

# International business ventures

Business



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## International Business Ventures

Measuring a potential business venture has many aspects which the international manager must be aware of in order to convey the correct information back to the decision makers. Being ignorant to any of the aspects can lead to a false representation of the project, and hence an uninformed decision being passed.

In order for a business to survive it must grow. For growth to be optimal, management must first be able to identify the most attractive prospective leads.

The country as a whole, specifically geography, government, and financial aspects must be looked at in order to yield the best possible picture of the market a company wishes to enter. Concentration should be placed on gathering reliable facts that are backed up by more than one source. It is to be hoped that after creating "a picture" of the market, management's analysis of the potential business venture and plan of action will be structured as to avoid losses and to find the most profitable scenarios.

The success of the multinational corporation lies on the shoulders of its management. International management and organization-design expert Henry Mintzenberg says every CEO has three essential duties: direct supervision,

development of the organization's strategy, and management of the organization's boundary conditions. Top management's responsibility at and beyond the organization's boundaries is largely a communication responsibility; however, no commonly accepted model exists for decision, execution, and assessment of communication opportunities. Within even some of the largest and most venerable organizations, the process used is haphazard and inconsistent. The Wyatt Company's survey of communications professionals showed that just 58.1 percent agreed that their organization's communication objectives are linked to business objectives, and 83.3 percent reported that their organizations conduct no formal review of return on communications investment. CEOs must establish and reinforce an organization's image in public by viewing each target public as a client; by doing research, looking at trends, and talking to experts, a CEO focuses on selling what the client wants to buy. 1

Finding a country to conduct business in can be a very easy task depending on if the organization's top management follows the advice of Mr. Mintzenberg. The way a company normally discovers where to conduct research is through leads on

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potential operations from outside sources. The selection of which leads to investigate becomes the difficult task. After sifting through the leads and finding the right ones to investigate management must formulate an international marketing plan. This further helps management in locating potential markets for their products. The first step is to use secondary research to find out what the sales potential is in a given market. Asking the questions of need, demand, and support gives one a starting point for research. If we were a company that sold pants we might want to ask the following questions. Is there a need for pants? Is it cold enough there to wear pants? Do people that demand the pants have money? These are the questions that one should ask of potential markets.

Table 1-located at the end of the paper-shows the statistics that are needed for a general market picture. After gathering the information from the secondary research, the picture of a potential market becomes more evident. However, to make the picture clearer, one must conduct primary research. This research outlines the specifics of the potential market that directly pertain to the product. Robert Douglas' book, *Penetrating the International Market*,

addresses

the issue of locating potential markets in greater detail. 2 mg1After finding a lead that contains profitable markets it is necessary to analyze the venture as a whole. The decisions of companies must be based on the facts of

reliable sources on all investments. To gather the information needed for investment projects, management must organize a competent feasibility team. The

members of this team should be comprised of employees of the company, this is so

that the knowledge will stay within the company. If the resources are not available for an employee conducted study then outside consultants may be used,

it may also be beneficial to use a combination of the two. The first step in conducting a study is to design it by using project objectives as the base.

During the second step the team must be staffed with people that have the ability to solve problems in any situation. In the third step the team should be properly placed and instructed. In the fourth and final step the product of the feasibility study should be properly communicated to the decision-making

management. 3 Table 2-located at the end of the paper-shows a general timeline

that a company follows through the progression of a feasibility study.

The design of a feasibility study first assumes that a company possesses the <https://assignbuster.com/international-business-ventures/>

skills and resources necessary to be competitive in the market under analysis.

Management must know the limits of its operations abroad. The operating margin for the expense of establishing and starting operations abroad should be easily recoverable within a reasonable time period. The design should also include the management's goals, which comes down from the investors of the company. The goals of management should be to acquire specific knowledge of the partner, in a joint venture situation, as well as the financial aspects, and the business-environment. The currency of the host country along with the political situation, and the economy are finer points of detail that the study must cover when analyzing the business-environment. 4 In a less formal sense the design of the study should cover relevant material so that when viewing the final report decision-makers will know with what they are becoming involved.

Staffing a feasibility study is of major importance. Not only must the members be competent in communication and understanding, but the management

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selecting

the team must be confident in the abilities of each individual.

Communication

in international affairs plays a great role for the fact that different languages spoken and unspoken are involved. The communication through a

translator let alone person-to person communication can be vastly misconstrued. 5

The individual's communication skills should be top-notch in order to be selected for the team.

The members of the team should also be aware of the cultural factors that play a role in communication. Cultural interpretation and adaptation are a prerequisite to the comparative understanding of national and international management practices. 6 For example, during contract negotiations with a Japanese company there are times of long pronounced silence on the part of the

Japanese. They state that the negotiations, (will take a little longer,( and (this is quite difficult.( From the American perspective one would become frustrated at the slow pace of the negotiations. From the Japanese point of view the negotiations are proceeding quite well. Differences such as the one illustrated must be kept in mind at all times while communicating to any foreign

counterpart. 7

The placement of the team is dependent upon the profession of the individual.

The accountants obviously speak and gather their information from the counterpart's accounting offices, and so on. Concerning placement, their daily schedule should allow time for team meetings. During the meetings, progress and the experiences of each member should be shared. This sharing of information can bring the team closer together and also allow the supervisor to measure progress and disseminate any changes in plans. 8 As the importance of correct understanding of the translator and the foreign counterpart are during communication, the final communication of the study should be understood by the top decision-makers. When these four steps are taken while conducting a study the measure of feasibility will become more accurate.

Understanding the importance of proper analyzation of ventures can be seen with the following example of the Patras Cement Company, SA. 9 Yankee Cement Company Inc. of Denver Colorado needed to approve an expansion of it's subsidiary, Yankee International SA of Switzerland. The expansion was to build a 500,  
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000-

ton cement plant in conjunction with Titan Cement Co. SA of Athens. The plant

would reach full production capacity within two years after the beginning of construction. Estimates by both Titan and Yankee showed that total capital needed for the Patras operation was US\$15 million. The equipment manufacturer,

F. L. Smidth of Copenhagen would finance 40 percent of capital expenditures, and

another 20 percent would be financed through the National Investment Bank for

Industrial Development, SA. The remaining 60 percent of Patras shares would be

equity, of which 75 percent of shares would be owned by Yankee, and 25 percent

of Patras shares would be owned by Titan.

The international division manager of Yankee, Bob Walbecker, dealt with the Manourpoulos family, who were the owners of Titan. After establishing the connection with Titan, Mr. Walbecker continued to establish good rapport between

his division and Titan. Ten days after preliminary negotiations between the two

parties Mr. Walbecker was assembling a feasibility team in Denver, which was

Yankees' domestic headquarters. The team consisted of a market analyst, an accountant, a geologist, a civil engineer, and Mr. Walbecker, who managed the study. For each American there was a Greek counterpart that translated and disclosed all information known to Titan. After four years from the start of the study Yankee expected that personnel within the subsidiary would be able to handle any further developments.

Preparing for the in country phase of the study is perhaps more important than the actual time spent in the country conducting research. Before departing for Athens with his team, Mr. Walbecker prepared an outline for each day's activities for the entire study period. He also had the individuals make a contact list, which contained a bank, an accounting firm, a lawyer, an equipment supplier, the embassy, the ministry, as well as industry source phone and cable numbers. Another important point that was covered was that Mr. Walbecker made maps available to the team of the location, and showed documentary films discussing the political and economical situation of the country as well. Shots

and medical supplies were also made available and taken with the team.

Language

was also a concern to the accuracy of the study. Based on this fact personnel were required to attend classes on the language even if they had some prior knowledge.

After sufficiently preparing the personnel for the trip, Mr. Walbecker departed

with the team for Athens. For the first four days the team was allowed to orient themselves to their surroundings. There are several reasons why the team

was given this time to relax. First, they had to recover from the long flight.

Physical and mental stamina were at a low-point when the team left the plane.

Secondly, the change in surroundings has an effect on the emotions of a person.

Third, it allows for the creation of a team from a group of individuals. A sense of camaraderie can be established during this free time.

By the beginning of the week the team was eager and ready to start work on the

study. Using the contact list and each individuals daily schedule the team

was

sent about to gather information. From each contact on the prepared list

each

member was expected to gain at least two additional contacts. While

meeting

with contacts the team was asked to differentiate between opinion and fact.

This is because misinformation gathered by inexperienced people is very abundant.

Fortunately for Walbecker the team he had assembled was able to

distinguish

between relevant and irrelevant material. During the study the team was

also

required to take notes every day. They were also encouraged to go outside

of

the metropolitan area in order to gain a better feeling of the country and its people.

Upon return of the team from Athens, Walbecker concluded the following:

the

rate of return would be 16 percent, the partners had good integrity and

intentions, the political situation was not extremely stable, the ownership

option was good for other projects if the Patras investment was slow, and

there

were no technical or market developments evident to slow down progress in

construction. From these findings Walbecker had to persuade the Board to agree to the venture. He concentrated on the soundness of the venture, the reliability of the partners, and the advantages of Greece. Using market analyses and forecasts, an audit of Titan's financial affairs, the geological report, plant layout and consolidated capital estimates, and a business-environment report, which covered the political situation, the economy, partner evaluation, and an outlook on the country's currency-the Drachma-Mr. Walbecker was prepared to start finalizing the report. Concluding the report were the financial details on the US\$4.5 million equity needed by Yankee. Before giving a formalized presentation to the Board and other important associates, Mr. Walbecker had informal discussions over breakfast with the three top executives at Yankee about the project. The reason for this was not only to give the executives a briefing about the information that was gathered, but also to get an idea as to result of the vote on the project. After the formal presentation, the Board was given one month to decide on accepting or rejecting the project.

At the conclusion of one month's time from the formal presentation the Board's

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vote revealed the acceptance of the project. This example should have revealed the importance of the site selection, gathering, and transmission processes used in conducting a feasibility study.

The main point of conducting a feasibility study is to find the intricate details which are necessary to make the right choice for expansion. The example presented above is just one particular situation. In trying to maintain brevity, the paper could not possibly include all of the suggested actions that management should take in every situation. Management must be able to adjust and plan a course of action to find the details of their particular situation that are essentials to making a viable decision. As an overall idea in dealing with foreign counterparts one should be objective in judgment and abundant in knowledge of the person's/people's backgrounds. Knowledge is a valuable resource when expanding operations. Conducting venture analysis is one way in which a company can perceive how the investment will contribute to future operations.

Table 1: List of statistics that portray the market situation.

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Essential Market Statistics:

1. Population by language, religion, ethnic groups
2. Population by age, income, major occupations
3. Population by regions and centers-with growth rates
4. Number of households and rate of creation
5. Percentage of households with car, radio, refrigerator, TV set, washing machine, running water, electricity.
6. Per capita disposable income (per capita national income less taxes and savings) broken down by region
7. Personal and household consumption pattern; changes over ten years.
8. Government purchases of goods and services, broken down by product groupings and buying agency.
9. Type, number, and purchasing of state enterprises
10. Imports, and exports, by product and by origin or destination
11. Statistics on market for your product (internal production plus imports less exports)

\* Source: Penetrating the International Market, p. 27-8.

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