nestlé S.A. has business relationships in Africa, especially in the cocoa growing areas. But there are large, mass retailers in Africa that would welcome Nestle products.

**ASSURANCE OF LEARNING EXERCISE 2B:**

**ASSESS DIFFERENCES IN CULTURE ACROSS COUNTRIES**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **1st**  **Interviewee** | **2nd  Interviewee** | **3rd  Interviewee** | **4th**  **Interviewee** |
| 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 DO BUSINESS IN VIETNAM. HELP THEM.**

ANSWER: Students can use this website to answer this exercise:

http://www.doingbusiness.org/rankings

Students can see from the above website Vietnam’s attractiveness for doing business – and select their eight cities from the list. They can also research on whether Honda has had previous financial dealings with Vietnam and accordingly, list in prioritized order the cities that they would recommend for Honda to expand their business operations into.

**ASSURANCE OF LEARNING EXERCISE 2D:**

**DOES MY UNIVERSITY RECRUIT IN FOREIGN COUNTRIES?**

ANSWER: To complete this exercise, students need to select a country, and for AACSB information across countries, they can use http://www.aacsb.edu/accreditation/AccreditedMembers.asp

Answers to End-of-Chapter 2 Mini-Case Questions

1. **At the Airbus website (www.airbus.com), determine the percentage breakdown of Airbus revenues across continents. What is the company’s strategy with regards to global expansion? Is that strategy working well for the company?**

Answer: The Airbus’ fundamental strategy is to promote its planes globally. It has successfully expanded all over the world, tracing its path from Vietnam to Mexico. For example, RwandAir, the national flag carrier of the Republic of Rwanda, has ordered an A330-200 and a larger A330-300, at a signature ceremony in Kigali, Rwanda. With this order RwandAir is the first East African customer for the long-haul airliner. This agreement firms up a commitment announced earlier this year. Also, along with the expansion of the industrial presence, the in-service fleet of Airbus aircraft in China is continuously growing. There are around 1,200 Airbus aircraft in operation in mainland China, among which more than 160 are A330 Family aircraft, making the A330 the most popular wide-body aircraft in operation in China.

NOTE – THE FOLLOWING IS AN EXCELLENT, FUN, NOT-IN-THE-BOOK, ADDITIONAL ASSURANCE OF LEARNING EXERCISE FOR CHAPTER 2

EXERCISE TITLE: How Important Are Various Potential Advantages to Initiating, Continuing, or Expanding a Firm’s International Operations: Individual versus Group Decision Making?

**Purpose**

Chapter 2 discusses potential advantages (and disadvantages) to initiating, continuing, or expanding international operations. Some important advantages are as follows:

1. Firms can gain new customers for their products.

2. Foreign operations can absorb excess capacity, reduce unit costs, and spread economic risks over a wider number of markets.

3. Foreign operations can allow firms to establish low-cost production facilities in locations close to raw materials or cheap labor.

4. Competitors in foreign markets may not exist, or competition may be less intense than in domestic markets.

5. Foreign operations may result in reduced tariffs, lower taxes, and favorable political treatment.

6. Joint ventures can enable firms to learn the technology, culture, and business practices of other people and to make contacts with potential customers, suppliers, creditors, and distributors in foreign countries.

7. Economies of scale can be achieved from operation in global rather than solely domestic markets. Larger-scale production and better efficiencies allow higher sales volumes and lower-price offerings.

8. A firm’s power and prestige in domestic markets may be significantly enhanced if the firm competes globally. Enhanced prestige can translate into improved negotiating power among creditors, suppliers, distributors, and other important groups.

The purpose of this exercise is to examine more closely eight potential advantages for a firm to initiate, continue, or expand international operations. In addition, the purpose of this exercise is to examine whether individual decision making is better than group decision making. Academic research suggests that groups make better decisions than individuals about eighty percent of the time.

**Instructions**

Rank the eight potential advantages for a firm to initiate, continue, or expand international operations, as to their relative importance, where 1 = most important, to 8 = least important). First, rank the advantages as an individual. Then, rank the advantages as part of a group of three. Thus, determine what person(s) and what group(s) here today can come closest to the expert ranking. This exercise enables examination of the relative effectiveness of individual versus group decision making in strategic planning.

**The Steps**

1. Fill in Column 1 in Table 1 to reveal your individual ranking of the relative importance of the eight advantages (1 = most important, 2 = next most important, etc.). For example, if you think Advantage 1 (New Customers) is the 2nd most important advantage, then place a 2 in Table 1 in Column 1 by the first advantage listed (new customers).
2. Fill in Column 2 in Table 1 to reveal your group’s ranking of the relative importance of the eight advantages (1 = most important, 2 = next most important, etc.).
3. Fill in Column 3 in Table 1 to reveal the expert’s ranking of the eight advantages for a firm to initiate, continue, or expand international operations.
4. Fill in Column 4 in Table 1 to reveal the absolute difference between Column 1 and Column 3 to reveal how well you performed as an individual in this exercise. (Note: For absolute difference, disregard negative numbers.)
5. Fill in Column 5 in Table 1 to reveal the absolute difference between Column 2 and Column 3 to reveal how well your group performed in this exercise.
6. Sum Column 4. Sum Column 5.
7. Compare the Column 4 sum with the Column 5 sum. If your Column 4 sum is less than your Column 5 sum, then you performed better as an individual than as a group. Normally, group decision making is superior to individual decision making, so if you did better than your group, you did excellent.
8. The Individual Winner(s): The individual(s) with the lowest Column 4 sum is the WINNER.
9. The Group Winners(s): The group(s) with the lowest Column 5 score is the WINNER.

Table 1 – How Important Are Various Potential Advantages to Initiating, Continuing, or Expanding a Firm’s International Operations: Comparing Individual versus Group Decision Making?

Advantages of Doing Business Globally Col.1 Col.2 Col.3 Col.4 Col.5

1. Firms can gain new customers for their products.

2. Foreign operations can absorb excess capacity,

reduce unit costs, and spread economic risks over a

wider number of markets.

3. Foreign operations can allow firms to establish low-cost

production facilities in locations close to raw materials or

cheap labor.

4. Competitors in foreign markets may not exist, or

competition may be less intense than in domestic markets.

5. Foreign operations may result in reduced tariffs, lower

taxes, and favorable political treatment.

6. Joint ventures can enable firms to learn the technology,

culture, and business practices of other people and to make

contacts with potential customers, suppliers, creditors, and

distributors in foreign countries.

7. Economies of scale can be achieved from operation in

global rather than solely domestic markets. Larger-scale

production and better efficiencies allow higher sales

volumes and lower-price offerings.

8. A firm’s power and prestige in domestic markets may

be significantly enhanced if the firm competes globally.

Enhanced prestige can translate into improved negotiating

power among creditors, suppliers, distributors, and other

important groups.

**Sums**

**Answer: The Expert Ranking**

Authors’ Ranking

(1= most important; 8 = least important)

Potential Advantages To Doing Business Globally

1. Firms can gain new customers for their products. 1

2. Foreign operations can absorb excess capacity, 6

reduce unit costs, and spread economic

risks over a wider number of markets.

3. Foreign operations can allow firms to establish 2

low-cost production facilities in locations close to

raw materials or cheap labor.

4. Competitors in foreign markets may not exist, or 3

competition may be less intense than in domestic markets.

5. Foreign operations may result in reduced tariffs, lower 7

taxes, and favorable political treatment.

6. Joint ventures can enable firms to learn the technology, 5

culture, and business practices of other people and to make

contacts with potential customers, suppliers, creditors,

and distributors in foreign countries.

7. Economies of scale can be achieved from operation in 4

global rather than solely domestic markets. Larger-scale

production and better efficiencies allow higher sales volumes

and lower-price offerings.

8. A firm’s power and prestige in domestic markets may be 8

significantly enhanced if the firm competes globally.

Enhanced prestige can translate into improved negotiating

power among creditors, suppliers, distributors, and other

important groups.

**Rationale:** The expert rankings are based on the authors’ experience and their reading of relevant research articles listed at the end of Chapter 2. As indicated above, the most important potential advantage of engaging in global operations is that firms can gain new customers for their products. Fully 95 percent of the world’s people live outside the USA; that is a lot of potential customers. The second most important advantage of doing business globally is that foreign operations can allow firms to establish low-cost production facilities in locations close to raw materials or cheap labor. Apple attributes much of its success to its far-flung production operations. Third most important is that competitors in foreign markets may not exist, or competition may be less intense than in domestic markets. The fourth through eighth most important advantages are given above.