LECTURE SESSION TWELVE

GOING GLOBAL

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12.1 Introduction

Welcome to this twelveth lecture in Entrepreneurship Skills. In this lecture, we shall look at the features of a global entrepreneur, methods of Going Global, Researching Foreign markets and Global threats and risks.

12.2 Learning Outcomes

At the end of this lecture, you should be able to:

i) Outline the characteristics of a global entrepreneur.

ii) Explain the methods of Going Global.

iii) Carry out a survey on the viability of foreign markets.

iv) Explain the threats and risks affecting entrepreneurs in global markets.

Let us start our discussion by asking ourselves this question.

Intext Question 1: Discuss the challenges entrepreneurs face in trying to reach foreign markets?

Well done. We shall start our discussion there.

12.3 Features/Characteristics of Global Entrepreneur.

It is a situation characterized by an entrepreneur exploring the international market where he or she identifies opportunities and taken risk to get profit. In this case a global entrepreneur is an opportunity minded and open minded, able to see different points of view and fuse them into a unified focus.

Thus, a global entrepreneur should possess the following characteristics.

a) Global thinking and orientation
b) Build Diaspora networks
c) Aware of global organizations, agreements and treaties that govern the trading activities
d) Venturing abroad
e) Researching foreign markets
f) Aware of international threats and risks.

12.4 Methods of Going Global.

An entrepreneur can actively engage in the international market in a number of ways, such as; importing, exporting, international alliances and joint ventures, direct foreign investment, and licensing. Each of these methods involves increasing levels of risk.

a) **Importing.** Importing refers to purchasing and shipping foreign produced commodities for domestic consumption. An entrepreneur can identify import opportunities through trade shown, and fairs where firms gather to display their commodities.

b) **Exporting.** Exporting is the shipping of domestic produced commodities to a foreign destination for consumption. Exporting is crucial to the entrepreneur because it often means increased market potential.

c) **International alliances and joint ventures.** There are three main types of these strategic alliances, namely, informal international cooperative alliances, formal international cooperative alliances, and international joint ventures.

   a) Informal alliances are agreements between companies from two or more countries and they are not legally binding.

   b) Formal international cooperative alliances usually require a formal contract with specifics about what each company must contribute. The agreement then usually involves greater commitment by each company with transfer of proprietary information. These forms have become more popular in the high-tech industry because of the higher costs with internal research and development.

   c) Joint venture. A more traditional self-standing legal entity that occurs when two or more firms analyses the benefits of creating a relationship, pool their resources, and create a new entity to undertaken productive economic activity. A joint venture therefore involves the sharing of assets, profits, risks, and venture ownership with more than one firm.

d) **Direct foreign investment.** A domestically controlled foreign production facility. A direct foreign investment typically involves ownership of 10 to 25 percent of the voting stock in a foreign enterprise. A firm can make a direct foreign investment by several methods.

(i) Acquire an interest in an on-going foreign operation. This initially may be a minority interest in the firm but enough to exert influence on the management of the operation.

(ii) Obtain a majority interest in a foreign company. In such a case, the company becomes a subsidiary of the acquiring firm.

(iii) The acquiring firm may simply purchase part of the assets o a foreign concern in order to establish a direct investment. An additional alternative is to build a facility in a foreign country.

e) **Licensing.** An arrangement in which the manufacturer of a product (or a firm with proprietary rights over certain technology or trademarks) grants permission to some other group or individual to manufacture that product in return for specified royalties or other payments. Foreign licensing covers myriad contractual arrangements in which the business (licensor) provides patents, trademarks, manufacturing expertise, or technical services to a foreign business (licensee). For developing an international licensing program, three basic types of programs are available.

(i) **Patents.** An intellectual property right granted to an investor, giving him or her the exclusive right to make, sue, or sell an invention for a limited time period (usually 20 years).

(ii) **Trademarks.** A distinctive name, mark, symbol, or motto identified with a company's products.

(iii) **Technical know-how.**

12.5 Researching Foreign Markets.

Before entering a foreign market, it is important to study the unique culture of the potential customers. Different concepts of how the commodity is used, demographics, psychographics, and legal and political norms are usually diverse from those in Kenya. Thus, it is important to carry out market research to identify these necessary parameters.

a) **Government regulations**. Must you conform to import regulations or patent, copyrights or trade mark laws that would affect your commodity?

b) **Political climate**. Will the relationship between government and business or political events and public attitudes in a given country affect foreign business transactions?

c) **Infrastructure**. How will the packaging, shipping, and distribution system of your export commodity be affected by the local transportation system, for example, air, land or water?

d) **Distribution channels**. What are the general accepted trade terms at both wholesale and retail levels? What are the normal commissions and service agency charges? What laws pertain to and distribution agreements?

e) **Competition**. How many competitors do you have and in what countries are located? On a country by country basis, how much market share does each of your competitors have and what prices do they charge? How do they promote their commodities? What distribution systems do they use?

f) **Market size**. How big is the market for your commodity? Is it stable? What is its size individual country by country? In what countries are markets opening, expanding, maturing, or declining?

g) **Local customs and cultures**. Is your commodity in violation of cultural taboos? How can entrepreneurial businesses learn about international cultures and therefore, know what is acceptable and what is not? A number of approaches can be employed. One of the most helpful is international business travel. This provides the individual with first-hand information concerning cultural dos and don'ts. Other useful methods include training programs, formal educational programs, and reading current literature.

Activity

Identify the different challenges of entering foreign markets by continents. a) Asian market b) American market c) European market?

Well done. Now we can move to global threats and risks..

12.6 Global Threats and risks.

Global markets may present dangers that must be monitored carefully. The threats and risks affecting entrepreneurs in global markets include:

a) Ignorance and uncertainty
b) Lack of experience in problem solving in foreign country
c) Lack of information about resources to assist solve problems
d) Restrictions imposed by the host country. Many host countries demand development of their exports and insist on training and development of their nationals. They can also demand that certain positions in management and technological areas be held by nationals. Many seek technologically based industry rather than extractive industry. In other cases, the host country may require that its own controlling interest and/or limit the amounts of profits or fees entrepreneurs are allowed to take out of the country.
e) Political risks include unstable governments, disruptions caused by territorial conflicts, wars, regionalism, illegal occupation, and political ideological differences.
f) Economic risks that require to be monitored include changes in tax laws, rapid rises in costs, strikes, sudden increases in raw materials, and cyclical/dramatic shifts in Gross Domestic Product (GDP).
g) Social risks such as antagonism among classes, religious conflict, unequal income distribution, civil wars, and riots.

h) Financial risks include fluctuating exchange rats, repatriation of profits and capital, and seasonal cash flows.

i) Foreign government import regulations can affect a company's ability to export successfully. These regulations represent an attempt by foreign nations to control their markets, to protect a domestic industry from excessive foreign competition, to limit health and environmental damage, or to restrict what they consider excessive or inappropriate cultural influence. Many countries have import regulations that are potential barriers to exported commodities. Exporters need to be aware of import tariffs and consider them when pricing their commodities. Nontariff barriers such as prohibitions, sometimes costly; also presents threats to venture in global market.

j) Complication and bureaucratic red tapes that are associated with venturing in global markets.

k) Dependence on global market.

l) Foreign government instability that can cause problems for domestic companies.

m) Modification of the commodities before they are accepted to other countries.

n) Foreign cultures, customs, and languages.

o) Confiscation, expropriation, domestication and other government interference.

12.7 Summary

The session examines the meaning and features of the aspects of entrepreneurs going public; it discusses the methods entrepreneurs use to reach the international markets. And finally it looks at how the entrepreneur researches foreign markets before entering those markets..

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12.8 Review Activity

i) Explain why entrepreneurs should seek foreign markets?

ii) Discuss how the threats to going global can be minimised?

12.9 References and Further Reading

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