International Entrepreneurship

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INTERNATIONAL ENTREPRENEURSHIP

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The book discusses the specifics of launching, managing and developing international entrepreneurship, issues of business planning and capital budgeting, and provides recommendations for effective business communication and perfect presentations. Special attention is paid to the consideration of such concepts as business model and business strategy, as well as tools for research and analysis of the international business environment. All sections of the book are completed with test and practical tasks, questions and cases. The case study allows students to identify the main opportunities and challenges of creating and running a business by international entrepreneurs.

For master's and bachelor's degree students studying in management and economic educational programs.

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INTRODUCTION

Dear students!

Thank you for reading our book „International Entrepreneurship“!

International entrepreneurship is concerned with business relationships that cross borders. International entrepreneurship is not only connected with competition and competitive advantages, but also, above all, with the creation of new opportunities where they did not exist before. International entrepreneurship expands business opportunities. This shows the importance of our course, because more and more organizations are doing at least part of their business abroad. Increasingly, in the business environment, national borders are seen as bridges, not barriers.

In the context of the developing processes of globalization and digitalization of the world economy, this course is especially important in a number of applied economic disciplines. It goes beyond the traditional concepts of international entrepreneurship as foreign trade. Undoubtedly, foreign trade remains a key component of international entrepreneurship, but in our book we focus mainly on foreign direct investment. Foreign direct investment and foreign trade have significantly transformed under the influence of information and digital technologies. Technology is driving the growth of new global business startups, making cross-border business faster and more efficient than ever before.

Many aspects of international entrepreneurship don’t remain static. That’s why our book focuses on the tips and tools that allow students as future entrepreneurs to best exploit knowledge and information. In our book we offer a combination of theory and practice. It helps to understand what is really relevant in today's ever-changing global business environment or how to apply theoretical concepts to make real business decisions. Strategical thinking and decision making in entrepreneurship form the keystones – that's why we offer students questions, practical exercises, business dilemmas in each chapter exercises to enable tangible application of theoretical concepts.

The purpose of studying the discipline “International Entrepreneurship” is to understand the peculiarities of the international business environment, strategic and procedural issues of doing business abroad, including the study of the necessary conditions and factors, the development of business plans and business projects, negotiations and business communications with foreign partners, the development of methodological and practical skills in analysis, evaluation and decision-making on the organization and business management abroad.

In the process of mastering the discipline, students will develop the following competencies: the ability to conduct a critical analysis of problem situations based on a systematic approach, the ability to develop business strategies, the ability to analyze and take into account the diversity of cultures in the process of intercultural interaction, planning and control over the foreign economic activity of the organization.

Chapter one introduces who is entrepreneur, what competencies should entrepreneur have and what is international entrepreneurship. Students will understand the impact of international entrepreneurship on global economy and motives of international entrepreneurship. Additionally, students will explore the forms of international entrepreneurship, such as international trade (export and import of goods and services), electronic commerce and electronic retailing, foreign direct investment, licensing agreement, franchise, outsourcing and tendering.

Chapter two is devoted to planning and establishing a business. As you read, you will be able to: ensure your international business is properly registered and licensed and draft a professional business plan.

Chapter three develops knowledge about finance and capital budgeting, also known as 'investment appraisal'. You will find the answer on such questions: how entrepreneurs make money and where do entrepreneurs get funding? Using such approaches to project selection as payback period, discounted payback period, net present value, profitability index, internal rate of return, return on investment, and break-even point you will learn how to assess investments.

In Chapter four, students also do a deeper dive into the topics of business communication: negotiations, meetings, and presentations. In this chapter, you will receive information and learn the skills of effective business communication and public speaking.

Chapter five is devoted to strategy and entrepreneurship and how key organizational activities can be managed for global effectiveness. Our objective is to highlight the difference between business model and business strategy, explain strategic and entrepreneurial opportunities, and such analytical tools of internal and external business environment as PESTEL, SWOT and TOWS analysis, competitiveness polygon. So you can prepare yourself for the challenges to grow and manage your own business. Beyond the basics of strategical and competitive analysis students will be exposed some tips to international human resource management.

Each chapter contains several features as follows:

— *Questions and Exercises* – review questions, tests, practical exercises and tasks, business dilemmas for discussions;

— *Cases* from international business and entrepreneurship;

— *Tips In Entrepreneurial Toolkit* — key takeaways, analytical tools and practical usage of them.

We hope that our book will help you in studying and encourage some of you to start international entrepreneurship.

With thanks, Olga Gaiterova, Ivan Vozmilov, Julia Kondratenko.

CHAPTER 1

INTERNATIONAL ENTREPRENEURSHIP: DEFINITION, MOTIVES AND FORMS

1.1. Entrepreneurs and Entrepreneurship

An entrepreneur is an individual who starts and runs a new business with limited resources and planning, and is responsible for all the risks and rewards of their business venture. The business idea usually encompasses a new product or service rather than an existing business model.

Economists have never had a consistent definition of "entrepreneur" or "entrepreneurship" (the word "entrepreneur" comes from the French verb entreprendre, meaning "undertake"). Though the concept of an entrepreneur existed and was known for centuries, the classical and neoclassical economists left entrepreneurs out of their formal models. Only in the middle of the 20th century economists seriously attempted to incorporate entrepreneurship into their models.

Three thinkers were central to the inclusion of entrepreneurs: Joseph Schumpeter, Frank Knight, and Israel Kirzner[1]. Schumpeter suggested that entrepreneurs — not just companies — were responsible for the creation of new things in the search for profit. Knight focused on entrepreneurs as the bearers of uncertainty and believed they were responsible for risk premiums in financial markets. Kirzner thought of entrepreneurship as a process that led to the discovery[2].

Entrepreneurship is one of the resources economists categorize as integral to production, the other three being land/natural resources, labor, and capital. An entrepreneur combines the first three of these to manufacture goods or provide services. They typically create a business idea, hire labor, acquire resources and financing, and provide leadership and management for the business[3].

In economist-speak, an entrepreneur acts as a coordinating agent in a capitalist economy. This coordination takes the form of resources being diverted toward new potential profit opportunities. The entrepreneur moves various resources, both tangible and intangible, promoting capital formation.

Established firms face increased competition and challenges from entrepreneurs, which often spurs them toward research and development efforts as well. In technical economic terms, the entrepreneur disrupts the course toward steady-state equilibrium[4].

The entrepreneur is willing to risk the financial security and career, spending time as well as capital on an uncertain venture, arranging for the necessary capital, raw materials, manufacturing locations, and skilled employees. Marketing, sales, and distribution are other important aspects that are controlled by the entrepreneur.

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[1] *Van Praag C. M.* Some classic views on entrepreneurship // The Economist. — 1999. — Vol. 147, no. 3. — P. 311–335.

[2] *Investopedia*. Entrepreneur & Entrepreneurship Definition + Types. — URL: https://investopedia.com.

[3] *Ibid*.

[4] *Ibid*.

Even if some of these functions are outsourced, the risk is still carried by the entrepreneur. This makes entrepreneurship different from running an existing business, working for a startup or entrepreneur for a salary, being a commissioned agent, or selling already available goods or services as a franchisee or dealership.

SMALL BUSINESS vs ENTREPRENEURSHIP[1]

There is a line between being a small business owner and an entrepreneur — the roles actually have a lot in common — but there are distinct differences that set them apart. Small businesses usually deal with known and established products and services, while entrepreneurial ventures focus on new, innovative offerings. Because of this, small business owners tend to deal with known risks and entrepreneurs face unknown risks.

Entrepreneurial ventures target rapid growth and high returns, in most small businesses is limited growth with continued profitability. As a result, entrepreneurial ventures generally impact economies and communities in a significant manner, which also results in a cascading effect on other sectors, like job creation.

In 2021, there were 32.5 million small businesses in the United States[2]. For comparison, in the Russian Federation (small and medium) — 5.8 million[3].

Not every entrepreneur is the same and not all have the same goals. Here are a few types of entrepreneurs (table 1).

Entrepreneurs commonly face many obstacles when building their companies such as: overcoming bureaucracy, hiring talent, obtaining financing. Entrepreneurs play a key role in any economy, using the skills and initiative necessary to anticipate needs and bring good new ideas to market.

Entrepreneurship that proves to be successful in taking on the risks of creating a startup is rewarded with profits, fame, and

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[1] *Investopedia*. Entrepreneur & Entrepreneurship Definition + Types. — URL: https://investopedia.com.

[2] *U. S. Small* Business Administration, Office of Advocacy. Advocacy Releases 2021. Small Business Profiles for States. — URL: https://advocacy.sba.gov/2021/08/31/advocacy-releases-2021-small-business-profiles-for-the-states.

[3] *Unified* register of small and medium-sized businesses in the Russian Federation. — URL: https://ofd.nalog.ru/statistics.html.

continued growth opportunities. Sometimes entrepreneurship fails results in losses and less prevalence in the markets for those involved.

Table 1

Types of Entrepreneurs[1]

Type	Definition
Builder	Builders seek to create scalable businesses within a short time frame. Builders typically pass $5 million in revenue in the first two to four years and continue to build up until $100 million or beyond. These individuals seek to build out a strong infrastructure by hiring the best talent and seeking the best investors. They have temperamental personalities that are suited to the fast growth they desire but can make personal and business relationships difficult.
Opportunist	Opportunistic entrepreneurs are optimistic individuals with the ability to pick out financial opportunities, get in at the right time, stay on board during the time of growth, and exit when a business hits its peak. These types of entrepreneurs are concerned with profits and the wealth they will build, so they are attracted to ideas where they can create residual or renewal income. Because they are looking to find well-timed opportunities, opportunistic entrepreneurs can be impulsive.
Innovator	Innovators are those rare individuals that come up with a great idea or product that no one has thought of before. Think of Thomas Edison, Steve Jobs, and Mark Zuckerberg. These individuals worked on what they loved and found business opportunities through that. Rather than focusing on money, innovators care more about the impact that their products and services have on society. These individuals are not the best at running a business as they are idea-generating individuals, so often they leave the day-to-day operations to those more capable in that respect.
Specialist	These individuals are analytical and risk-averse. They have a strong skill set in a specific area obtained through education or apprenticeship. A specialist entrepreneur will build out their business through networking and referrals, resulting in slower growth than a builder entrepreneur.

Walt Disney, for example, was fired from Missouri newspaper for “not being creative enough” at the age of 22. Disney then acquired Laugh-O-Gram, an animation studio which went bankrupt. He faced a lot of challenges; however, succeeded due to his creative vision and

[1] Compiled by: *Investopedia*. — URL: https://www.investopedia.com/terms/e/entrepreneur.asp.

effective imagination ability. Today, Walt Disney Company is the world's largest animation company.

Further, companies such as such as Apple, Amazon, Google and Harley-Davidson also became successful due to the creative vision of their entrepreneurs. Entrepreneurial success stories have much in common. They invariably involve industrious people diving into things they're naturally passionate about. Passion is arguably the most important component startup business owners must have. Their slogan is: "Find a way to get paid for the job you'd do for free". Successful entrepreneurs have the below traits.

— Create a competitive advantage;
— Build an extremely capable business team;
— Be technologically advanced;
— Hardworking and be dedicated;
— Risk taking ability;
— Successful money management.

To mitigate the risk of financial loss or failure, it serves a business owner to have a certain set of skills. An entrepreneur must be able to effectively communicate, sell, focus, learn, and strategize (table 2).

Table 2

Characteristics required to be a successful entrepreneur[1]

Characteristics	Definition
Communication	Every entrepreneur needs to be an effective communicator. It is imperative for an entrepreneur to be able to communicate with employees, investors, customers, creditors, peers, and mentors. If an entrepreneur cannot communicate the value of their company, it's unlikely the company will be successful. They also need to master all forms of communication, including one-on-one and in-person conversations, group conversations, written communication, and email or online messages.
Sales	The soft skill of sales goes hand-in-hand with the communication necessary to be successful. As an entrepreneur, this person needs to be able to sell anything and everything. An entrepreneur needs to sell the business idea to potential investors, the product or service

[1] Compiled by: *Investopedia*. — URL: https://www.investopedia.com/articles/personal-finance/080615/5-skills-every-entrepreneur-needs.asp.

End of table 2

Characteristics	Definition
	to customers, and themselves to employees. If an entrepreneur is able to communicate effectively, they are better equipped to sell their ideas and physical products.
Focus	The path to successful entrepreneurship is riddled with ups and downs. No matter what struggles an entrepreneur goes through, a successful entrepreneur has the focus necessary to keep an unwavering eye on the end goal and can push himself to achieve it.
Ability to Learn	The ability to learn is one of the most important skills to have in life, an entrepreneur needs a high ability and a desire to learn. If a person is able to learn in any situation, even failure, they have the skills necessary to become a successful entrepreneur. Failure can help expand one's knowledge and understanding of business.
Business Strategy	When structuring and growing a business, however, it's important that the structure and growth strategy is based on sound business sense and skills. A successful entrepreneur needs to have a solid strategy to take their business from good to great.

Unlike traditional professions, what works for one entrepreneur might not work for the next and vice versa.

The exploitation of entrepreneurial opportunities may include:

— Developing a business plan;
— Hiring the human resources;
— Acquiring financial and material resources;
— Providing leadership;
— Being responsible for both the venture's success or failure;
— Taking risk.

Factsheet[1]

— 62 % of US billionaires are self-made;
— № 1 reason why businesses fail is there's no market need;
— 60 % of people who start small businesses are between the ages of 40 and 60;
— There are 582 million entrepreneurs in the world;
— 22.5 % of small businesses fail within the first year;
— Middle-aged men start the most successful businesses.

[1] *Smallbizgenius*. — URL: https://www.smallbizgenius.net/by-the-numbers/entrepreneur-statistics.

1.2. International Entrepreneurship. Motives of International Entrepreneurship

International entrepreneurship is the process of designing, launching and running an international business. The international entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services, and business/or procedures that enter global market. International entrepreneurship relates to any situation where the production or distribution of goods or services crosses country borders.

Nurturing international entrepreneurship can have a positive impact on a global economy and a society in several ways. Firstly, entrepreneurs create new businesses. They invent goods and services, resulting in employment, and often create a ripple effect, resulting in more and more development. For example, after a few information technology companies began in India in the 1990s, businesses in associated industries, like call center operations and hardware providers, began to develop too, offering support services and products.

International entrepreneurs add to the gross national income, foreign direct investment and international trade. Existing businesses may remain confined to their markets and eventually hit an income ceiling. But new products or technologies create new markets and new wealth. And increased employment and higher earnings contribute to a nation’s tax base, enabling greater government spending on public projects.

International entrepreneurs create global social change. They break tradition with unique inventions that reduce dependence on existing methods and systems, sometimes rendering them outdated. Smartphones and their apps, for example, have revolutionized work and play across the globe.

International entrepreneurs invest in community projects and help charities and other non-profit organizations, supporting causes beyond their own. Bill Gates, for example, has used his considerable wealth for education and public health initiatives.

Factsheet[1]

Bill Gates is worth roughly $121 billion as of June 12, 2022. He earned the bulk of his fortune as CEO, chair, and chief software architect of Microsoft. Gates stepped down as chair in 2014, but still owns about 1.3% of the company he co-founded (that worth around twenty billion dollars). Gates has a lot of his financial investments held by a family office known as Cascade Investments. He also has substantial real estate holdings and an extensive collection of collectibles.

The Bill & Melinda Gates Foundation is one of the world's largest philanthropic organizations, donating billions of dollars each year to worthy causes.

Therefore, fostering entrepreneurship is an important part of the economic growth strategies of many national governments around the world. Governments commonly assist in the development of entrepreneurial ecosystems, which may include entrepreneurs themselves, government-sponsored assistance programs, and venture capitalists. They may also include non-government organizations, such as entrepreneurs' associations, business incubators, and education programs.

For example, California's Silicon Valley is often cited as an example of a well-functioning entrepreneurial ecosystem. The region has a well-developed venture capital base, a large pool of well-educated talent, especially in technical fields, and a wide range of government and non-government programs fostering new ventures and providing information and support to entrepreneurs.

Competition between countries for entrepreneurs has led to the fact that entrepreneurs using the advantages of globalization can choose the most attractive market for themselves. Globalization — the shift toward a more interdependent and integrated global economy — creates greater opportunities for international entrepreneurship.

Globalization can take place in terms of markets, where trade barriers are falling and buyer preferences are changing. It can also be seen in terms of production, where a company can source goods and services easily from other countries.

[1] *Hayes A.* Where Does Bill Gates Keep His Money? — URL: https://www.investopedia.com/articles/personal-finance/111214/where-does-bill-gates-keep-his-money.asp.

The entities involved in international entrepreneurship range from a small one-person company acting as an importer or exporter to large multinational firms with thousands of employees doing business in many countries around the world.

International entrepreneurship offers a greater potential for economic growth and can result in a greater gross domestic product (GDP). In addition to products, services are also traded across borders such as consultancy services, call center, customer care services etc. Exchange of securities and currencies in foreign markets are also a part of international entrepreneurship. Entrepreneurs and corporations trade in the foreign money and capital markets with the aim of making larger profits. International entrepreneurship also includes foreign investment, licensing, franchising etc.

Domestic and international entrepreneurship are both equally important for economic development, GDP, reducing unemployment, investment, expansion etc. Domestic entrepreneurship is the entrepreneurship that occurs within a country while international entrepreneurship occurs across borders. There are no restrictions for domestic entrepreneurship in comparison to international trade where there are a number of restrictions such as taxes, tariffs, duties, capital controls, foreign exchange controls, etc.

So, the main features of international entrepreneurship are the following:

— Different currencies;

— Different legal systems;

— Different cultures and religion;

— Different amount of available resources.

Different factors influence the entrepreneur's decision of choosing the method of entering foreign market. They are the following:

— Motives for rapid entry into the market;

— The amount of direct and indirect costs of entering the market;

— Knowledge of the legal basis of entrepreneurship in the selected market;

— Country risk;

— Payback period and speed of getting the predicted profit.

In our book, we consider international entrepreneurship not only as international trade, but primarily as international investment, so we emphasized the following factors that influence the decision of international entrepreneurship (table 3).

Table 3

Factors that influence a decision of international entrepreneurship

Factors	What questions entrepreneur has to answer
Cost	Is it cheaper to produce in the local market than elsewhere?
Logistics	Is it cheaper to produce locally if the transportation costs are significant?
Market	Has the entrepreneur identified a significant local market?
Natural resources	Is the entrepreneur interested in obtaining access to local resources or commodities?
Know-how	Does the entrepreneur want access to local technology or business process knowledge?
Customers and competitors	Does the entrepreneur's clients or competitors operate in the country?
Policy	Are there local incentives for investing in one country versus another?
Ease	Is it relatively straightforward to invest and/or set up operations in the country, or is there another country in which setup might be easier?
Labor	Is the workforce or labor pool already skilled for the entrepreneur's needs or will extensive training be required?
Culture	What cultural aspects should be taken into account when doing business?
Impact	How will this investment impact the entrepreneur's revenue and profitability?
Expatriation of funds	Can the entrepreneur easily take profits out of the country, or are there local restrictions?
Exit	Can the entrepreneur easily and orderly exit from a local investment, or are local laws and regulations cumbersome and expensive?

Entrepreneurs also establish branches, manufacturing facilities, franchise outlets etc. overseas to make benefits of the cheap labor, materials, low costs, and other market opportunities.

1.3. Forms of International Entrepreneurship

International entrepreneurship encompasses a full range of cross-border exchanges of goods, services, or resources between two or more countries. These exchanges can go beyond the exchange of money for physical goods to include international transfers of other resources, such as people, intellectual property (e.g., patents, copyrights, brand trademarks, and data), and contractual assets or liabilities (e.g., the right to use some foreign asset, provide some future service to foreign customers, or execute a complex financial instrument).

The most common forms of international entrepreneurship are the following:

— International trade (export and import of goods and services);
— Electronic commerce and electronic retailing;
— Foreign direct investment (FDI);
— Licensing agreement;
— Franchise;
— Outsourcing;
— Tendering.

Key indicators of international production and entrepreneurship are presented in table 4.

Table 4

Indicators of international production, international trade, foreign direct investment, UN procurement, 2021 and selected years, billion U. S. dollars[1]

Item	Value at current prices					
	1990	2005–2007 (pre-crisis average)	2018	2019	2020	2021
GDP[c]	23 475	52 481	86 085	87 536	85 239	96 293

[1] Compiled by: *UNCTAD*. World Investment Report 2022. International tax reforms and sustainable investment. — P. 39. — URL: https://unctad.org/webflyer/world-investment-report-2022; *World* Bank. — URL: https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?end=2021&start=1960&view=chart; *UNGM*. Annual Statistical Report on UN Procurement. — URL: https://www.ungm.org/Shared/KnowledgeCenter/Pages/ASR.

End of table 4

Item	Value at current prices					
	1990	2005–2007 (pre-crisis average)	2018	2019	2020	2021
Export of goods and services[d]	4 382	14 889	25 190	24 730	22 360	27930
Gross fixed capital formation[c]	5 838	12 477	21 908	22 488	22 028	24 902
Royalties and licence fee receipts	31	189	417	457	469	471
UN procurement	…	…	18.7	19.8	22.2	29.6
FDI inflows	205	1 425	1 448	1 481	963	1 582
FDI outflows	244	1 464	941	1 124	780	1 708
FDI inward stock	2 196	14 605	32 843	36 530	41 728	45 449
FDI outward stock	2 255	15 315	31 393	34 496	39 546	41 798
Income on inward FDI[a]	82	1 129	2 199	2 264	1 997	2 193
Rate of return on inward FDI[b]	5.2	9.2	6.5	6.0	4.9	4.9
Income on outward FDI[a]	128	1 243	2 128	2 259	2 041	2 131
Rate of return on outward FDI[b]	8.4	10.5	6.5	6.6	5.4	5.3
Cross-border M&As	98	729	816	507	475	728
Announced greenfield FDI projects	..	..	982	846	575	659
Sales of foreign affiliates	4 801	19 781	32 884	32 889	..	..
Value added of foreign affiliates	1 074	4 668	7 148	6 512	..	..
Total assets of foreign affiliates	4 649	47 124	96 130	92 235	..	..
Employment by foreign affiliates (thousands, people)	20 449	49 840	84 066	83 597	..	..

Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and of the sales of the parent firms themselves. Worldwide sales, value added, total assets and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of MNEs from Australia, Austria, Belgium, Canada, Czechia, Finland, France, Germany, Greece, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Portugal, Slovenia, Sweden, Switzerland and the United States for sales; those from Czechia, France, Israel, Japan, Portugal, Slovenia, Sweden and the United States for value added (product); those from Austria, Germany, Japan and the United States for assets; those from Czechia, Japan, Portugal, Slovenia, Sweden and the United States for exports; and those from Australia, Austria, Belgium, Canada, Czechia, Finland, France, Germany, Italy, Japan, Latvia, Lithuania, Luxembourg, Macao (China), Portugal, Slovenia, Sweden, Switzerland and the United States for employment, on the basis of three-year average shares of those countries in worldwide outward FDI stock.

[a] Based on data from 168 countries for income on inward FDI and 144 countries for income on outward FDI in 2021, in both cases representing more than 90 per cent of global inward and outward stocks.

[b] Calculated only for countries with both FDI income and stock data. The stock is measured in book value.

[c] Data from IMF (2022b).

[d] Data from World Bank.

International trade (export and import of goods and services)

International trade is the buying and selling of goods and services among countries internationally. In today's modern world companies generally trade in local and international markets so as to increase the market size to which products and services can be offered.

An export in international trade is a good or service produced in one country that is sold into another country. The seller of such goods and services is an exporter; the foreign buyer is an importer. Export and import of goods often requires the involvement of customs authorities.

There are two main methods of exporting:

— direct method — an operation directly between the entrepreneur (producer, exporter) and the consumer;

— indirect method — an operation through an intermediary (reseller, dealer, agent).

According to World Bank research the world's largest exporting countries in recent years have been China, the United States, Germany, France, Japan, United Kingdom and the Netherlands (figure 1).

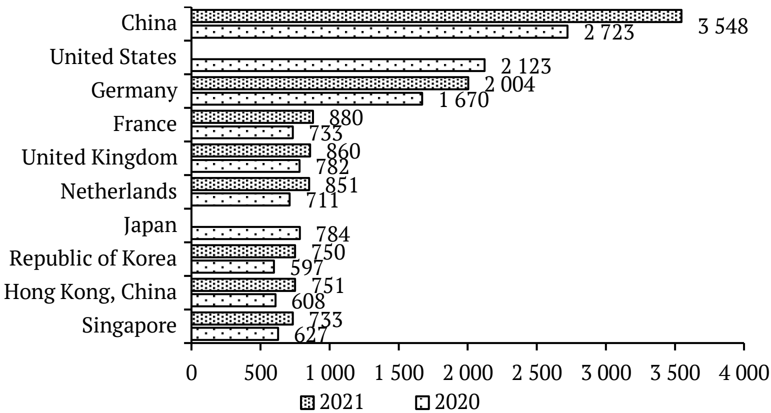


Figure 1. Top 10 export countries worldwide in 2020–2021, billion U.S. dollars[1]

[1] *World* Bank. — URL: https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?end=2021&start=1960&view=chart.

Motivation for exporting is the following:

1) Exports can increase sales and profits if the goods create new markets or expand existing ones, and they may even present an opportunity to capture significant global market share;

2) Companies that export spread business risk by diversifying into foreign markets;

3) Exporting to foreign markets can often reduce unit costs by expanding operations to meet increased demand;

4) Companies exporting products to foreign markets gain new knowledge and experience that can allow them to discover new technologies, marketing practices and get an idea of foreign competitors.

But there are also risks of exporting:

1) Exporting may not be viable unless appropriate locations can be found abroad;

2) High transport costs can make exporting uneconomical, particularly for bulk products;

3) Trade barriers can make exporting uneconomical and risky;

4) For small and medium entrepreneurs (SMEs) export is generally more difficult than serving the domestic market;

5) The lack of knowledge of trade regulations, cultural differences, different languages and foreign-exchange situations, as well as the strain of resources and staff, complicate the process;

6) Two-thirds of SME exporters pursue only one foreign market.

Nowadays it is impossible to imagine entrepreneurial activity without the Internet and digital technologies. Therefore, when talking about international trade, it is impossible not to mention ***electronic commerce (e-commerce)***.

E-commerce is the process of buying and selling tangible products and services online. It involves more than one party along with the exchange of data or currency to process a transaction. It is part of the greater industry that is known as electronic business (e-business), which involves all of the processes required to run a company online.

The fast expansion of e-commerce is a result of the development of aspects such as mobile commerce, electronic funds transfer, supply chain management, internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems.

E-commerce has helped businesses (especially SME) gain access to and establish a wider market presence by providing cheaper and more efficient distribution channels for their products or services. For example, a small business owner who runs a dress shop can set up a website promoting their clothing and other related products online and allow customers to make payments with a credit card or through a payment processing service, such as PayPal.

Electronic retailing (e-tailing) is the activity of selling of retail goods on the Internet. Customers use e-tailing to directly buy goods or services from a seller over the Internet using a web browser. Customers can find products online by visiting a number of websites and compare prices, product details and other features. Customers can search products by visiting either retailer websites or other electronic retail companies such as Amazon.com and eBay. As customers have the ability to compare prices and a number of other product details before purchasing the product, they can consider the offerings by a wide range of online retailers. This poses a major threat to online retailers since the same invoke severe competition.

Factsheet[1]

Worldwide retail and e-tailing is expected to stabilize in 2022, after two years of unpredictable circumstances. In 2022 worldwide e-commerce sales will exceed $5 trillion for the first time. After two years of unusual growth patterns, it is expected worldwide retail and e-commerce spending to continue to grow through 2025 up to $7,4 trillion.

E-commerce has positively contributed to an increase in employment around the world since a number of employment opportunities have risen based on it. China is the biggest e-commerce market in the present followed by the United States and Japan. The competition in the market place has also grown significantly since the

[1] *Global* Ecommerce Forecast. — URL: https://on.emarketer.com/ rs/867-SLG-901/images/eMarketer%20Global%20Ecommerce%20Forecast%20Report.pdf.

size of the company does not become a barrier for e-commerce transactions. Conducting transactions via e-commerce is also proved to be cost effective.

E-COMMERCE vs E-TAILING

E-commerce and e-tailing are two terms often used interchangeably and are confused. While they have similarities, they are different from one another as well. The key difference between e-tailing and e-commerce is that e-tailing is the activity of selling of retail goods on the Internet whereas e-commerce is the commercial transactions conducted by electronic means on the Internet. E-commerce involves a number of services such as electronic funds transfer, internet marketing and online transaction processing. As such, there exists a relationship between e-tailing and e-commerce since e-commerce is a broader concept compared to e-tailing, i.e., e-tailing is a subcategory of e-commerce.

At present, China is the biggest market for e-commerce. The United States is the biggest market for e-tailing in the world at present. Growth in e-tailing and e-commerce has been tremendous within the recent years and continue to expand in both volume and value.

Foreign direct investment (FDI)

To invest is to allocate money in the expectation of some benefit in the future. The benefit from an investment is called a return. There are three types of international investments:

1) Foreign direct investment refers to an investment in or the acquisition of foreign assets with the intent to control and manage them;

2) Portfolio investment — investment in a company’s stocks, bonds, or assets, but not for the purpose of controlling or directing the firm’s operations or management;

3) Other investment — mostly bank loans.

FOREIGN DIRECT INVESTMENT vs PORTFOLIO INVESTMENT[1]

Foreign Direct Investment (FDI) and portfolio investment are both forms of investments made with the aim of generating profits and higher returns.

[1] *Difference* Between FDI and Portfolio Investment. Compare the Difference Between Similar Terms. — URL: https://differencebetween.com.

FDI, however, involves a large commitment, larger amount in funding, and cannot enter or leave the market as they please. FDI refers to an overseas investment made by an entity based in one country. A FDI can be set up through a number of ways, such as through a subsidiary, joint venture, merger, acquisition, or through a foreign associate partnership.

FDIs should not be confused with indirect investments such as when a foreign entity invests funds in another country's stock market.

A foreign entity that enters into a FDI will have a substantial amount of ***control*** over the company or operations into which the investment is made.

For example, in Russia, the share providing control is more than 10% of the capital.

Any economy will try to attract more FDI into their country as it results in more jobs, production, create higher demand for local products/raw materials/services, and can result in overall economic growth. Countries that have open economics and will lower regulations will be the most attractive locations for FDIs.

An example of FDI would be, a Chinese car manufacturer setting up manufacturing operations in the United States through acquiring a local car manufacturer.

Portfolio investments are passive investments made in securities in which the investors do not wish to be actively involved in management and decision making.

A portfolio is a collection of investments that include a number of investment assets such as stocks, bonds, treasury bills, cash, etc. A portfolio investment is an investment made in assets that collectively make up a portfolio. Investors make portfolio investments everyday by purchasing shares, bonds, Certificates of deposit, and other securities. A portfolio investment is considered to be a passive investment as it ***does not involve any management activities in the firm*** in which the investment is made.

For example, a shareholder or bondholder in a firm does not have the capacity to make management related decisions and cannot actively control the activities of the firm.

There are a number of differences between a FDI and portfolio investment.

1. A FDI allows the investor to be completely involved in the management of the business activities. A portfolio investment, on the other hand, provides much less control and are ideal for investors who are looking for a way, to diversify their investments as a means of reducing risk, while not having to understand how each and every business operates.

2. FDI investments are usually made by large corporations, governments, and large NGOs, whereas portfolio investments are made by hedge funds, mutual funds, and other individual investors.

FDI are inextricably linked with entrepreneurship. Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright in order to expand its operations to a new region. It is not usually used to describe a stock investment in a foreign company.

Companies can make FDI in several ways:

— purchasing the assets of a foreign company;

— investing in the company or in new property, plants, or equipment;

— participating in a joint venture with a foreign company, which typically involves an investment of capital or know-how.

Motivation to FDI:

1) Simply purchasing goods and services or deciding to invest in a local market depends on a business's needs and overall strategy;

2) Direct investment in a country occurs when a company chooses to set up facilities to produce or market their products; or seeks to partner with, invest in, or purchase a local company for control and access to the local market, production, or resources;

3) Companies usually expect to benefit through access to local markets and resources, often in exchange for expertise, technical know-how, and capital.

FDI is a long-term strategy. A country's FDI can be both inward and outward. Inward FDI refers to investments coming into the country; outward FDI are investments made by companies from that country into foreign companies in other countries. The difference between inward and outward is called the net FDI inflow, which can be either positive or negative.

As we can see from figures 2 and 3, the USA, China and Hong Kong are among the largest players in the field of FDI. Some countries prefer to invest themselves rather than attract investment (Japan).

There are two types of FDI:

— *Horizontal FDI* — when a company is trying to open up a new market that is similar to its domestic markets. For example, retailer, that builds a store in a new country to sell to the local market;

— *Vertical FDI* — when a company invests internationally to provide input into its core operations usually in its home country.

A firm may invest in production facilities in another country. If the firm brings the goods or components back to its home country (acting as a supplier), then it is called backward vertical FDI. If the firm sells the goods into the local or regional market (acting more as a distributor), then it is referred to as forward vertical FDI.

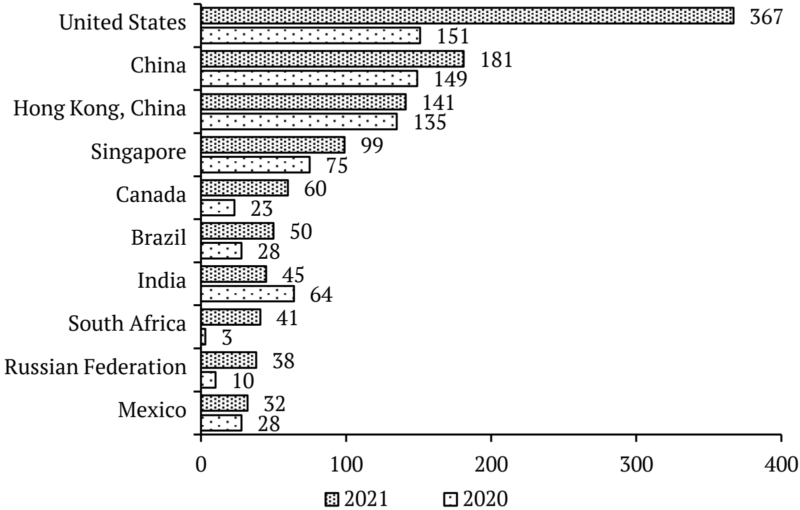


Figure 2. FDI inflows, top 10 host economies, 2020–2021, billion U.S. dollars[1]

And there are two kinds of FDI:

— Greenfield FDI occur when entrepreneurs enter into foreign countries to build new factories or stores. An FDI strategy in which a company builds new facilities from scratch.

— Brownfield FDI is when entrepreneurs purchase or lease existing production facilities to launch a new production activity. A commercial site used for an "unclean" business purpose, such as a steel mill or oil refinery, is cleaned up.

[1] *UNCTAD*. World Investment Report 2022. International tax reforms and sustainable investment. — P. 9. — URL: https://unctad.org/webflyer/world-investment-report-2022.

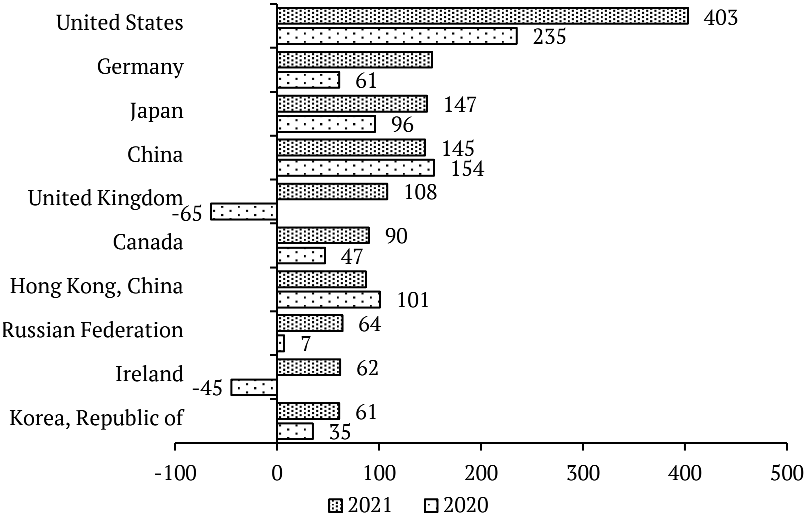


Figure 3. FDI outflows, top 10 host economies, 2020–2021, billion U.S. dollars[1]

Factsheet[2]

There is a trend of international investment in sectors relevant for the Sustainable Development Goals (SDGs). The SDGs are a collection of 17 interlinked global goals designed to be a "shared blueprint for peace and prosperity for people and the planet, now and into the future". The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by 2030. The 17 SDGs are: no poverty and hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, reduced inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water and on land, peace, justice, and strong institutions, partnerships for the SDG.

International SDG investment was significantly hit in the first year of the pandemic, with double-digit declines across all sectors except renewable energy. In 2021, with the overall investment recovery, SDG investment increased substantially, by 70 per cent, compared with 2020.

[1] *UNCTAD*. World Investment Report 2022. International tax reforms and sustainable investment. — P. 21. — URL: https://unctad.org/webflyer/world-investment-report-2022.

[2] *Ibid*. — P. 26.

The combined value of greenfield investment and international project finance in SDG sectors, which had dropped to $218 billion in the first year of the pandemic (from $312 billion in 2019) rebounded to $371 billion in 2021, thus surpassing the pre-pandemic level.

However, most of the recovery growth was due to international project finance activity in the renewable energy sector, where project values reached more than three times the pre-pandemic level.

Licensing Agreement

A licensing agreement is a written contract between two parties, in which a property owner (licensor) permits another party (licensee) to use that property under a specific set of parameters[1].

Licensing agreements delineate the terms under which one party may use property owned by another party. While the properties can include a myriad of items, including real estate holdings and personal possessions, licensing agreements are most often used for intellectual property, such as patents and trademarks, as well as copyrights for written materials and visual art.

Licensing agreements are widely used for the commercialization of technologies. Licensing agreements specify how licensed parties may use properties, including the following parameters:

— the geographical regions within which the property may be used;

— the time period to use the property;

— the exclusivity or non-exclusivity of a given arrangement;

— scaling terms, such that new royalty fees will be incurred if the property is reused a certain number of times.

Royalty is a payment made to an individual, for the use of his or her originally-created assets, including copyrighted works, franchises, and natural resources.

The cost of obtaining a patent abroad is affected by the country or countries in which it is necessary to obtain protection, the individual or legal entity that is the applicant, the volume of the claimed materials and, of course, the method of international patenting.

[1] *Investopedia*. — URL: https://www.investopedia.com/terms/l/licensing-agreement.asp.

Crossborder licensing agreements have many complicated legal and tax issues. There are the intellectual property (IP) laws to consider in every country where you license. You will need pricey IP lawyers with crossborder licensing experience to help organize your IP and processes, file for foreign protection where appropriate, and negotiate complex agreements. Licensing increases the chances of your IP being shared with others, and theft of your IP could be very damaging. Certainly, any legal disputes will be expensive and difficult.

Franchise

A franchise is a type of license that a party (franchisee) acquires to allow them to have access to a business's (franchisor) proprietary knowledge, processes, and trademarks in order to allow the party to sell a product or provide a service under the business's name[1].

In exchange for gaining the franchise, the franchisee usually pays the franchisor an initial start-up and annual licensing fees.

Franchise Advantages:

— Widely recognized benefits to buying a franchise include a ready-made business operation;

— A franchise comes with a built-in business formula including products, services, even employee uniforms and well-established brand recognition;

— Depending on the franchise, the franchisor company may offer support in training and financial planning, or even with approved suppliers.

Franchise Disadvantages:

— Heavy start-up costs as well as ongoing royalty costs;

— To take the McDonald’s example, the estimated total amount of money it costs to start a McDonald’s franchise ranges from $1 million to $2.2 million;

— Franchises, by definition, have ongoing costs to the franchisor company in the form of a percentage of sales or revenue. This percentage can range from 4 % to 8 %;

— Lack of territory control or creativity with your own business, as well as a notable dearth of financing options from the franchisor.

[1] *Investopedia*. — URL: https://www.investopedia.com/terms/f/franchise.asp.

CHAIN vs FRANCHISE

Chain and franchise are two contrasting business models, which are equally important in the modern world. A chain is a group of stores owned by one company, but spread nationwide or worldwide. In contrast, a franchise is a business model where one party grants another party the right to use its trademark or trade-name and certain business systems and processes.

There are some common features in chain stores. All locations in a chain store share a brand. Moreover, they have a central management, which is a management that manages all the stores. In addition, they use identical business concepts and practices. Furthermore, they share the same supply chains and training programmes for staff.

Moreover, the chain stores can exist in one state or across the globe. The existence of chain stores depends on the brand, nature of the products they sell and the popularity of the store. There are a variety of chain stores including restaurants, supermarkets, speciality shops, etc. Walmart, Target, Macy's, The Home Depot, The Body shop, Waffle House, and Costco are some examples of world-renowned chain stores.

A franchise is a business model where one brand is operated by separate entrepreneurs in different locations. In other words, franchise refers to a business model in which individuals pay to license the brand or intellectual property of another business.

Franchise businesses involve a franchiser and a franchisee. The franchisor is the one who establishes the trade name or trademark of the brand. The other party, franchisee, is the one who pays the initial fee to conduct the business under the franchisor's brand name and the system. Mainly, the franchisee is the operator of the business in his or her specific location by paying the fees and royalties to the franchisor over an agreed time period.

Brand value is the most important factor in Franchise business. In certain instances, franchisors provide all the necessary support for the business. As examples, the franchisor provides systems, tools, brand standards, and training for staff to uplift the customer satisfaction and ensure the goodwill of the business.

McDonald's, SUBWAY, Mariott International, KFC, and Baskin Robbins are some of the popular franchise brands in the world.

Ownership is the key difference in chain and franchise. Franchise stores always have different owners, whereas chain stores have a single owner for all business locations. In terms of risk sharing, a chain accepts all risks on its own, while in franchise, the franchiser and franchisee share the risk. Profit sharing is another significant difference in chain and franchise. In a chain business model, the owner gains all the profit, while in a franchise, the franchisor and franchisee share the profit among them under the agreed terms and conditions.

Moreover, a chain has the full control of its business, but a franchise does not have the full control of the business. Furthermore, this is the same in business expenses as well; a chain bears all the business expenses while, in a franchise, all the expenses are shared between franchisor and franchisee. So, this is also a notable difference between chain and franchise.

Outsourcing

Outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees and staff[1].

Outsourcing is a practice usually undertaken by companies as a cost-cutting measure. As such, it can affect a wide range of jobs, ranging from customer support to manufacturing to the back office.

Procurement

To procure is to invite bids for a project or accept a formal offer.

Procurement (tendering) usually refers to the process whereby governments, financial institutions or international organizations invite bids for large projects that must be submitted within a finite deadline[2].

Factsheet[3]

United Nations Global Marketplace (UNGM) is the largest procurement platform in the world. The United Nations procures goods and services from suppliers all over the world to support its activities and operations. UNGP procured $29.6 billion in 2021. Health remained the largest procurement sector of the UN system. Procurement in the sector almost doubled in 2021 to $10.6 billion, compared to $5.5 billion in 2021. A significant part of the increase in the sector was driven by procurement related to COVID-19 vaccines and their distribution.

Construction, engineering and science has been the second-largest sector, and in 2021 procurement in the sector reached $3.5 billion or 12 per cent of total UN procurement.

Top 10 countries-suppliers are presented on figure 4.

[1] *Investopedia*. — URL: https://www.investopedia.com/terms/o/outsourcing.asp.

[2] *Investopedia*. — URL: https://www.investopedia.com/terms/t/tender.asp.

[3] *Annual* Statistical Report on UN Procurement. — URL: https://www.ungm.org/Shared/KnowledgeCenter/Pages/ASR.

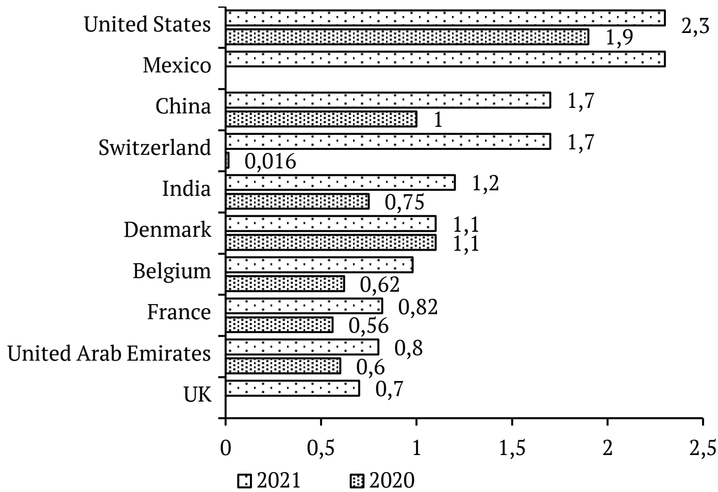


Figure 4. UN Procurement, top 10 supplier countries, 2020–2021, billion U.S. dollars[1]

In 2021 the UN sourced goods and services from suppliers in **223 different** countries **and territories**, with growth across all geographical regions. The increase was the most pronounced in Latin America and the Caribbean, Europe, and Asia.

Factsheet

There are many global platforms that entrepreneurs can use for procurement (tenders):

— Global Tenders. URL: https://www.globaltenders.com;

— United Nations Global Marketplace. URL: https://www.ungm.org/Public/Notice;

— Tendersinfo: https://www.tendersinfo.com;

— Worldbank. URL: https://www.worldbank.org/en/projects-operations/products-and-services/procurement-projects-programs;

— European Bank for Reconstruction and Development. URL: http://www.ebrd.com;

— Asian Development Bank. URL: http://www.adb.org;

— African Development Bank. URL: http://www.afdb.org.

[1] *Annual* Statistical Report on UN Procurement. — URL: https://www.ungm.org/Shared/KnowledgeCenter/Pages/ASR.

Procurement as an organizational process is intended to ensure that the buyer receives goods, services, or works at the best possible price when aspects such as quality, quantity, time, and location are compared. Corporations and public bodies often define processes intended to promote fair and open competition for their business while minimizing risks such as exposure to fraud and collusion.

Questions and Exercises

Questions for self-control

1. A person who undertakes the risk of starting a new business venture is called an:
A. Entrepreneur.
B. Exporter.
C. Investor.

2. An entrepreneur creates a firm to realize business idea which aggregates capital and labor in order to produce goods or services for:
A. Interest.
B. Work.
C. Profit.

3. International entrepreneurship is highly:
A. Rewarding.
B. Risky.
C. Expensive.

4. International investments as the acquisition of foreign assets for the purpose of controlling and managing them:
A. Foreign direct investment.
B. Portfolio investment.
C. Other investment (bank loans).

5. Characteristics required to be a successful entrepreneur:
A. Ability to learn, communication skills, business strategy.
B. Good memory, profitable business, critical thinking.
C. Innovation ideas, focus, capital.

Exercises

Exercise 1

Test yourself and find your entrepreneurial potential: https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/business-assessments/self-assessment-test-your-entrepreneurial-potential.

This questionnaire includes 50 statements, and will take about 10 minutes to complete. There are no right or wrong answers. Your honest opinion is what counts.

For each statement, choose the number that best describes your opinion. Use the entire scale as much as possible, as always answering "2" or "3" will not allow you to fully benefit from this tool.

Once you have completed, your answers will be compiled, and you can evaluate your entrepreneurial traits, as concerns motivations, aptitudes and attitudes.

Test your risk tolerance: https://www.investright.org/informed-investing/know-yourself/test-your-risk-tolerance.

Before you can decide on a personal business strategy, you need to consider how much or how little risk you are prepared to take with your money.

Exercise 2

After retiring her professional dancing shoes, Judi Sheppard Missett became an entrepreneur by teaching a dance class to civilians in order to earn some extra cash. But soon she learned that women who came to her studio were less interested in learning precise steps than they were in losing weight and toning up. Sheppard Missett then trained instructors to teach her routines to the masses, and Jazzercise was born. Today, the company has more than 8,300 locations worldwide.

1) What form of international entrepreneurship do you think Sheppard Missett used?

2) What form can you suggest for her?

Exercise 3

Myths versus Reality[1]

Read some myths about entrepreneurs. Prove or disprove them.

1) **Entrepreneurs take uncalculated and unknown risks without any plans**. This myth is partially true; entrepreneurs do take uncalculated and unknown risks, but they keep resources, and plan as much as they can for dealing with the unknown.

2) **Entrepreneurs start a business with a revolutionary invention**. This is also partially true; not all entrepreneurial ventures are true breakthroughs. Most are identifying and capitalizing on a mix-n-match approach. Google did not invent the internet, McDonald's did not invent the cheeseburger, Starbucks did not invent coffee. It's the identification and capitalization of the idea and rapid growth rate that make the venture entrepreneurial.

3) **Entrepreneurs venture out only after gaining significant experience in the industry**. Most entrepreneurs are young, inexperienced individuals who follow their passion.

4) **Entrepreneurs complete extensive research before taking the first step**. Unless an existing business is setting up a new business line on a new concept, entrepreneurs start with very limited or no research. However, they do have good awareness about the potential of their offering, which gives them the confidence to assume the risk.

5) **Entrepreneurs start with sufficient capital**. Capital is the foremost requirement of any entrepreneurial venture. Most entrepreneurs fail to secure sufficient capital from outside sources unless they have somehow proven themselves or have a marketable prototype. Hence, most entrepreneurs start out with insufficient capital with an aim to secure more along the way.

Exercise 4

Read the Interview of **Sydney Finkelstein** and discuss the questions. Sydney Finkelstein is the Steven Roth Professor of Management at the Tuck School of Business at Dartmouth College,

[1] *Investopedia*. — URL: https://www.investopedia.com/terms/e/entrepreneur.asp.

where he teaches courses on leadership, top management teams and managing mergers and acquisitions. **Professor Finkelstein is the author of Why Smart Executives Fail: And What You Can Learn from Their Mistakes**. Based on a six-year study of 51 companies, the book identifies the fundamental reasons why major mistakes happen, points out the early warning signals that are critical for investors and managers alike and offers ideas on how an organization can develop a capacity of learning from corporate mistakes.

Why Smart Executives Fail[1]

RD: Tell us about the research that went into the book and why you felt that there was a need to write about these huge failures?

SF: There are a couple of reasons. Number one is that most business books out there are either written by retired leaders who talk about how they won the war or by consultants who may have studied a few companies and identified attributes that are associated with success. While you can learn quite a bit from books like that, what they never do is look at the other side. What are the major pitfalls facing organizations? We know that things go wrong, but we very seldom spend much time thinking about it. That is also true in business school where we train our students almost entirely by looking at best practices. They walk out of schools with a toolkit on how to deal with important managerial and strategic problems, but we do not often spend time looking at worst practices. In many ways, my research and my book is an attempt to rebalance the scales in that regard.

RD: You found that almost all of these failures fit into four business passages. What are these passages and what is common about them?

SF: What's common is that all of these passages are major and challenging stages of an organization's life. They are challenging, they are difficult and at times when the margin for error is very slim. As a result, when companies or executives behave in certain ways, bad things can happen. They occur when there is a new venture, a merger

[1] *Thought* Leaders: Sydney Finkelstein on Why Smart Executives Fail. Adapted from HR.com. — URL: http://www.newhousepartners.com/images/pdfs/finkelstein.pdf.

and acquisition, a major innovation or change in the industry and when faced with intense competitive pressure. All of those things are challenging and as a result the margin of error for executives is reduced. They are much more vulnerable to having some dangerous things happen to their organization.

RD: Why don't you give us a short example of each of these things, along with some illustrations of the challenges and how people didn't live it up to them?

SF: Let me give you one example that illustrates several of them at once. Motorola once dominated the analog cell phone business. In fact, in the US in 1995 they had 65 % market share. If you look at their market share today it is down to approximately 18 % and that's after recovering over the last year or so under new leadership. They made a set of decisions not to shift towards digital technology and to stick with analog, even though the market was very clearly shifting towards digital. This is a good example of a fundamental shift in the industry. It's also an example of a company having to deal with new and challenging competitive conditions. Companies like Nokia and Ericsson were really bit players in the telecom business in the early 90's and today Nokia is a global leader that has done exceptionally well. This story illustrates both of those vulnerabilities. Motorola also more broadly illustrates the challenge of new ventures. During the midst of this transition from analog to digital, Motorola was also responsible for the creation of the Iridium satellite phone system. Iridium was the idea that two people could communicate no matter where they were in the world. It was a great idea and a tremendous new venture, but they made a series of blunders and mistakes in developing the innovation. In the end, the total investment was in the neighborhood of $5 billion and the company went bankrupt. The assets were then bought out of bankruptcy court by a group of investors for $25 million. The remarkable thing about Iridium is that despite all the mistakes, with $25 million in capital costs, it's a big time winner for the folks that bought the assets. The phone is now used in the military and on oil drilling platforms. It is a good product that fits a very small niche, which is something that Motorola didn't understand. Therefore, it did not warrant spending $5 billion to develop. Another example of one of these passages can be seen with the Boston Red Sox. Elijah Pumpsie Green was the first African American ball player to appear in a major league baseball game for the Red Sox, which was 12 years after Jackie Robinson broke the color barrier. The Red Sox were the last team in the league to add African American players to their roster. Why did that happen? It is the type of question that we, unfortunately, know the answer to. If we remove the unethical nature of this example, we can see that the Red Sox made a decision not to adapt to a fundamental change that was taking place in their industry. In this case they were limiting their talent pool by excluding African American ball players.

In both of these instances, the Red Sox and Motorola, the key decision makers knew what was going on and had a tremendous amount of data, but despite that they didn't change or adapt. In the book I use the term, "choosing no to cope" to describe this behavior. When an organization stumbles we always hear excuses about changes in the industry, government regulations or technology. All of those things happen and have an impact on organizations, but in the 51 companies I studied those externally driven explanations were never enough to account for failure. In the final analysis it is about people who behave in certain ways.

RD: In the chapter on mergers and acquisitions you reference the many studies showing that M&A's fail 50–75 % of the time. Is there comparable data on the success or failure rate of any of these other passages? Earlier you mentioned that new ventures have a pretty dismal track record; is there any data on what that track record is?

SF: The most recent data that I have seen about new ventures, those that have been started by an independent company, is that about 50% of them cease to exist within two to three years. For the other passages there is no general data that has ever been collected, it is more anecdotal. Judging from my travels and my research, there is no shortage of failures in those other instances either.

RD: As a savvy HR person, it would be very beneficial to help my management team navigate through these passages. In your experience, what is the role of HR in these passages?

SF: There are several different things that HR can do to help leaders through these passages. Number one is leadership development. HR has a huge role to play in that up and down the organization. How often during the leadership development process are we able to view metrics on how individuals learn from mistakes or how they involve others in decision making? One of the biggest problems in the organizations I studied is the inability of people to be honest with their superiors. There are some obvious reasons why you might not want to be. Whose responsibility is it to ensure that people will be honest and truthful and provide the feedback that needs to be heard? I think that is the job of every leader, every person who has people reporting to them. We don't do a very good job in helping people learn the techniques of open fair debate, especially when those debates represent contrary points of view. Leadership development is an important area where HR professionals can be very influential. Coaching is also very important. HR professionals can introduce coaching in an effort to avoid defensive and delusional behaviors. Additionally, they can help with early warning systems. One of the issues that came up in my research was the necessity to determine what could go wrong before it is too late. HR is very well placed to help the organization with an early warning system that could help avoid some of the pitfalls and disasters that I describe in my book.

RD: In the book you talk about the four passages and you talk about some specific problems that are associated with those ventures. You also go deeper and talk about the causes of failure that underlie all four of those transitions. Can you give us your key findings and tell us about these causes?

SF: I found four major underlying explanations for failure. Unfortunately, we have dozens of examples for each one but I will try to stick to just a few.

Executive mindset failure is when an organization's strategy is wrong. For example, you believe the strategy is analog when in fact it is digital. LA Gear is another example. They thought they were competing against Nike and Reebok, when what they were really doing was manufacturing fashion accessories for teenagers in Southern California. Getting the strategy wrong mostly occurs because of a series of wrong assumptions that executives make. When I work with companies on these ideas one of the first things we do is drill down behind the assumptions of an initiative or strategy. We write them down and then look at them to see if they are right. You need to state very clearly what those things are. Sometimes when you write them down it is easier to see that these assumptions might not be correct. Getting the strategy wrong is never a good thing, but it was never enough to lead to the failures that I saw in my research. You typically have to do something else. The most common of those is what I call, “delusions of a dream company.” This happens in organizations that have been very successful and take pleasure in telling everyone else just how great they are. As a result, they begin to adopt a set of processes and methods that shut out other contrary sources of information. When you walk into these organizations and talk to the CEO’s, it is remarkable to hear what they have to say. One CEO told me that they took particular pride in being a company of positive thinkers. No one is going to say it is bad to be a positive thinker, but I am a bit concerned if everyone is saying exactly the same thing and doing the same thing. If you have a company full of positive thinkers, then you don’t have any negative thinkers. Negative thinkers often have a willingness and talent to push back and challenge which is what you really need in an organization. These failures often occur because businesses don’t act on vital information. Something is wrong with their information and control systems. You need to ask questions like: Is the right kind of information coming into your organization, how it is coming in, where it is going and how it is being shared? There are dozens of questions you can ask about information and control systems and while it may not be exciting, you don’t have to go very far to see the consequences of getting this wrong. Tragically, after 9/11 we saw how critical information was dropped, filtered or never passed along. People should ask themselves how confident they are that they are getting the right information to the right people at the right time and that those people are motivated to do something about it. The fourth explanation for failure is leadership pathology. What I tried to do in the book was isolate the specific behaviors that were most associated with failure and disaster. In the book I talk about the seven habits of spectacularly unsuccessful people. Those are the habits that I kept on seeing amongst executives and senior leaders that I wanted to capture.

RD: Why don't we get into each of these more in-depth and talk about the seven habits of spectacularly unsuccessful people?

SF: Let's start with executive mindset failures. There are so many examples of this. The 'one best way' example is a powerful one. That is when an organization has a particular way of thinking and they continue to stick to that game plan, despite the fact that evidence suggests it is not the right thing to do. When you keep on sticking with yesterday's answers, there are some real dangers. Rubbermaid illustrates this example as well as any. In 1993, Rubbermaid was named one of America's Most Admired Companies in Fortune magazine. In that article they talked a lot about how innovative the company was. In the late 1990's there was a significant market shift towards big box retailers like Kohl's, Target and Wal-Mart. These companies went to Rubbermaid and said that they loved their innovation but they wanted to make sure that they could deliver products in a way that was consistent with their warehousing and logistics systems. They also told Rubbermaid that they wanted them to lower their prices. This was a disaster for Rubbermaid and it sent them into tremendous turmoil because everything they did was based on being an innovative leader. The market was telling them that while innovation was fine, they also wanted cost control and logistics expertise. The writing was on the wall for a long time and they should have known that these changes were occurring, but they denied it. They believed that innovation would win the day. Rubbermaid ended up being acquired by a conglomerate and it was a big fall from being America's most admired company. "Delusions of a dream company" is another good example. During the Internet era, we had a huge number of people who believed that if they were an Internet company then they were a superior businessperson. If you didn't adapt to the Internet, you were considered a dinosaur. There was a tremendous amount of arrogance associated with that. There was a new economy and an old economy and the implication was that if you were working in the old economy then you just weren't that smart. Many of the

Internet companies believed that they had developed a set of business models that made tremendous sense and were a huge advantage over everyone else. As a result, competitors were wrong, customers were wrong and suppliers were wrong. Everybody else was wrong, except these Internet start-ups because they had re-defined how business worked. Of course, as we all know, the laws of supply and demand are not quite as vulnerable to trends in the economy and we have numerous examples of Internet companies that really stumbled. Webvan was an online grocery company that spent $1.5 billion on setting up warehouses and distribution centers around the country. The company ended up failing and losing money because they didn't charge customers anything for their service. Webvan really thought that they were redefining everything that was good about the grocery business. The truth is that online grocery delivery is not that complicated and the companies that have succeeded at it are older offline grocers. They already have customers and infrastructure and products and those things are a lot tougher to create than an Internet customer interface. We have numerous examples of organizational breakdowns as well. Saatchi & Saatchi is a global advertising company, headquartered in the UK, founded by two brothers. They won many awards in their early days in advertising but they broke a lot of the rules — some ethical and some business. As they grew they decided to define their organization as a services company, instead of just an advertising company. It wasn't enough for them to be the number one advertising agency; they wanted to be number one across the board. They ended up acquiring dozens and dozens of companies; first it was advertising agencies, followed by consulting firms, and then they even tried to buy a bank. As they expanded further and further away from what they were really good at, they found that they really stumbled and struggled. What's interesting is that they didn't do any of the things that were important to acquisition process; things like due diligence, negotiation, bargaining for the right price and integration. They would offer companies a very, very high price based on minimal due diligence because they just wanted to grow as fast as possible. They built a house of cards that ultimately collapsed and the Saatchi brothers ended up being forced out of the company. Under the leadership of the new CEO, the company has recovered in recent years. This is one of the few stories in the book of a company that has resurrected itself from disaster to become a world leader. The seven habits of spectacularly unsuccessful people take a variety of forms. In small doses, many of these habits are important to the success of leaders. It is only in large doses that these habits become toxic. As you read the book there is something of a Greek tragedy element to it. Some of the things that get you to the top, if left unchecked, can be responsible for your downfall.

The first habit is 'they see themselves and their companies as dominating their environments.' In small doses we want all of our people to believe that they can have an impact on what is going on around them, but in large doses that can lead to them believing that they are dominant over people or that they are preeminent over everyone and everything. This is the closest leadership analog to the delusions of a dream company. How do you become a delusional organization? By having leaders that adopt the illusion of personal preeminence, which means that they believe they have everything figured out and have no need to learn from anyone else.

The second habit is 'the company is mine — there is no clear boundary between their personal interests and their corporation's interests.' In small doses this goes along with aligning the interests of an individual with the organization. Identifying with your company is, of course, a great thing to do. The problem is when that identification goes to an extreme and you don't just identify with the company as the place where you work, but you identify with the company as being the most important part of your life. In extreme cases, you don't work for the company, the company works for you. When that happens it is a slippery slope to all sorts of unethical and even illegal activities.

Habit number three is about knowing all the answers. There is no one who is going to go to work and not be able to solve problems and make decisions. The problem is when you believe that you have to make all the decisions and solve all the problems. What you are doing is shutting people out. Entrepreneurs are the most at risk of falling into this trap. When starting out you don't have the luxury of having other people around you, but as you grow it is essential to have a group of high-quality individuals around you that you can rely on to make decisions.

The fourth habit is, ‘my way or the highway — they ruthlessly eliminate anyone who isn’t 100 per cent behind them.’ In my research I found that a significant number of people left their organizations three months to a year before the really bad stuff hit the business press. Why do people leave? It always sounds like a good reason, but it usually boils down to one of two things. The first reason is because they feel that the boss has all the answers and they don’t have an opportunity to have an impact. The second, more common reason is that they know some bad things are going on and they don’t want to be there when it comes out.

Habit five, ‘It’s my company and I want to star in the commercial — they are the consummate company spokesperson, obsessed with the company image.’ This is pretty self-explanatory. Some leaders believe that image and public relations is more important than what the products or services the company offers.

Habit six refers to overlooking or disregarding major obstacles. I mentioned the Iridium phone system before, which is a good example of this. This one is a very serious problem for entrepreneurs because in the early stages of an organization you have to believe that you can overcome obstacles. The problem is that when you get bigger, you can no longer behave in the ways that you originally did in order to become successful.

Habit seven is that they stubbornly rely on what worked for them in the past. There are so many instances in my research where leaders were unable or unwilling to imagine that the market was changing. This unwillingness to change and adapt is a critical failure factor and one that we want to be hyper alert to.

RD: Can you tell us a bit about some of the key things that smart executives can do to learn?

SF: Number one is to know what the wrong things to do are. Number two is to be open-minded. A leader should recognize that no matter how smart or successful they are the business landscape is littered with hundreds of companies and people who were equally smart and talented but failed because they refused to be open-minded.

Open-mindedness is a state of being; you can do it if you want to do it. That is the most important thing that I can advocate.

Questions for discussion:
— What are the main reasons of failure by S. Finkelstein?
— How can you describe unsuccessful people in business?
— Do you agree with all ideas of S. Finkelstein or not? Why?

Case: Sustainable development goals and entrepreneurship[1]

Read the stories of Tessa Clarke and Saasha Celestial-One, Co-Founders of OLIO and answer the questions.

Tessa's Story

I grew up on my parents' dairy farm in North Yorkshire, England. It was an amazing childhood in so many ways, but one that had a constant theme running throughout it — work needed to be done. Feeding cows, mucking out, moving stock; it was relentless and ran late into the evening, every day of the year. As a result of this, I learned pretty much as soon as I could walk just how much hard work goes into producing the food that we all eat. And so I grew up with the firm belief that food is meant to be eaten, not thrown away.

The "lightbulb" moment came on 17th December 2014 — I remember it well. I was packing up our apartment in Switzerland, getting ready to move back to the UK. Despite our best efforts to eat everything we had, we were still left with 6 sweet potatoes, a whole white cabbage and some pots of yogurt. The removal men told me that all the food had to be thrown away, but I just couldn't bring myself to do this. And so — much to their frustration as we still had a lot to pack up — I got my new-born baby and toddler dressed and set off armed with this food to find someone to give it to. Unfortunately, the lady who I had hoped to give it to wasn't in her usual spot outside the supermarket and I got quite upset. I thought about knocking on my neighbours' doors to see if they wanted it, but the problem was I didn't

[1] Compiled by: *OLIO*. — URL: https://olioex.com/about/our-story.

know if they would be in; and even if they were in, I didn't really know them and it might be a bit awkward if they didn't want what I was offering. Feeling thoroughly defeated I thought to myself — "This is absolutely crazy… this food is delicious. Why isn't there an app where I can share it with someone nearby who wants it?" And so the idea for OLIO was born…

I told some friends & family about my idea of a food sharing app, and they all

thought I was crazy. But in February 2015 when I told Saasha, her eyes immediately lit up and we just knew that we had to work together to bring this app to life!

Saasha's Story

I'm the daughter of Iowa hippy entrepreneurs (hence the origin of my last name, Celestial-One — which my parents made up!) and I grew up in a large, relatively poor family. I spent much of my childhood accompanying my Mom on various missions to rescue things that others had discarded — wooden fixtures from foreclosed houses, plants from the greenhouse dumpster, aluminum soda cans (worth 5¢ each) casually tossed aside at the beach, etc.

In salvaging and reselling these items, I not only earned my pocket money, but I literally learned that one man's trash is another man's treasure. As a kid, I launched over a dozen scrappy micro-businesses, and I always dreamed of starting my own business one day specifically in the area of food, which is a passion of mine.

Tessa and I met in 2002 and have been close friends ever since. When she told me about her idea for a food sharing app I instantly knew it was genius and that I wanted to be a part of the journey bringing it to life. Within an hour we had settled on a name and made our plan! No one ever said we don't dream big or move quickly.

From Idea to Reality

We incorporated the company on the 9th of February 2015 and decided we had that year to prove it and make it happen, and if not we would have to go back and get proper jobs. The first thing we did was desk research in order to understand how big the problem of food waste was and what we discovered truly shocked and terrified us.

A third of the food we produce globally is thrown away, and in the UK households are responsible for over half of all food waste. The average family throws away £700 worth of food each year. That adds up to £12.5 billion… £12.5 billion that is going straight to landfill!

But just because it's a big problem on paper doesn't mean to say that people care about it. So, we conducted some market research using SurveyMonkey and through this we found that 1 in 3 people are "physically pained" throwing away good food. That's a lot of people, who almost every day, are having to throw away food because there's no alternative… there's been no innovation since the rubbish bin! How crazy is that?!

But just because it's a big problem and just because people hate throwing away food, that doesn't mean to say they'll take the next step, which is to share food. We were understandably reluctant to invest our life savings building an app that people wouldn't use, and so we needed a quick and low cost way to test our food sharing idea. What we settled on was a slightly bizarre 'proof of concept' involving WhatsApp! We invited 12 people who took part in our market research survey, and who said they were physically pained throwing way good food, and we put them all in a closed WhatsApp group. They all lived close to each other and we asked them for 2 weeks to add any surplus food they had into the group and we'd see if food sharing started. We waited with bated breath for what seemed like an eternity and then eventually someone added an item — half a bag of shallots! How very Crouch End. We leapt with joy, and watched on in excitement as many more items of food were shared during those two weeks. Once the trial was over we met face to face with everybody who took part and asked for feedback. The conclusions were unanimous… "it's amazing", "you have to build it" and, perhaps most importantly… "it just needs to be a bit better than a WhatsApp group"!

And so, with the support of our first investor, Simpleweb, a development agency, we built the MVP (minimal viable product) version of the app. And working like crazy, exactly 5 months after we'd incorporated the company (we were Mums on a mission with no time to spare!), we launched the app in the App Store on 9th July 2015, quickly followed by Google Play 3 weeks later. The very first version of the app was extremely basic, and could only be used in 5 postcodes in North London.

Nowadays OLIO connects neighbours in UK, but people in many countries with each other and with local businesses so surplus food can be shared, not thrown away. This could be food nearing its sell-by date in local stores, spare home-grown vegetables, bread from your baker, or the groceries in your fridge when you go away. OLIO can also be used for non-food household items too.

To make an item available, one has to open the app, add a photo, description, and when and where the item is available for pick-up. To access items, one simply browses the listings available near, request whatever takes ones fancy and arrange a pick-up via private messaging.

First launched in 2015 by 2022 the company had raised $8.2 million in funding. The Olio app had more than 6 million registered users as of September 2022. OLIO's mission is to reduce food waste in the home and to reach 1 billion OLIOers by 2030.

Questions:

1) What is OLIO's business model? What problem do they solve? How do they earn money?

2) What is Sustainable Development Goals (SDGs)? How do trends towards international investments in achieving the SDGs help OLIO become profitable?

3) How did OLIO grow from an idea into a marketplace saving thousands of food items every week?

Tips in Entrepreneurial Toolkit

What Does It Mean to Be an Entrepreneur?

An entrepreneur is an individual who takes an idea or product and creates a business, a process known as entrepreneurship. Creating a business requires a lot of work and dedication, which not everyone is cut out for. Entrepreneurs are highly motivated risk-takers that have a vision and sacrifice a lot to achieve that vision.

The main goal of international entrepreneurs when entering foreign markets is to make profit from their efforts. But it is the *consumers* and *the solution of their problems* that is of paramount importance!

Remember this formula: "Loyal consumer — guaranteed demand — guaranteed profit!".

The entrepreneurs create businesses and make products and services that consumers buy.

Embarking on the entrepreneurial career path to "being your own boss" is exciting. But along with all your research, make sure to do your homework about yourself and your situation.

A Few Questions to Ask Yourself

— Do I have the personality, temperament, and mindset of taking on the world on my own terms?

— Do I have the required ambiance and resources to devote all my time to my venture?

— Do I have an exit plan ready with a clearly defined timeline in case my venture does not work?

— Do I have a concrete plan for the next "x" number of months or will I face challenges midway due to family, financial, or other commitments? Do I have a mitigation plan for those challenges?

— Do I have the required network to seek help and advice as needed?

— Have I identified and built bridges with experienced mentors to learn from their expertise?

— Have I prepared the rough draft of a complete risk assessment, including dependencies on external factors?

— Have I realistically assessed the potential of my offering and how it will figure in the existing market?

— If my offering is going to replace an existing product in the market, how will my competitors react?

— To keep my offering secure, will it make sense to get a patent? Do I have the capacity to wait that long?

— Have I identified my target customer base for the initial phase? Do I have scalability plans ready for larger markets?

— Have I identified sales and distribution channels?

Questions That Delve Into External Factors:

— Does my entrepreneurial venture meet local/national/ international regulations and laws? If not feasible locally/nationally, can I and should I relocate to another region/country?

— How long does it take to get the necessary license or permissions from concerned authorities? Can I survive that long?

— Do I have a plan for getting the necessary resources and skilled employees, and have I made cost considerations for the same?

— What are the tentative timelines for bringing the first prototype to market or for services to be operational?

— Who are my primary customers?

— Who are the funding sources I may need to approach to make this big? Is my venture good enough to convince potential stakeholders?

— What technical infrastructure do I need?

— Once the business is established, will I have sufficient funds to get resources and take it to the next level? Will other big firms copy my model and kill my operation?

CHAPTER 2

PREPARING TO START A BUSINESS

2.1. Establishing and Doing a Business

This chapter will provide you with information that will help with business startup and growth. Starting a business is an exciting adventure on which many entrepreneurs embark every day. Each entrepreneur is unique. Taking ideas and ingenuity to create something new is a rewarding and challenging endeavor, as is the undertaking of building a business that can grow and compete locally and globally.

There are five keystones to successful business startup:

1) Qualified entrepreneur;
2) Profitable business idea;
3) Adequate finances;
4) Right location;
5) Thorough business plan.

Qualified entrepreneur: how to assess yourself

An important step for entrepreneur is to evaluate who you are, what you want to be and how to bring the best of yourself into your new venture. As an entrepreneur, you are the face, the brain and the brawn behind your business. You and your ideas will drive the initial stages of the project.

In chapter one we wrote about basic entrepreneurial skills and responsibilities.

The sum of entrepreneur's life experience has given him/her many qualities and skills that will be an asset to new enterprise. It is important to evaluate the skills entrepreneur has as he/she begins to develop business concept in order to maximize preparedness and effectiveness. While many studies and countless books have been written on what "the right stuff" is for entrepreneurship, the list below contains the most common characteristics and traits that are part of a successful entrepreneur's background:

— Problem-solving: explores innovative ways to respond to opportunities;

— Goal-oriented: envisions a desired outcome, as well as plans and implements the activities required to achieve it;

— Self-confidence: believes in own ideas and abilities and conveys that belief to others;

— Risk-taking: abandons status quo, explores options and pursues opportunities;

— Decision-making: makes prudent choices even in a stressful environment;

— Organization: keeps track of deadlines, critical paperwork, correspondence and tasks to be completed, as well as those already done;

— Persistence: tenaciously pursues goals regardless of the energy and commitment required;

— Communication: speaks, listens and writes effectively;

— Interpersonal skills: inspires, motivates and understands the wants and needs of others;

— Leadership: directs others effectively and empowers their performance.

Continual self-improvement is key

It is important to remember that continual self-improvement is critical to entrepreneur's growth as a business owner and a hallmark of successful people. Finding ways to improve is a good test of entrepreneur's abilities, whether by seeking out useful books and articles or enrolling in business education courses. Consider seeking advice from a mentor, tracker or other successful entrepreneurs. The persistence and creativity entrepreneur exhibits in improving abilities will make him/her a better business owner and bring entrepreneur closer to the goal.

Responsibilities of Entrepreneurship

As an entrepreneur, skills and abilities will be tested as an entrepreneur takes on managerial responsibilities. Although one can hire skilled employees, engage qualified consultants and develop a corporate advisory board, the ultimate responsibility for decision-making and determining the strengths and weaknesses of the business rests with you. The managerial responsibilities of entrepreneurship include financial planning, personnel, marketing and production — skills an entrepreneur will continue to refine alongside his/her personal abilities. When an entrepreneur finds him/herself confident in both personal and managerial skills, he/she will have a solid foundation on which to begin building own business.

Profitable Idea: how to assess business concept

Begin analyzing the concept by taking a moment and putting yourself in the shoes of a potential customer.

Do a research! Once you have identified what your potential customers will be looking for, you can begin to plot a path to reach that goal.

Factsheet[1]
Early-stage businesses see failure rates exceeding 50 percent because too often an individual will spend vast amounts of money and time on a concept they did not fully evaluate.

[1] *The Entrepreneur's* Guide: Starting and Growing a Business in Pennsylvania. Pennsylvania Department of Community and Economic Development. — URL: http://www.business.pa.gov.

Business concept assessment should include the following items:

— The product or service satisfies the needs of the prospective customer, not simply the desire of the business owner;

— The product or service has an identifiable advantage over competitive sources. The advantage is of significant relevance to the customer;

— The quality of the product can be maintained to a level that encourages customers to make repeat purchases;

— The necessary materials for initial setup, long-term production and delivery of the product or service are all readily available;

— The number of customers in the market is sufficient for your business and competitors;

— The product or service is compatible with existing beliefs, attitudes and buying habits of prospective customers;

— The benefits of the product or service are easily communicated to the target customers;

— The price of the product or service is within an affordable range for the intended customers;

— The most cost-efficient methods of targeted communication between the merchant and potential customers are identified;

— The projected sales potential, based on the number of customers and their average expenditure for the product, is sufficient to generate a profit after all expenses are paid;

— The sales generated will be sufficient during peak periods to support the business expenses for the entire year.

Adequate finances: funding business

We will discuss the topic of finance in detail in Chapter 3. A leading cause of small business failure is inadequate startup capital. Before an entrepreneur begins new venture, he/she must realistically project not only startup costs for such things as equipment, renovations and promotion, but also the cash flow requirements for the early-stages of operation.

It often takes time to build sales levels, yet rent, utilities and other costs are immediate. During this time, when bills are often arriving faster than the customers, cash reserves can help the business survive. Necessary funding for the startup and operation of a business is available in three forms:

— debt capital through borrowed funds;

— equity capital (funds generated through the sale of stock or by the investment of the owner):

— friends, family and personal assets.

Many businesses start with capital invested by the owner or the owner's family. Should you decide that your own resources are insufficient, the traditional sources of financing are: banks, local and national agencies, angel investors, crowdfunding platforms, and venture capital firms.

Right location: how to choose a site for the business

Choosing the right location for business will require entrepreneur to consider a number of factors. The type of business entrepreneur has will often be the primary factor in the type of location he/she chooses.

Another important factor to consider is *how entrepreneur wants to present business to the community and customers*:

— Does entrepreneur want a main street storefront?

— Does entrepreneur require extra space for storing finished products?

— Does the location need to be near targeted customers or satisfy specific logistical needs?

— Can the business operate as a web presence without the need for a physical structure for customer interactions?

These are just some of the questions entrepreneur may ask when looking at potential locations.

Ultimately, entrepreneur may decide that he/she can start the business at home. This is an inexpensive and convenient option for many entrepreneurs. If entrepreneur decides to work from home, he/she will want to balance the efficiencies of being at home with the need to project the business image that he/she desires.

The business location can affect more than just entrepreneur's operations and finances — it can also be an asset for marketing plans and growth strategy.

Entrepreneur has to explore potential locations for the business, investigate the zoning, traffic, parking, signage and building regulations in each prospective location's municipality.

Business location analysis should include the following items:

— Appropriate zoning for the type of business;
— Cost of land, building, facilities;
— Building codes;
— Cost of utilities (installation);
— Availability and cost of utilities (monthly estimate);
— Cost of monthly lease or mortgage payment;
— Cost of renovation or leasehold improvements;
— Availability and cost of security system;
— Availability of police and fire protection;
— Availability of the types of employees needed by firm;
— Availability of transportation for customers and employees;
— Occupancy permit requirements;
— Access for customers with disabilities;
— Tax structures and payment methods of local and regional government;
— Proximity/distance from competition;
— Maintenance costs for property, building and parking area;
— Expansion potential;
— Availability/restrictions on parking;
— Condition of neighboring properties;
— Convenient proximity to primary highways;
— Transportation and availability of raw materials;
— Convenient proximity to entrepreneur's home;

Sometimes entrepreneurs can use as their location small business incubators.

Small business incubators are facilities where young businesses can start and grow. Some incubators offer businesses the opportunity to lease space at a lower-than-market rate. Most facilities provide tenants with free or low-cost business counseling and training and shared office equipment and services. These educational opportunities and services help reduce costs and increase profits.

After the startup firm is nurtured for the first few years, it is expected to "graduate" or leave the incubator to move into a business location in the community. Graduation normally occurs in 3–5 years. Incubators may specialize in the types of firms they can assist, i. e., manufacturing, technology, life sciences, distribution.

The following are common advantages of locating in an incubator:

— reasonable lease rates for startup firms;

— shared financial, management and other services;

— established entrance and exit policies;

— access to capital and other startup resources.

Comprehensive business plan

Entrepreneurs need to do a great deal of research and planning before opening the business. A business plan is a document that clearly describes entrepreneur's vision, including all the details of the business operation.

A well-written business plan not only puts entrepreneur's business on a solid foundation, but is critical in quest for funding. This will become the owner's manual guiding entrepreneur's daily operations and activities.

In general business plan answers the following questions:

1) **Who are you?** A personal resume outlining the education and experience that will allow entrepreneur to start and manage business successfully.

2) **What are you going to do?** A description of entrepreneur's business concept, the products and services he/she will be providing, the market which he/she will serve, where business will be located, how much money entrepreneur will invest and how much additional money entrepreneur will need (if any).

3) **Where are you going?** The short- and long-term goals entrepreneur has set for the business.

4) **How are you going to get there?** The strategies that will allow entrepreneur to meet financial responsibilities, compete with others in the marketplace, learn new management skills, communicate with the customers, etc.

We will tell about the specifics of writing a business plan later in this chapter.

2.2. Political and Legal Factors That Impact Entrepreneurship

Entrepreneurs consider a broad range of factors in their decision to invest abroad, including domestic market size, macroeconomic stability and a favorable exchange rate, labor force talent and skills, and physical infrastructure. According to the Global Investment Competitiveness (GIC) survey political stability and a business-friendly regulatory environment are most important in investors' decision making (figure 5).

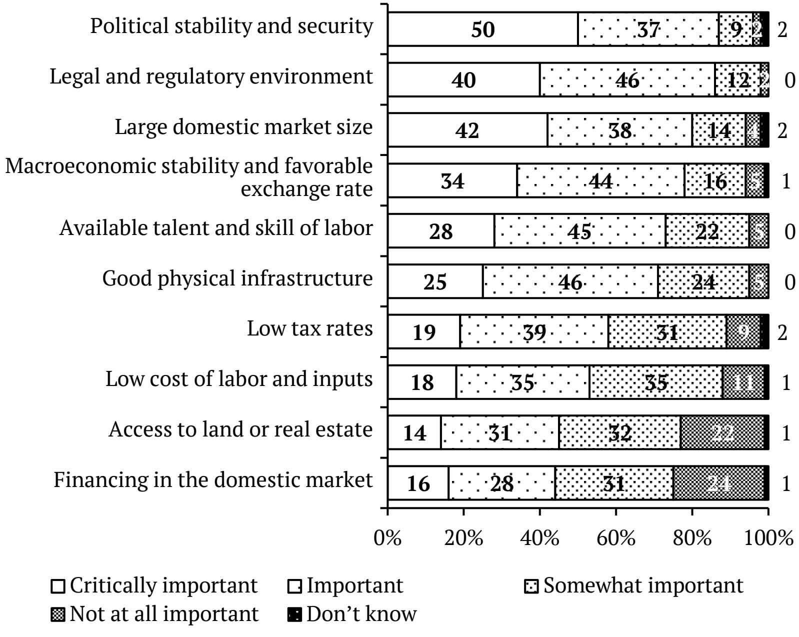


Figure 5. Factors Affecting Global Investment Decision, share of respondents (percent)[1]

[1] *World* Bank. 2018. Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications. — Washington, DC: World Bank, 2018. — P. 6.

N o t e : Multinational corporation executives were asked how important these characteristics were in their decision to invest in developing countries.

Macroeconomic, political, and regulatory risks — whether actual or perceived — deter entrepreneurs by raising their risk calculations.

De-risking, or reducing project or country risk, can lead to the right risk–return profit and help to attract private investment.

Governments in both developing and developed countries use tax and other investment incentives to reduce the relative cost or risks to foreign investment so as to attract more foreign entrepreneurs. Given that most countries offer incentives, investment promotion agencies face pressure to match or even surpass offers by competing countries to compensate for adverse geography, small size, or distance to markets, in order to remain attractive for foreign entrepreneurs.

Yet investment incentives become relevant only when investors waver between similar locations. Where FDI is motivated by access to domestic markets or natural resources, incentives are generally of limited value. However, in sectors where FDI is mainly efficiency-seeking in nature (for example, manufacturing of information technology and electronics, machinery and equipment, automotive, air and spacecraft, and biotechnology and pharmaceuticals), competition for FDI is high and developing countries frequently offer incentives to compete. In these sectors, most FDI projects are clustered in a limited number of successful host countries.

Governments play a key role in de-risking private investment. Reducing the risks of private investment at the project level does not compensate for failing to de-risk regulations and institutions at the country level.

Investment incentives or investment guarantees are frequently used to bolster locational competitiveness or investment viability for specific projects or sectors, but investment climate weaknesses must be addressed first. If fundamental elements at the country level are lacking, investors are unlikely to respond to even the most generous incentive packages or such incentives may only attract unviable investments.

Governments can reduce risks to private investors through a policy and institutional framework that supports an enabling business climate and ensures good governance. De-risking involves removing or reducing political and regulatory risks caused by government action, building on macroeconomic stability and good infrastructure in order to attract private investment.

Political risks are wide-ranging and include:

— expropriation;

— transfer and convertibility restrictions;

— breach of contracts;

— unpredictable and arbitrary actions;

— discrimination;

— absence of regulatory transparency.

In severe cases, such as expropriation, about half of the investors canceled a planned investment or withdrew an existing one.

The following factors positively impact entrepreneurial activity:

1) Country legal protection ("investor protection guarantees" typically included in a country's domestic legal framework);

2) Transparency, predictability and efficiency in the implementation of laws and regulations;

3) Ease of doing business (ease of obtaining government approvals to start a business and to own all equity in the company);

4) Investment incentives such as tax holidays;

5) Having a preferential trade agreement and Bilateral investment treaties and international investment agreements (IIAs).

DOMESTIC vs INTERNATIONAL LAW

Domestic Law is generally defined to mean the internal law of a nation. It is also referred to as **Municipal Law** or **National Law** and comprises the **law governing the behaviour and conduct of individuals and organizations within a country**. Domestic Law includes local laws and rules, such as those that govern towns, cities, districts or provinces within a country.

Health Care Bill being signed in to a Domestic Law

The distinct feature of Domestic Law is its method of enforcement. It is typically enforced through the three main mechanisms of a state, namely the legislature, executive and the judiciary. The legislature enacts the law while the judiciary ensures compliance by imposing sanctions for non-compliance. Simply put, those who do not obey or comply with Domestic Law will be punished in accordance with the law by a court or judicial body. Domestic Law is mostly comprised of Statutes or Acts of Parliament and also includes accepted customs.

International Law refers to a body of rules that **govern the relations between nations**. If Domestic Law governs the behaviour of individuals within one country, International Law **governs the behaviour and conduct of different countries**.

International Law serves as the fundamental structure within which countries and other international actors conduct their international relations. The key feature of International Law is that it is a body of law that is recognized and accepted by nations as binding on their relations with other nations. Unlike Domestic Law, it is not enacted by a legislative body. Instead, International Law is composed of treaties, agreements, conventions, accords, protocols, judicial decisions, and customs. Among these, treaties and conventions constitute the primary components of International Law that govern relations between nations and other international actors.

Permanent Court of International Justice

In contrast to Domestic Law, the enforcement of International Law is generally based on the consent and acceptance of states. Thus, a nation can choose not to accept and comply with the rules of a convention or treaty. However, in practice, states are often under obligation to comply with certain rules in International law such as customs and peremptory norms. International Law too has a judicial body in the form of the International Court of Justice. However, unlike courts within a nation, the International Court of Justice resolves disputes or issues between states. It does not impose punishment in the same manner as courts under Domestic Law. International Law has today expanded to include rules that govern the rights and obligations between individuals and organizations of nations, also known as **Private International Law**. Thus, rules governing the relations between states typically fall within the purview or discipline of **Public International Law**.

So, violation of Domestic Law entails serious consequences such as punishment. However, in the case of International Law, states can choose to ratify or refrain from ratifying and accepting certain rules in the form of treaties or conventions.

Describing the current trends in the investment policy of the countries, the following should be noted: the number of investment policy measures adopted in 2021 returned to pre-pandemic levels (109), decreasing by 28 per cent from the number in 2020. However, the trend towards tighter regulation of investment continued, and the ratio of measures less favourable to investment over those more favourable was the highest on record (42 per cent, a point higher than in 2020).

Fifty-three economies introduced an aggregate 109 policy measures affecting foreign investment in 2021 — a decrease of approximately 28 per cent compared with 2020, as the haste to adopt emergency pandemic-related measures has subsided and the total number of investment policy measures has returned to pre-pandemic levels (figure 6).

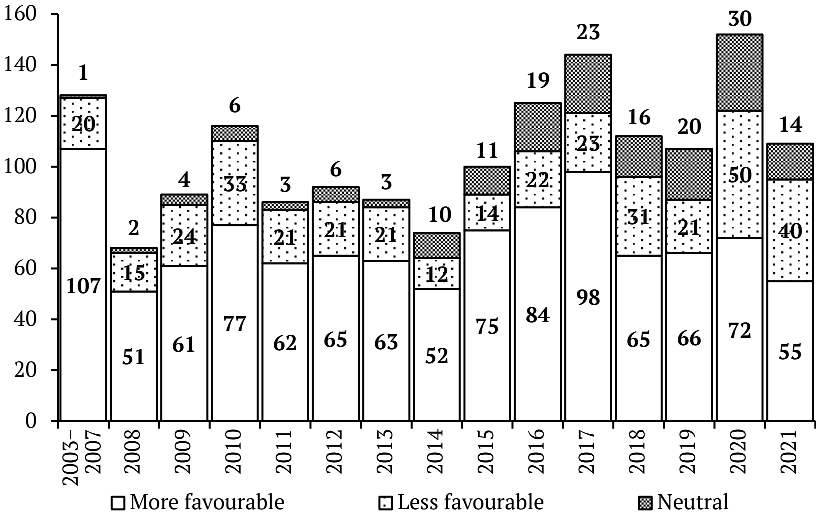


Figure 6. Changes in national investment policies, 2003–2021, number of measures[1]

Although the number of new measures less favourable to investment declined by 20 percent (from 50 in 2020 to 40 in 2021), they reached the highest proportion ever recorded (42 per cent of non-neutral measures), as several countries reinforced their screening regimes for investment or extended the temporary regimes introduced

[1] *UNCTAD*. World Investment Report 2022. International tax reforms and sustainable investment. — P. 56. — URL: https://unctad.org/webflyer/world-investment-report-2022.

in reaction to the pandemic. This surge in measures to tighten control over investor entry and operation continues the policy trend observed since the global financial crisis, which the pandemic accentuated. It started in developed countries but is increasingly extending to developing ones.

Many countries took further steps towards investment facilitation by simplifying or streamlining administrative procedures, and several others expanded their investment incentive regimes to attract more foreign investment.

Key trends in taxation of investments[1]

Foreign entrepreneurs (investors) base their decision to enter a country on many factors, including political stability, economic potential, natural resources, transparency and efficiency of regulatory regimes and the level of infrastructure and skills.

The tax regime is also a factor in investment decisions, and although tax incentives are frequently far from being the most important one, they have traditionally been one of the most widespread policy tools to attract and retain foreign investment. The pandemic has accentuated the importance of incentives and tax relief efforts as part of the economic recovery and resilience packages adopted worldwide.

So, in 2021 of 100 countries adopting measures related to taxation, 90 lowered taxes, introduced new tax incentives or made existing incentives more generous. Of all tax measures adopted, only 17 per cent were specifically directed at foreign investors, while 83 per cent targeted both domestic and foreign investors.

Investment-related tax measures adopted globally during the last decade were overwhelmingly more favourable to investment — 83 per cent introduced new incentives or made existing incentives more generous across the economy or in selected sectors. This trend held for all levels of development (84 per cent in developing countries,

[1] *UNCTAD*. World Investment Report 2022. International tax reforms and sustainable investment. — P. 77. — URL: https://unctad.org/webflyer/world-investment-report-2022.

82 per cent in LDCs and 81 per cent in developed countries) and all regions, though it is particularly strong in Asia.

Tax holidays were used by the largest number of countries (55). Tax holidays are also the main profit-based incentive used by African and Asian countries (accounting for 21 and 23 per cent of all tax incentives respectively), while reduced corporate income tax (CIT) is the most frequent profit-based incentive in Latin American and Caribbean countries (18 per cent) and European and North American countries (20 per cent).

Tax holidays of up to five years are the incentive most utilized worldwide. By contrast, longer tax holidays of up to 10 years are the most common among countries of Latin America and the Caribbean (62 per cent). Tax holidays of over 10 years are much less common in developing countries (20 per cent) and LDCs (11 per cent), than in developed countries (40 per cent).

Expenditure-based incentives represent 13 per cent of all tax incentives for investment introduced over the last decade. They mainly consist of schemes to provide accelerated depreciation for fixed assets, investment allowances and/or tax credit mechanisms.

This type of fiscal incentive was adopted by 39 countries worldwide (14 in Africa, 10 in Latin America and the Caribbean, 8 in Asia and 7 in Europe and North America). Over 55 per cent of expenditure-based instruments were adopted in conjunction with a tax holiday or a CIT reduction.

Both expenditure-based and profit-based incentives for investment are often combined with additional fiscal benefits in the form of tax breaks for indirect taxes and duties, such as *VAT or import tariffs*. These accounted for about 30 per cent of all tax incentives introduced in Asia and in Latin America and the Caribbean. They were also frequently utilized in Africa (24 per cent of all tax incentives), but far less common in Europe and North America (13 per cent).

Deductions and exemptions for *taxes on labour* and land and other payments are also used extensively as tax incentives for investment. They accounted for over a quarter of all tax incentives in Africa and in Europe and North America (adopted by 25 and 11 countries respectively). They are also relatively frequently used in Asia and in Latin American and the Caribbean, where they represented 20 per cent of all new tax incentives in the past decade.

In addition, several *non-tax instruments to promote* investment were introduced jointly with the tax reform initiatives over the last 10 years. They include financial incentives (e. g. grants, loans or State subsidies supporting salaries or production output), relaxed restrictions on foreign ownership and business facilitation measures (such as simplified import and export procedures, single-window mechanisms for permits and licences, and streamlined procedures for employment visas). *Business facilitation* measures are particularly noteworthy and represent the most significant non-tax promotion instrument adopted in every region of the globe (62 per cent of all non-tax promotion instruments in Africa, 57 per cent in Europe and North America, 56 per cent in Latin America and the Caribbean, 46 per cent in Asia).

Special economic zones (SEZs)[1]

Special economic zones (SEZs) is an area in a country that is subject to different economic regulations than other regions within the same country.

The economic regulations of SEZs tend to be conducive to — and attract – foreign direct investment. SEZs are used as key policy instruments for the attraction of investment for industrial development.

SEZs are typically created in order to facilitate rapid economic growth by leveraging tax incentives to attract foreign investment and spark technological advancement.

SEZs are widely used in most developing and many developed economies. *Within these geographically delimited areas governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support*. There were nearly 5,400 zones across 147 economies in 2019, up from about 4,000 seven years ago, and more than 500 new SEZs are in the pipeline. While many countries have set

[1] UNCTAD. World Investment Report 2022. Special Economic Zones. — URL: https://unctad.org/system/files/official-document/wir2019_en.pdf.

up SEZs, China has been the most successful in using them to attract foreign capital.

The SEZ boom is part of a new wave of industrial policies and a response to increasing competition for internationally mobile investment.

SEZs come in many types.

Basic free zones focused on facilitating trade logistics are most common in developed countries.

Developing economies tend to employ integrated zones aimed at industrial development, which can be multi-industry, specialized or focused on developing innovation capabilities.

The degree and type of specialization is closely linked to countries' level of industrialization, following an SEZ development ladder.

Many new types of SEZs and innovative zone development programmes are emerging. Some focus on new industries, such as high-tech, financial services or tourism — moving beyond the trade- and labour-intensive manufacturing activities of traditional SEZs. Others focus on environmental performance, science commercialization, regional development or urban regeneration.

International cooperation on zone development is increasingly common. Many zones in developing countries are being built through bilateral partnerships or as part of development cooperation programmes.

Regional development zones and cross-border zones spanning two or three countries are becoming a feature of regional economic cooperation. SEZs can make important contributions to growth and development. *They can help attract investment, create jobs and boost exports — both directly and indirectly where they succeed in building linkages with the broader economy*.

Zones can also support global value chain (GVC) participation, industrial upgrading and diversification. However, none of these benefits are automatic. In fact, the performance of many zones remains below expectations. SEZs are neither a precondition nor a guarantee for higher FDI inflows or GVC participation. Where they lift economic growth, the stimulus tends to be temporary: after the build-up period, most zones grow at the same rate as the national economy. And too many zones operate as enclaves with limited impact beyond their confines. Only a few countries regularly assess the performance and economic impact of zones. Doing so is critical, because the turnaround of unsuccessful SEZs requires timely diagnosis, especially when there has been a significant level of public investment in zone development.

Different countries have different conditions of doing business, the legal system, labor and tax legislation, forms of ownership and business organization, however, ***four keystones to legally establishing a business can be identified***:

1) Business name;
2) Business structure;
3) Taxes, employer obligations, and bank account;
4) Laws, licenses and regulations.

Business Name. Determine a name for your business that is not already in use. Determine whether your name is considered a fictitious name. Register fictitious name, if applicable.

A fictitious name is a name other than your proper legal business entity name that you formally get permission from the authority (state, county) to use when conducting business. For example, in the United States entrepreneur may also see a fictitious business name referred to as:

— Doing Business As (DBA);
— Assumed name;
— Trade name.

Fictitious names can benefit businesses of all types — from sole proprietorships to corporations.

Business Structure. Once you decide to establish a business, your first consideration will be the type of business organization to use. Legal and tax considerations will help to determine your final choice, as well as personal needs and the needs of the particular business.

There are different kinds of business structures in different countries. The most common are: the sole proprietorship, the partnership and the corporation. Several common business structures on the example of the USA are described in table 5.

Table 5

Common business structures (example of the USA)[1]

Business structures	Definition
Sole Proprietorship	This is the simplest form of organization and allows the single owner to have sole control and responsibility. Some advantages of the sole proprietorship are less paperwork, a minimum of legal restrictions, owner retention of all the profits and ease in discontinuing the business. Disadvantages include unlimited personal liability for all debts and liabilities of the business, limited ability to raise capital and termination of the business upon the owner's death.
General Partnership	A partnership is similar to a sole proprietorship except that two or more people are involved. Advantages are that it is easy to establish, it can draw upon the financial and managerial strength of all the partners and its profits are not directly taxed. Some disadvantages are unlimited personal liability for the firm's debts and liabilities, termination of the business with the death of a partner and the fact that any one of the partners can commit the firm to obligations. The partnership is formed by an agreement entered into by each partner. This agreement may be informal, but it is advisable to have a written agreement drawn up between all parties establishing the responsibilities and profit and loss distribution of each partner, as well as other rules about the general partnership.
Limited Partnership (LP)	LP is a partnership formed by two or more persons having one or more general partners and one or more limited partners. The limited partners have limited exposure to liability and are not involved in the day-to-day operations of the partnership. Like with a general partnership, a written agreement should be drawn up between all parties, establishing the rules for the general and limited partners. The agreement does not need to be filed. When applying for funding, lenders may request a copy of your partnership agreement.

[1] Compiled by: *The Entrepreneur's* Guide. Starting and Growing a Business in Pennsylvania. Pennsylvania Department of Community and Economic Development. — URL: http://www.business.pa.gov.

End of table 5

Business structures	Definition
Limited Liability Partnership (LLP)	The effect of becoming an LLP is to provide general partners with additional protection from liability. Like with a general or limited partnership, a written agreement should be drawn up between all parties. The agreement does not need to be filed. When applying for funding, lenders may request a copy of your partnership agreement.
Limited Liability Company (LLC)	LLC is a hybrid between a partnership and a corporation, providing the liability protection of a corporation, with the advantage of being treated as a partnership.
Corporation	A corporation is the most complex form of business organization. Advantages of a corporation are that liability is limited to the amount owners have paid in to their share of stock, and the corporation's continuity is unaffected by the death or transfer of shares by any of the owners. Some disadvantages are extensive record-keeping, close regulation and double taxation (taxes on profits and taxes on dividends paid to owners).
Foreign entities or associations	Usually foreign entities or associations must submit a Foreign Registration Statement, accompanied by a docketing statement to conduct business.

When you plan to start a business on your own or with partners and decides to legally register the company in the country of your choice, you may have to make many important decisions. One of the important decisions you have to make is the structure of the company you are going to form. There are real advantages in choosing a structure that is best suited to the way you want to operate. For that you need to know the accepted types of business structures incorporated under the company act of the country and the responsibilities and regulations associated with it.

Some of the important factors considered in choosing the right business structure are, the way tax applies to business, legal liability, the protection of your assets and operating cost.

There are advantages and disadvantages to each of the legal forms of business entrepreneur may choose. Most small businesses operate as sole proprietorships. But a small business owner might very well select the sole proprietorship to begin. Later, if the owner succeeds and feels the need, he or she may decide to form a partnership or corporation.

CORPORATION vs LLC[1]

A limited liability company (LLC) is an entity, whose owners enjoy limited liability (obligation/responsibility) for the company's debts and losses. In most cases, the liability of the owners is limited to the face value of the shares fully paid. This gives the owners the protection for their personal assets from business debts. Members cannot be held personally liable for debts unless they have signed a personal guarantee.

LLC is a type of business structure combining several features of corporation and partnership structures, but not a corporation or partnership. The owners are called members, not shareholders or partners and the number of members is unlimited. Anyone can be a member of the LLC: individuals, corporations or even other LLCs can be members of it.

A corporation is a formal business association with a publicly registered charter recognizing it as a separate legal entity having its own privileges, and liabilities distinct from those of its shareholders.

A corporation enjoys most of the rights and responsibilities that an individual possesses that is, a corporation has the right to enter into contracts, loan and borrow money, sue and be sued, hire employees, own assets and pay taxes.

A general corporation may have unlimited number of shareholders. The most important aspect of a corporation is that its shareholders have the right to participate in the profits, through dividends and/or the appreciation of stock, but are not held personally liable for the company's liabilities. A shareholder's personal liability is usually limited to the amount they invested in the corporation.

In both, Corporation and LLC, the member/shareholder's liability from the debts of the business is limited and they are protected from lawsuits against the business. But the tax system differ from each other.

In LLC the profits and losses of the business passes through to the members depending on their share of membership. Then the members pay the tax on his or her personal tax returns based on the adjusted gross income of the owners. Whereas, corporations are separate legal entities, the profit and losses of the corporation are taxable to the corporation at corporate rate, not the owner/shareholder.

[1] Compiled by: *Difference* Between Corporation and LLC. — URL: www.differencebetween.com.

In corporation a Board of Directors are appointed and they oversee the business. In LLC the members set out an operating agreement and abide by that agreement.

In short, a corporation is a legal entity separated from its owners. Business decision making is with the Board of Directors. Owners/shareholders are protected from liabilities of the corporation, and the corporation pays income taxes at corporate rate. Whereas, LLC is formed by one or more members whose liability is limited to their investment. An LLC is often used in place of partnerships to limit liability. Tax is paid through the personal tax returns of the individual member's adjusted gross income.

Taxes, employer obligations, and bank account

An entrepreneur must determine what local, regional and federal taxes the business needs to pay, register for or collect (for example, personal income tax, corporation tax, motor fuels taxes, sales tax, value added tax, etc.) and obtain Taxpayer Identification Number (TIN). Also an entrepreneur must determine what tax incentives exist.

If entrepreneur's business will employ one or more people, complete local, state and federal employer obligations, including employment taxes, withholdings and contributions, such as unemployment compensation and social security.

Also an entrepreneur must open a bank account for your business. Entrepreneur has to contact desired bank and ask for all information and forms required for a business to open a business bank account.

Laws, licenses and regulations

When starting business entrepreneur must check with the local municipality (region, city or township):

— zoning requirements;

— any required local licenses and permits;

— any other regulations and requirements.

Table 6 demonstrates the hierarchy of such regulation.

Delays in obtaining necessary government permits and approvals to start or operate a business my lead to additional expenses, and sometimes cancel planned investment. An entrepreneur must examine all of the characteristics and consult a knowledgeable legal professional when considering the formation of the business.

Table 6

Hierarchy of licenses and regulation[1]

Level	Content
Federal Laws and Regulations	Foreign trade laws and FDI laws, labor standards, insurance, health care, immigration laws and regulations
Regional	Professional licenses and regulations (food or beverage, farming; medical services); building regulations
Local	Zoning and building requirements; required local business licenses or permits

2.3. Developing a Business Plan: Structure and Key Elements

When starting a new business, entrepreneurs often wonder if they really do need to invest time and resources in writing a business plan. Well, the answer is always going to be **"Yes!"**. A business plan is one of the most important things to consider when opening a new business and it is a process that can take up quite some time, especially if you don't have any experience in using marketing tools to your advantage. A business plan will give you an overall idea of what you are about to get yourself into and help you build up a strategy to start your business on the right foot.

Business plan is a document that compiles all the financial and operational goals of a business and it should contain all the detailed plans showing how those goals are to be met[2]. A well put-together business plan will help determine how viable your business idea is and answer a few important questions before the opening. Even if the idea does not turn into a successful business, it is better to lose a few weeks to develop a plan, than to invest in an idea which is destined to fail.

In some circumstances, such as applying for a business loan, searching for business partners or pitching your idea to investors, a business plan is mandatory! Financial institutions are going to need proof that you will be able to repay them, while investors will want to

[1] Mainly for federal countries.

[2] Compiled by: *How* to successfully write a business plan. Business Case Studies. — URL: https://businesscasestudies.co.uk.

see if your idea truly has potential and is worth their money and a business plan is the only way you can provide the information needed.

Gathering the correct information to write the business plan will also help you make some tough and important decisions, such as product type and pricing. If used correctly, a business plan can easily turn into a real action plan and point you into the correct direction, especially in the beginning.

According to United Nations Industrial Development Organization (UNIDO) standards, the structure of the business plan should consist of the following sections (table 7).

Table 7

A business plan model[1]

Business plan sections	Description	Information includes
Title Page	All contact and ownership information is included on the title page. Some entrepreneurs like to add a very brief business description, slogan or mission statement	— Business name, address, telephone, e-mail and website; — name of owner(s)
Table of Contents	The table of contents should list all sections of the business plan and the appropriate page numbers	Graphs, diagrams and other visual representations should also be identified. Items included as exhibits at the end of the plan (example: owner resume) should be clearly identified so that the reader can reference them while reviewing the plan
Executive Summary	This is going to be the first meaningful section of your business plan and should summarize its most important elements. Anybody who looks at your business plan is going to	— Brief description of the company history; — purpose of the plan; — goals of the business; — description of the products and services;

[1] Compiled by: *UNIDO*. — URL: https://www.unido.org; *How* to successfully write a business plan. Business Case Studies. — URL: https://businesscasestudies.co.uk; *The Entrepreneur's* Guide. Starting and Growing a Business in Pennsylvania. Pennsylvania Department of Community and Economic Development. — URL: http://www.business.pa.gov.

Continuation of table 7

Business plan sections	Description	Information includes
	read this section first so it should be perfectly written. Because it is an overview of your entire plan, this section should be written after the rest of the plan is complete	— customers; — management team experience; — amount required, sources of funds, method of repayment
Industry Overview	The overview should include an examination of the industry that your business aims to be a part of. It should include information such as industry trends, estimated industry sales and show you possess information about other big names in the industry. It should also describe how tour business will fit into the industry	— National/regional economic growth or decline; — industry outlook; — projected opportunities; — regulatory environment; — technological influences
Description of goods or services	This section should list and discuss the products and services you are selling and the pricing of those products and services. When pricing your product, you must consider competition and customer expectations, as well as all expenses. You should also discuss where you are getting your products from or the raw materials to make them, listing your key suppliers and information on those suppliers	— Products and services you are selling; — pricing; — suppliers
Competitive Analysis	The name is pretty self-explanatory, as this section should reveal a thorough investigation about your competitors, listing their advantages and your plan to overcome the marketing barriers. This is where you will show the reader how your business will differentiate from your competitors and what your competitive advantages are	It can be helpful to develop a matrix (Competitiveness Polygon) that lists all your major competitors, their products, services, prices, methods of promotion and location. By incorporating your own marketing information on the matrix, you can identify your firm's strengths and weaknesses

Continuation of table 7

Business plan sections	Description	Information includes
Market Analysis	Any successful entrepreneur will tell you that good market research is always the first step in writing the market analysis section of the business plan. This should include a thorough examination of your product's target market, the market's needs and how they are currently being met. This section should be able to show the reader that your predictions about the targeted customers and market are based on knowledge and research	— Characteristics of the Target Market: demographic profile (age, income, sex, education), business customer (industry, size, purchaser), geographic parameters; — size of the market/expected market share; — market segmentation; — customer buying habits (seasonality, quantity, average expenditure). To be thorough, you must also describe the target market between you and the end user of your offerings. For example, if you are a manufacturer, you may need a retailer or distributor. Without the retailer or distributor purchasing your product, the end user will never have the opportunity to purchase
Sales and Marketing Plan	This section should include your Unique Selling Proposition, which should, in a single sentence, summarize the core of your business. You should include detailed information about your pricing plan and sales strategy, as well as product benefits and advertising plans	— Sales goals; — description of all products and services; — pricing objectives/methods (wholesale and retail, discounts and special allowances, price sheets, seasonality in pricing, credit terms); — location (where products/services will be sold, website, analysis of advantages/disadvantages, plant/store atmosphere, transportation); — promotion activities (advertising, marketing materials, public relations, publicity, trade or business shows); — commerce; — packaging; — customer service policies;

Continuation of table 7

Business plan sections	Description	Information includes
		— sales training, management and methods; — growth strategies
Management and Human Resources	The management plan should describe the legal structure of your business, as well as management resources. You will need to outline the structure of your internal management team, human resource needs and external management resources, which should include an advisory board, especially if you plan to get funding through your business plan	— Key managers (responsibilities, training, reporting procedures); — personnel (number of full- and part-time employees, special skills/education required/ continuing education, job descriptions and evaluation methods, benefits, wages, commissions, bonus plans, use of subcontracted personnel, policies); — organizational chart; — lists of stockholders and board members; — amount of authorized stock and issued stock; — professional assistance (attorney, accountant, banker, insurance representative, etc.)
Production and Operations	This is where the physical necessities of your business should be outlined. You will need to include information about the physical location of the company, necessary equipment and other facilities. In this section, the reader should be able to understand what your progress to get your business off the ground has been so far and that you have knowledge about the production process of your product, including manufacturing and inventory requirements	— Equipment (machines/tools owned/needed, lease or purchase, maintenance procedures and costs, vehicles, telecommunications and data); — production process and costs; — suppliers/credit terms; — transportation, shipping access and equipment; scheduling for completion of research and development

End of table 7

Business plan sections	Description	Information includes
Financial Plan	In this section, you will need to focus on presenting the main financial documents required for any business to open: the cash flow statement (or projection), the balance sheet and the income statement. You will need to include a description of the type of funding you require and show the potential investors that your business idea is viable, as this is probably the section that they will be most focused on	— Startup costs (all one-time expenses such as equipment, deposits, fees, etc.); — operating costs (ongoing expenses for lease, insurance, utilities, etc.); — sources and uses of funds; — balance sheets; — projected cash flow; — profit and loss forecast or statement; — break-even analysis; — existing business (historical statements for three years); — personal financial statement of owner(s); — assumptions used in preparation of financial projections
Appendices and Exhibits	This should serve as the end of your business plan and can include any additional information that can help you support your business idea and establish credibility	— Marketing studies, advertisements, news articles and other promotional documents; — product prototypes or mock-ups; — patents, trademarks, copyrights, license agreements; — photographs; — all sorts of documents that can add value to your business plan (contracts, leases and filing documents, managers' resumes, letters of support/interest from prospective customers/buyers/ clients, invoices or estimates for facility or equipment purchases)

How to write a winning business plan[1]

As business plan is a formal document, you will want to make it look like one, as you are looking to impress the reader and ultimately

[1] Compiled by: *Bplans*. How to Write a Business Plan. — URL: https://articles.bplans.com.

receive funding for your idea. Pay attention to formatting and make sure it is spell checked before printing it.

Business plans should be short and concise. In average not more than 50 pages.

The most important part of the business plan is Executive Summary. This is the first section of your business plan but, it's the first thing that people will read. Because it is an overview of your entire plan, this section should be written after the rest of the plan is complete.

The executive summary of your business plan introduces your company, explains what you do, and lays out what you're looking for from your readers.

Ideally, the executive summary can act as a stand-alone document that covers the highlights of your detailed plan. In fact, it's very common for investors to ask for only the executive summary when they are evaluating your business. If they like what they see in the executive summary, they'll often follow up with a request for a complete plan, a pitch presentation, and more in-depth financials.

Because your executive summary is such a critical component of your business plan, you'll want to make sure that it's as clear and concise as possible. Cover the key highlights of your business, but don't into too much detail. Ideally, your executive summary will be one to two pages at most, designed to be a quick read that sparks interest and makes your investors feel eager to hear more.

The critical components of a winning executive summary:

— One sentence business overview.

— At the top of the page, right under your business name, include a one-sentence overview of your business that sums up the essence of what you are doing.

This can be a tagline, but is often more effective if the sentence describes what your company actually does. This is also known as your value proposition.

— Problem. In one or two sentences, summarize the problem you are solving in the market. Every business is solving a problem for its customers and filling a need in the market.

— Solution. This is your product or service. How are you addressing the problem you have identified in the market?

— Target market. Who is your target market, or your ideal customer? How many of them are there? It's important here to be specific. If you're a shoe company, you aren't targeting "everyone" just because everyone has feet. You're most likely targeting a specific market segment such as "style-conscious men" or "runners." This will make it much easier for you to target your marketing and sales efforts and attract the kinds of customers that are most likely to buy from you.

— Competition. How is your target market solving their problem today? Are there alternatives or substitutes in the market?

— Company overview and team. Provide a brief overview of your team and a short explanation of why you and your team are the right people to take your idea to market. Investors put an enormous amount of weight on the team — even more than on the idea — because even a great idea needs great execution in order to become a reality.

— Financial summary. Highlight the key aspects of your financial plan, ideally with a chart that shows your planned sales, expenses, and profitability.

— Funding requirements. If you are writing a business plan to get a bank loan or because you're asking angel investors or venture capitalists for funding, you must include the details of what you need in the executive summary. Don't bother to include terms of a potential investment, as that will always be negotiated later. Instead, just include a short statement indicating how much money you need to raise.

— Milestones and traction. The last key element of an executive summary that investors will want to see is the progress that you've made so far and future milestones that you intend to hit. If you can show that your potential customers are already interested in — or perhaps already buying — your product or service, this is great to highlight.

The business plan admits the entrepreneur to the investment process. Without a plan many investors won't even grant an interview. *The most important is the reflection in business plan of the points of view of the three groups*:

1) The market, including both existing and prospective clients, customers, and users of the planned product or service;

2) The investors, whether of financial or other resources;

3) The producer, whether the entrepreneur or the inventor.

Too many business plans are written solely from the viewpoint of the third constituency — the producer. They describe the underlying technology or creativity of the proposed product or service in glowing terms and at great length. They neglect the constituencies that give the venture its financial viability — the market and the investor.

It is important to satisfy the needs of marketers and investors. Marketers want to see evidence of *customer interest* and a viable market. Investors want to know when they can cash out and how good the financial projections are.

Emphasize the market. Investors want to put their money into market-driven rather than technology-driven or service-driven companies. The potential of the product's markets, sales, and profit is far more important than its attractiveness or technical features. You can make a convincing case for the existence of a good market by demonstrating user benefit, identifying marketplace interest, and documenting market claims.

The marketing issues are tied to the *satisfaction of investors*. Once executives make a convincing case for their market penetration, they can make the financial projections that help determine whether investors will be interested in evaluating the venture and how much they will commit and at what price.

Market analysis and market research. First, identify your market segments and determine how big each segment is.

A market segment is a group of people (or other businesses) that you could potentially sell to. Don't fall into the trap, though, of defining the market as "everyone." See the previous example is a shoe company.

TAM vs SAM vs SOM

TAM: Your Total Available or Addressable Market (everyone you wish to reach with your product);

SAM: Your Segmented Addressable Market or Served Available Market (the portion of TAM you will target);

SOM: Your Share of the Market (the subset of your SAM that you will realistically reach — particularly in the first few years of your business).

When you have your target market segments defined, it's time to define your ideal customer for each segment.

One way to talk about your ideal customer in your plan is to use your "buyer persona" or "user persona". A buyer persona is a fictitious representation of your market — they get a name, gender, income level, likes, dislikes, and so on.

While this may seem like additional work on top of the market segmentation that you have already done, having a solid buyer persona will be an extremely useful tool to help you identify the marketing and sales tactics you'll need to use to attract these ideal customers.

Pricing. Once you know what your overall positioning strategy is, you can move on to pricing. Your positioning strategy will often be a major driver of how you price your offerings. Price sends a very strong message to consumers and can be an important tool to communicate your positioning to consumers. If you are offering a premium product, a premium price will quickly communicate that message to consumers.

There are some basic rules that you should follow deciding on your price:

1) **Covering your costs**. There are certainly exceptions to this, but for the most part, you should be charging your customers more than it costs you to deliver your product or service.

2) **Primary and secondary profit center pricing**. Your initial price may not be your primary profit center. For example, you may sell your product at, or even below, your cost, but require a much more profitable maintenance or support contract to go along with the purchase.

3) **Matching the market rate**. Your prices need to match up with consumer demand and expectations. Price too high and you may have no customers. Price too low and people may undervalue your offering.

Three approaches to pricing strategy:

1) **Cost-plus pricing**. You can establish your pricing based on several factors. You can look at your costs and then mark up your

offering from there. This is usually called "cost-plus pricing" and can be effective for manufacturers where covering initial costs is critical.

2) **Market-based pricing**. Another method is to look at the current landscape of competitors and then price based on what the market is expecting. You could price at the high-end or low-end of the market to establish your positioning.

3) **Value pricing**. Yet another method is to look at a "value pricing" model where you determine the price based on how much value you are providing to your customer. For example, if you are marketing lawn care to busy professionals, you may be saving your customers 1 hour/week. If that hour of their time is valued at $50/hour, your service could charge $30/hour.

Advertising. Your business plan should include an overview of the kinds of advertising you plan to spend money on. Will you be advertising online? Or perhaps in traditional, offline media?

Public relations (PR). Getting the media to cover you — PR can be a great way to reach your customers. Getting a prominent review of your product or service can give you the exposure you need to grow your business. If PR is part of your promotional strategy, detail your plans here.

Content marketing. Content marketing is what business plans are all about. It's when you publish useful information, tips, and advice — usually made available for free — so that your target market can get to know your company through the expertise that you deliver. Content marketing is about teaching and educating your prospects on topics that they are interested in, not just on the features and benefits that you offer.

Social media. These days, having a social media presence is essentially a requirement for the vast majority of businesses. You don't need to be on every social media channel, but you do need to be on the ones that your customers are on. More and more, prospects are using social media to learn about companies and to find out how responsive they are.

Financial plan chapter is often what entrepreneurs find most daunting, but it doesn't have to be so. If entrepreneurs need additional help, there are plenty of tools and resources out there to help build a solid financial plan.

A typical financial plan will have *monthly sales and revenue projections for the first 12 months, and then annual projections for the remaining three to five years. Three-year projections are typically adequate*, but some investors will request a five-year forecast.

In the Chapter 3 we will discuss the details of the financial statements that entrepreneur should include in the business plan, and a brief overview of what should be in each section.

Questions and Exercises

Questions for self-control

1. **This is the simplest form of organization and allows the single owner to have sole control and responsibility:**
   A. Limited Liability Company.
   B. Sole Proprietorship.
   C. Corporation.
2. **A document that compiles financial and operational goals of a business:**
   A. Trade Contract.
   B. License.
   C. Business plan.
3. **The most important part of business plan is:**
   A. Marketing plan.
   B. Financial plan.
   C. Executive Summary.
4. **Financial plan should include projections for:**
   A. One year.
   B. Three to five years.
   C. Five to ten years.
5. **What is not a keystone to successful business startup:**
   A. Revolutionary invention
   B. Profitable business idea
   C. Right location

Exercises

Exercise 1

Here are some myths about entrepreneurs. Shatter or prove them with the examples:

1) Entrepreneurs take uncalculated and unknown risks without any plans.

2) Entrepreneurs start a business with a revolutionary invention.

3) Entrepreneurs venture out only after gaining significant experience in the industry.

4) Entrepreneurs complete extensive research before taking the first step.

5) Entrepreneurs start with sufficient capital.

Exercise 2

Offering extra room in your home for a monthly fee is simply a rental business. Building a service-based model around this idea is a fantastic entrepreneurial idea. Airbnb implemented the mix-n-match entrepreneurial approach to build a network of all such available rentals in a certain area and make it available to tourists. Without owning a single property, their innovative business model offers a win-win situation for all parties. The owners get short-term high-paying customers (tourists) instead of long-term low-paying renters. Tourists benefit from relatively low costs and a secure, home-like stay. Airbnb benefits from service charges for offering this buyer-seller marketplace model, controlling the sales channel without owning a single property.

What are the keystones to this successful business startup?

Exercise 3

Presentation "Doing Business in… (country)" according to the plan:

1) Choose a country (the USA, Canada, UK, Germany, France, China, India, South Korea, South Africa, Peru, Argentina etc.);

2) Analyze the legal regime of business activity in the chosen country in the following areas:

— regulation of business activities (main laws);
— business structure;
— registering business;
— tax system;
— labor and employee laws;
— bank system and bank account;
— incentives;
— licenses and regulations;
— support infrastructure (organizations/foundations/business associations that provide assistance and support to entrepreneurs);
— main sources (sites) for searching commercial information.

3) Make presentation of 15–20 slides.

Students may work in groups (not more than 5 students in each).

Case: Common mistakes when writing a business plan[1]

Read the article of Tim Berry, business planning expert, the founder and chairman of Palo Alto Software and Bplans.com., and answer the question “What are the most common mistakes when writing a business plan?”

During a business crisis, change comes at you fast. Meaning that good business planning is crucial to the survival and success of your business. However, even when you’re not navigating through a crisis, it’s easy to make mistakes that can prove to be costly for your business.

Some common mistakes are classics. Others are reflections of the growing need for planning as steering and management tools. But they are all common pitfalls to avoid. Do your planning right and it’s a powerful tool for quick decisions, rapid adjustment, and optimizing management.

[1] Compiled by: *Berry T.* 11 Common Business Plan Mistakes to Avoid in 2022. — URL: https://articles.bplans.com.

Too many businesses make business plans only when they have no choice in the matter. Unless a bank or investors want a plan, there is no plan. Don't wait to write your plan until you think you'll have enough time. "I can't plan. I'm too busy getting things done," business people say. The busier you are, the more you need to plan. If you are always putting out fires, you should build firebreaks or a sprinkler system. You can lose the whole forest for paying too much attention to the individual burning trees.

Now more than ever, as we deal with the crisis of 2020 and 2021, stop thinking of the business plan as just a plan. That conceptual mistake blocks you from the enormous benefits of planning as a process, with regular review and revision. Things change overnight. Assumptions disappear into the wind. Your business planning is where you keep track of all of the connections between tasks, spending, goals, changing assumptions, and changing markets. A good business plan is never finished. When your plan is done, your company is done.

Most people think in terms of profits instead of cash. When you imagine a new business, you think of what it would cost to make the product, what you could sell it for, and what the profits per unit might be. We are trained to think of business as sales minus costs and expenses, which equals profits. Unfortunately, we don't spend the profits in a business. We spend cash. Understanding cash flow is critical. If you have only one table in your business plan, make it the cash flow table.

Don't overestimate the importance of the idea. You don't need a great idea to start a business — you need time, money, perseverance, and common sense. Few successful businesses are based entirely on new ideas. A new idea is harder to execute than an existing one because people don't understand a new idea and they are often unsure if it will work. Plans don't sell new business ideas to investors. Plans just summarize business prospects and achievements. Investors invest in people, and their businesses, not ideas. Investors buy into a business, with milestones met and traction and validation; not just ideas. The plan, though necessary, is only a way to present information. So make sure you're ready to wow your prospective investors with your knowledge and leadership skills. Don't expect your business idea — or the business plan you explain it in — to do the work for you.

Doing a business plan isn't as hard as you might think. You don't have to write a doctoral thesis or a novel. The simplest Lean Plan is just a few pages of bullet-point lists, tables, and essential projections. There are good books, many advisors among the Small Business Development Centers (SBDCs), and through the SCORE business mentoring program, business schools, and there is software available to help you. Don't sweat the cosmetics. Focus on the content. What matters is what you plan, not how you write about it.

Leave out the vague and meaningless babble of business phrases (such as "being the best") because they are simply hype. Remember that the objective of a plan is its results, and for results, you need tracking and follow-up. You need specific dates, management responsibilities, budgets, and milestones. Then you can follow up. No matter how well thought out or brilliantly presented, it means nothing unless it produces results.

Not every business plan needs to be the same. In fact not every plan should be the same. To find success, you need to tailor your plan to its real business purpose. Business plans can be different: they are sometimes just sales documents to explain a new business. They can also be flexible Lean Plans, detailed action plans, financial plans, marketing plans, and even personnel plans. They can be used to start a business, or just run a business better. Develop the plan that best suits your business goals and don't let the planning process get the best of you.

Strategy equals focus. If you split your priorities you split your focus and will only have difficulties making any progress. Starting with a priority list of three to four items is the focus. A priority list with 20 items is certainly not strategic, and rarely if ever effective. The more items on the list, the less the importance of each.

"Hockey stick" shaped growth projections. Sales grow slowly at first, but then shoot up boldly with huge growth rates, as soon as "something" happens. The only issue is if that's your sole projection, you'll soon find yourself in trouble. It's best to have projections that are conservative so you can defend them. When in doubt, be less optimistic. In fact, it may make sense to have multiple forecasts operating — one that acts conservatively, one that's more optimistic, and another that reflects your actual performance.

Planning works best as a process. In order to navigate volatile environments a lean plan, regular reviews, and revisions as needed are necessary. It's not about having the document, the business plan, that isn't the goal. It's about a system of planning that works like driving with a GPS. You have the long-term strategy and goals as the desired destination. You have the major milestones and metrics as the recommended route. And you have regular progress reviews as the equivalent of real-time traffic and weather information. Steering is a matter of frequent course corrections. Planning does that for you. If you're not paying attention, and not adjusting to external factors, your plan is worthless.

Contrary to popular belief, there is no virtue in sticking to a plan, just for the sake of sticking to a plan. There are plenty of cases where your initial plan is ill-informed, missing steps, or just ineffective. Having a plan doesn't mean you cut your options or reduce flexibility. Having a plan means you have a dashboard tool to show the connections and dependencies. It's about being able to make the right changes fast. It is more flexible, not less.

Tips in Entrepreneurial Toolkit

3 rules for writing a business plan[1]

1) ***Keep it short***

Business plans should be short and concise. The reasoning for that is:

First, you want your business plan to be read (and no one is going to read a 100-page or even 40-page business plan).

Second, your business plan should be a tool you use to run and grow your business, something you continue to use and refine over

[1] *Bplans*. How to Write a Business Plan. — URL: https://articles.bplans.com.

time. An excessively long business plan is a huge hassle to revise — you're almost guaranteed that your plan will be relegated to a desk drawer, never to be seen again.

2) ***Know your audience***

Write your plan using language that your audience will understand.

For example, if your company is developing a complex scientific process, but your prospective investors aren't scientists, avoid jargon, or acronyms that won't be familiar.

Instead of this:

"Our patent-pending technology is a one-connection add-on to existing bCPAP setups. When attached to a bCPAP setup, our product provides non-invasive dual pressure ventilation."

Write this:

"Our patent-pending product is a no power, easy-to-use device that replaces traditional ventilator machines used in hospitals at 1/100th the cost."

Accommodate your investors, and keep explanations of your product simple and direct, using terms that everyone can understand. You can always use the appendix of your plan to provide the full specs if needed.

3) ***Don't be intimidated***

The vast majority of business owners and entrepreneurs aren't business experts. They're learning as they go and not all of them have degrees in business.

Writing a business plan may seem like a big hurdle, but it doesn't have to be. You know your business — you're the expert on it. For that reason alone, writing a business plan and then leveraging your plan for growth won't be nearly as challenging as you think.

It can be much easier to start with a simple, one-page business plan — that is called a *Lean Plan* — and then come back and build a slightly longer, more detailed business plan later.

CHAPTER 3

UNDERSTANDING THE ROLE OF FINANCE AND CAPITAL BUDGETING

3.1. Fundamentals of Finance

Entrepreneur has done all the planning and hard work. Entrepreneur has secured funding and established a business. Now, when does the financial payoff for all the effort kick in? Where, when, and how can entrepreneur expect to realize potentially high-yield rewards? Moreover, why should entrepreneurial venture succeed where others have failed?

Entrepreneurs introduce new products or services that may result in significant improvements in productivity, reduction in costs, and improvement in the quality of life. Knowing their offerings much better than anyone else and being aware of customer needs, the entrepreneur can charge a premium for their innovations. This can translate to big rewards.

Forms of financing. Any entrepreneur needs financing and has to decide *where to get funding from, how to invest, and how much to borrow*.

The sources of entrepreneurial finance are the following[1]:

1) **Bootstrapping**

This form of financing the ventures applies when entrepreneurs invest their own money, or offer stakes in their venture to individuals in return for their services, as well as includes other forms of financing such as delaying payments to partners, offering sweat equity to employees and other stakeholders etc. The important point to note about bootstrapping is that it can be actualized only when the entrepreneur does not need significant amounts of capital as all the methods mentioned above relate to investments that are limited in their capital mobilization. Another important aspect of this type of financing is that entrepreneurs typically offer equity in return for work done which is a non-monetized form of financing known as sweat equity.

2) **External Financing**

This type of financing is the most common for entrepreneurs and this category includes all the types of financing mentioned subsequently. When compared to bootstrapping where the entrepreneur raises money either from internal sources or by offering equity in return for work, external financing often involves sourcing capital from external sources which are tangible and immediately monetized forms of financing. Private equity or equity to large investors in return for financing is often the norm for entrepreneurs.

Debt Financing (Loans)

The vast majority of loans are made through banks. Many countries have government-sponsored loan programs — such as loans for SME — administered by banks and require contacting and applying through them.

In many cases, the most fundamental document you will need for a loan application is a *business plan*, because it shows the lender

[1] Compiled by: *Juneja P.* Entrepreneurial Finance. Management Study Guide Content Team. — URL: https://www.managementstudyguide.com/entrepreneurial-finance.htm.

your ability to research and envision the establishment and operation of the firm. In addition to the plan, lenders consider several factors in evaluating a business loan:

— management experience: background compared to the skills required for chosen business,

— repayment ability: realistic projection of business income allows to maintain loan payments,

— collateral: pledge of assets toward business stability and loan repayment,

— credit: historic and current record of repayment of obligations.

Obtaining a loan requires preparation and credit worthiness, but a bit of sales ability can help. Many lenders want assurance that entrepreneur has something at risk in starting and operating this business. Entrepreneurs must have resources committed to their own venture to secure the support of others.

Entrepreneur's proposal is a sound one based on the 5 C's of credit: capacity, capital, collateral, character, and condition (industry).

The terms on repayment of a bank loan may vary, and there is room for negotiation between lender and borrower. Hints for successful negotiations are discussed in chapter 4.

Equity Financing (Securities)

Raising capital through securities (the sale of stock) is complex and highly regulated — if entrepreneurs wish to pursue it, they should seek legal advice first.

3) **Angel Investors (Business Angels)**

Angel Investors as the name implies are literally and metaphorically the "Knights in Shining Armour" to the entrepreneurs as they not only invest their own monies but are also known to guide the entrepreneurs in actualizing a successful business model. Indeed, Angel Investors are also known to invest in new ventures as a means of doing good for society as well as to share their wealth with new and up and coming entrepreneurs who they (The Angel Investors) think have a game changing idea. Moreover, Angel Investors in many cases are successful entrepreneurs themselves and hence, mentor the new entrepreneurs in the same way managers and role models mentor promising employees. It is also the case that in recent years, Angel Investors have invested nearly three times the amount of money as raised through venture capitalists.

4) **Venture Capitalists**

Venture capitalists differ from Angel Investors in the sense that while the latter invest their own money and often do so for giving back to society, the former invest in new ventures with capital that their professionally managed investment firms have accumulated from private investors. In other words, venture capitalists often act as representatives of individuals and trusts with capital to spare and do so for profit oriented purposes rather than the for fun investments by Angel Investors.

Further, venture capitalists need a compelling business model and its presentation by the entrepreneurs as they are in the business of investing for profit and hence, need to generate returns on their capital.

5) **Buyouts**

This type of financing happens when the entrepreneur sells his or her stake in the venture to individual or a group of investors. However, buyouts are also used to refer to instances when private equity firms pick up stakes in new ventures where the majority stake is still with the entrepreneur. Moreover, buyouts are latter stage investments which mean that by the time the buyouts happen, the venture is already into its growth phase or in the process of being on the road to profitability. Having said that, it must be noted that buyouts also happen when the investors realize that ventures have good assets which can fetch returns as well as have the potential to grow and generate value in the future. Buyouts can also be hostile meaning that the entrepreneur might be forced to give up his or her stake in cases where the private equity or the other investors decide that a change of ownership would be good for the venture. Finally, buyouts happen when the venture is also in the process of winding up as some investors might want to pick up assets on the cheap and sell them off piecemeal.

Before entrepreneurs starts new venture, they must realistically project not only your startup costs for such things as equipment, renovations and promotion, but also cash flow requirements for the early-stages of operation. The specifics of the business organization are that the entrepreneur invests money now, and will receive profit in the future. Therefore, the stage of planning and forecasting financial flows becomes important.

Financial planning should include[1]:

1) **Sales forecast**

Sales forecast is your projections of how much you are going to sell over the next few years.

A sales forecast is typically broken down into several rows, with a row for each core product or service that you are offering. Don't make the mistake of breaking down your sales forecast into excruciating detail. Just focus on the high-level at this point.

For example, if you are forecasting sales for a restaurant, you might break down your forecast into these groups: lunch, dinner, and drinks. If you are a product company, you could break down your forecast by target market segments or into major product categories.

Your sales forecast will also include a corresponding row for each sales row to cover Cost of Goods Sold, also known as COGS (also called direct costs). These rows show the expenses related to making your product or delivering your service. COGS should only include those costs directly related to making your products, not regular business expenses such as rent, insurance, salaries, etc.

For restaurants, it would be the cost of ingredients. For a product company, it would the cost of raw materials. For a consulting business, it might be the cost of paper and other presentation materials.

REVENUE vs TURNOVER[2]

Revenue and turnover are two accounting terms that are often used interchangeably. In the United States, businesses use the term revenue

[1] Compiled by: *The Entrepreneur's* Guide. Starting and Growing a Business in Pennsylvania. Pennsylvania Department of Community and Economic Development. — URL: http://www.business.pa.gov; *Bplans*. How to Write a Business Plan. — URL: https://articles.bplans.com.

[2] Compiled by: *Investopedia*. — URL: http://www.investopedia.com.

with regard to how much income a company generates. In the United Kingdom, the term turnover is used for the same purpose. Thus, generally with regard to company's top line (sales is recorded as the very first item on the Income Statement), revenue and turnover are regarded as synonyms. However, the term turnover is also used to describe certain main aspects with regard to current assets. Thus, the key difference between revenue and turnover is that while revenue is the sales income generated by a company, turnover assesses how quickly a business collects cash from accounts receivable or how fast the company sells its inventory.

Revenue refers to the income earned by the company by conducting business activities. If a company has many strategic business units, all of them will be revenue generating units for the company. In the income statement, revenue is recorded in the first line (top line).

Revenue is a key item considered in calculating a number of profitability ratios such as:

$$\text{Gross Profit Margin} = \text{Gross Profit} / \text{Revenue} \times 100\ \%; \qquad (1)$$

$$\text{Operating profit Margin} = \text{Operating Profit}/ \text{Revenue} \times 100\ \%; \qquad (2)$$

$$\text{Net Profit Margin} = \text{Net Profit}/ \text{Revenue} \times 100\ \%. \qquad (3)$$

Revenue reflects the strength of the businesses' customer base and size of market share. Growth in revenue showcases stability and confidence. Banks need to see that the company is able to generate steady revenue from regular business activities to pass loans and favorable interest rates.

Turnover is an accounting term that calculates how quickly a business collects cash from accounts receivables or how fast the company sells its inventory. Accounts receivable and inventory are the most important current assets to a business that play a main role in determining the liquidity position.

Accounts Receivable Turnover — this is the number of times per year that a company collects its average accounts receivable. When sales are done on a credit basis the customers owe funds to the company. The time granted for them to settle payments will depend on the relationships the business has with the respective receivables and the nature of the transactions. For instance, if the sum owed is relatively large, then the receivables will probably make payments in installments; thus it will take more time.

However, the sooner the company collects the funds the better; as these funds can be reinvested in the business without having the need to take additional credit to run operations. Furthermore, if receivables take a longer time to pay, possible situations of bad debts may occur as well.

Accounts receivable turnover ratio is calculated as follows:

$$\text{Accounts Receivable Turnover} = \\ = \text{Credit Sales / Average Accounts Receivables.} \tag{4}$$

Inventory Turnover

Inventory turnover is the number of times the company's inventory is sold off and replaced with new inventory within the year. The time taken to sell the inventory indicates the level of demand that the company's products have and this serves as a critical indicator of success.

Inventory turnover ratio is calculated as follows:

$$\text{Inventory Turnover} = \\ = \text{Cost of Goods Sold /Average Inventory.} \tag{5}$$

There are no ideal turnover ratios for accounts receivables and inventory as it predominantly depends on the nature of the industry. For example, retail outlets hold significant amounts of inventory and their success depends on how fast the inventory is moving. Thus, inventory turnover is comparatively high in such retail contexts. Retail organizations mostly purchase goods from manufacturers on a credit basis and settle them once the goods are sold to customers.

Maximizing revenue remains a vital aspect that all organizations thrive to achieve in order to conduct sustainable business. Comparing revenue with previous periods and similar companies with the assistance of ratios enable important insights as to how the company is growing. For turnover, companies may maintain certain standards with regard to how much the receivables and inventory turnover should be since these largely depend on the nature of business. Although there is a difference between revenue and turnover, both are important concepts to a business.

2) **Personnel plan**

Your personnel plan details how much you plan on paying your employees. For a small company, you might list every position on the personnel plan and how much will be paid each month for each position. For a larger company, the personnel plan is typically broken down into functional groups such as “marketing” and “sales”.

The personnel plan will also include what is typically called “employee burden”, which is the cost of an employee beyond salary. This includes payroll taxes, insurance, and other necessary costs that you will incur every month for having an employee on your payroll.

3) **Profit and loss statement**

Also known as the income statement, the profit and loss (or P&L) is where numbers all come together and show if you're making a profit or taking a loss. The P&L pulls data from your sales forecast and your personnel plan and also includes a list of all your other ongoing expenses associated with running your business.

The P&L also contains the all-important "bottom line" where your expenses are subtracted from your earnings to show if your business is making a profit each month or potentially incurring some losses while you grow.

A typical P&L will be a spreadsheet that includes the following:

— **Sales (or income or revenue)**. This number will come from your sales forecast worksheet and includes all revenue generated by the business.

— **Cost of goods sold (COGS)**. This number also comes from your sales forecast and is the total cost of selling your product. For service businesses, this can also be called cost of sales or direct costs.

— **Gross margin**. Subtract your COGS from your sales to get this number. Most profit and loss statements also show this number as a percentage of total sales (gross margin / sales = gross margin percent)

— **Operating expenses**. List all of your expenses associated with running your business, excluding the COGS that you already detailed. You should also exclude taxes, depreciation, and amortization. However, you do include salaries, research and development (R&D) expenses, marketing expenses, and other expenses here.

— **Total operating expenses**. This is the sum of your operating expenses.

— **Operating income**. This is also known as EBITDA, or earnings — interest, taxes, depreciation, and amortization. This is a simple calculation where you just subtract your total operating expenses and COGS from your sales.

— **Interest, taxes, depreciation, and amortization**. If you have any of these expense streams, you will list them below your operating income.

DEPRECIATION vs AMORTIZATION[1]

Depreciation and Amortization are two terms that are commonly seen and used in accounting and finance but are often misunderstood. While both refer to the same process of estimation of an asset's useful life, there is a difference between these two terms.

All items, whether tangible or intangible have a monetary value and they are described as assets. Plant and machinery, car, property, gold, and cash are examples of tangible assets, while trademark, goodwill and patents are also assets despite not existing in physical form, they are intangible assets. Different assets have different lifetimes.

Depreciation. Physical assets are subject to wear and tear and their value gets reduced with passage of time. For example, if you buy a new car for $10000 and just take it from the showroom to your home, its value is deemed to have reduced by 5 %. This is because it becomes second hand to someone who might be interested in buying it. In other cases, plants and machinery, equipment etc. regularly lose their value over period of time as wear and tear takes place or newer models may come into the market. The value of the asset is reduced by an amount that is known as depreciation. The decreasing value of an item is accounted for using depreciation. Taking the example of your car again, if it gets depreciated by 25% every year, obviously its value after one year of use will be $7500 even if it has not been used and kept standing. So if your car has been shown as an asset in your accounts, its value in accounts will diminish over a period of time until it is reduced to nil.

Amortization is a process that is exactly same as depreciation, the only difference being intangible assets that we cannot see or touch that get reduced in their value. Intangible assets have a fixed life span. For example, the life of a patent is taken to be 20 years and it is written off gradually over this period of time by accountants. For example, if a company produces a drug and gets its patent for 10 years but had to spend $10 million for it, one million dollars will be accounted each year for a period of 10 years as amortization expense.

Both depreciation and amortization are shown in the debit column and are a liability of the company. Being non cash expense, they act as a liability that **decreases the earning of the company** but **help in increasing the cash flow of the company**.

— **Total expenses**. Add your operating expenses to interest, taxes, depreciation, and amortization to get your total expenses.

— **Net profit**. This is the all-important bottom line that shows if you've made a profit, or taken a loss, during a given month or year.

[1] Compiled by: *Investopedia*. — URL: http://www.investopedia.com.

EBITDA vs OPERATING INCOME[1]

The main difference between EBITDA (Earnings Before Interests, Tax, Depreciation and Amortization) and Operating Income is that EBITDA measures a company's profitability and helps to determine a business' earning potential while operating income measures a company's profit after subtracting operating expenses including outgoing general and administrative costs.

Both Operating income and EBITDA are important accounting measures which help to derive the financial performance of organizations. Although Operating Income and EBITDA indicate the profit made by the company, EBITDA shows the profit including interest, tax, depreciation, and amortization, while operating income shows the profit after taking out the operating expenses like depreciation and amortization.

EBITDA is often shown in the income statement, but it is not a generally accepted accounting principle (GAAP). However, it is widely used in many areas of finance when assessing the performance of a company, such as securities analysis. It is possible to use EBITDA as an indicator to compare profitability between different companies.

Having a negative value for EBITDA indicates that the business has problems with profitability and cash flow. However, a positive EBITDA does not fully mean that the business is profitable or generates cash.

Formula to calculate EBITDA:

EBIDTA = Net income + Interest + Tax + Depreciation + Amortization. (6)

Operating income measures the amount of profit gained from a business's operations, after removing operating expenses such as depreciation, wages, and cost of goods sold (COGS). Operating income takes a company's gross income, which is equal to total revenue minus COGS, and subtracts all operating expenses. A business's operating expenses are costs that incur from normal operating activities and include items such as office supplies and utilities.

More importantly, operating income is an indirect measure of efficiency; the higher the operating income, the more profitable a company's core business is.

Factors that can affect operating income of a business: pricing strategy, prices for raw materials, or labour costs.

Formula of Operating Income:

Operating income = Total Revenue — Direct Costs — Indirect Costs. (7)

[1] Compiled by: *Investopedia*. — URL: http://www.investopedia.com.

> Operating income offers financial analysts useful information for evaluating a company's operating performance and help them to analyze operating profitability as a singular measure of performance. This kind of analysis is especially important when comparing similar companies across a single industry, particularly when these companies may have different capital structures or tax environments.

4) **Cash flow statement**

The cash flow statement often gets confused with the P&L statement, but they are very different and serve very different purposes. While the P&L calculates your profits and losses, the cash flow statement keeps track of how much cash (money in the bank) that you have at any given point.

The key to understanding the difference between the two statements is understanding the difference between cash and profits. The simplest way to think about it is when you make a sale. If you need to send a bill to your customer and then your customer takes 30 or 60 days to pay the bill, you don't have the cash from the sale right away. But, you will have booked the sale in your P&L and shown a profit from that sale the day you made the sale.

A typical cash flow statement starts with the amount of cash you have on hand, adds new cash received through cash sales and paid invoices, and then subtracts cash that you have paid out as you pay bills, pay off loans, pay taxes, etc. This will then leave you with your total cash flow (cash in minus cash out) and your ending cash (starting cash + cash in — cash out = ending cash).

Your cash flow statement will show you when you might be low on cash, and when it might be the best time to buy new equipment. Above all, your cash flow statement will help you figure out how much money you might need to raise or borrow to grow your company. Since an operating business can't run out of cash without having to close its doors, use your cash flow statement to figure out your low cash points and consider options to bring in additional cash.

5) **Balance sheet**

The last financial statement that most businesses will need to create as part of their financial plan is the balance sheet. The balance sheet provides an overview of the financial health of your business. It lists the assets in your company, the liabilities, and your (the owner's) equity. If you subtract the company's liabilities from assets, you can determine the net worth of the company.

6) **Use of funds**

If an entrepreneur is raising money from investors, he/she should include a brief section of business plan that details exactly how he/she plans on using investors' cash.

This section doesn't need to go into excruciating detail about how every last dollar will be spent, but instead, show the major areas where the investors' funds will be spent. These could include marketing, R&D, sales, or perhaps purchasing inventory.

7) **Exit strategy**

The last thing that you might need to include in your financial plan is a section on your exit strategy. *An exit strategy* is your plan for eventually selling your business, either to another company or to the public in an IPO. If you have investors, they will want to know your thoughts on this. If you're running a business that you plan to maintain ownership of indefinitely, and you're not seeking angel investment or venture capital funding, you can skip the exit strategy section. After all, your investors will want to get a return on their investment, and the only way they will get this is if the company is sold to someone else.

3.2. Capital Budgeting in International Entrepreneurship

In order to understand the essence of capital budgeting, it is necessary to explain the essence of the entrepreneurial venture or investment project and its phases. For understanding capital budgeting ***timing*** is very important.

Phases of Development, Funding, and Profit

Figure 7 illustrates possible cash flows during the different phases of an entrepreneurial venture.

Term 1 to Term 4: The Pain Period

This is the initial investment period where different activities will be performed including, but not limited to, product idea development, feasibility and market study, prototype building, and customer identification. The order may differ depending on the business. It is assumed that funding from Angel Investors becomes available in Term 4.

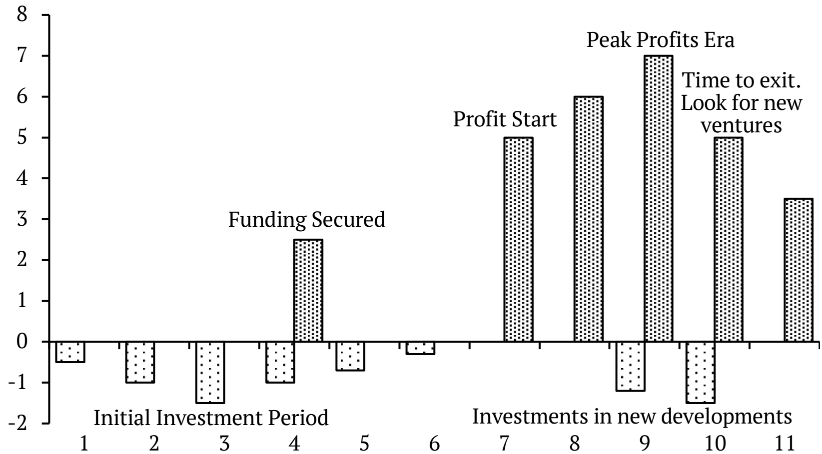


Figure 7. Phases of an entrepreneurial venture[1]

Term 5 to Term 6: The Introduction Period

Activities in this period may range from applying for and securing patents and building sales channels and a distribution model to final product introduction to the market.

Term 7 to Term 9: The Profit Period

These terms are the profit-taking periods of market control when the entrepreneur is either protected by patents or copyright, or there are no competitors for other reasons.

Term 9 is assumed to be the peak profit period, just prior to competitors entering the market. During this term, further development is initiated to introduce new product variants.

[1] Compiled by: *Seth S.* How Entrepreneurs Make Money. — URL: https://www.investopedia.com/articles/personal-finance/101414/why-how-where-and-when-entrepreneurs-make-money.asp.

However, reinvestment and research and development can come earlier, depending on the product's lifecycle and other factors. This can also be the time to introduce the original offering to new markets.

Term 10 to Term 11: The Sunset Period

At this point, entrepreneurs may exit the venture by closing it completely or selling it to interested parties. Or, they may continue with newly developed variants. Profits will vary greatly during these terms.

As can be seen from the Figure 5, the phases of investing and making a profit are spaced by time. Moreover, we are investing in the project now, but we will receive profits in subsequent periods. But agree: a thousand dollars today and a thousand dollars in a year or 3 years are different money. Therefore, to bring current and future cash flows to a single denominator, we use the concept of discounting.

PRESENT VALUE vs FUTURE VALUE

Knowing the difference between present value and future value is very important for investors as present value and future value are two interdependent concepts that provide an utter help for the potential investors to make effective investment decisions; particularly for loans, mortgages, bonds, etc.

By investing in an investment tool, the investors expect to obtain a stream of cash inflows. Similarly, there are some situations where the investors have to bear certain cash outflows as a result of their investment.

Inflation is a fact which impacts the value of these cash flows.

Present value is the current worth of the future sum of money streams at a specific rate of return. This current worth can be found by discounting future cash flows at a pre-determined discount rate. **This value assists investors to compare cash flows generating from investments at different time periods**.

Present value of a sum of money flow can be calculated using following formula:

$$PV = FV \times \frac{1}{(1+r)^n}, \tag{8}$$

where *PV* — Present Value; *FV* — Future Value; *r* — Rate of Return, Cost of Capital; *n* — Period of the Investment.

Future value is the value of an asset or some of money at a specific future date. This is a nominal value, so does not include any adjustments for inflation, i.e. no any discount factors involved. This value basically estimates the total gain that can be obtained from an investment based on a given interest rate.

Calculation of future value can be done using following two formulas:

— For simple interest:

$$FV = PV\,(1 + rn); \qquad (9)$$

— For compound interest:

$$FV = PV\,(1 + r)^{n}, \qquad (10)$$

where PV — Present Value; FV — Future Value; r — Rate of Return; n — Period of the Investment.

Present value is the current value of future cash flow. Future value is the value of future cash flow after a specific future period.

Capital budgeting is the process by which investors determine the value of a potential investment project. Capital budgeting involves choosing projects that add value to a company. The capital budgeting process can involve almost anything including acquiring land or purchasing fixed assets like a new truck or machinery. Corporations are typically required, or at least recommended, to undertake those projects which will increase profitability and thus enhance shareholders wealth[1].

However, what rate of return is deemed acceptable or unacceptable is influenced by other factors that are specific to the company as well as the project. For example, a *Sustainable Development Goal's project* is often not approved based on the rate of return, but more on the desire of a business to foster goodwill and contribute back to its community.

Capital budgeting is important because it creates accountability and measurability. International business that seeks to invest its resources in a foreign project, without understanding the risks and returns involved, would be held as irresponsible by its owners or

[1] *An Introduction* to Capital Budgeting. — URL: https://investopedia.com.

shareholders. Furthermore, if a business has no way of measuring the effectiveness of its investment decisions, chances are that the business will have little chance of surviving in the competitive marketplace.

Businesses (aside from non-profits) exist to earn profits. The capital budgeting process is a measurable way for businesses to determine the long-term economic and financial profitability of any investment project.

3.3. Capital Budgeting Methods. Approaches to Project Selection

When a firm is presented with a capital budgeting decision, one of its first tasks is to determine whether or not the project will prove to be profitable.

There are seven approaches to project selection:

1) Payback period (PB);
2) Discounted Payback period (DPB);
3) Net present value (NPV);
4) Profitability Index (PI);
5) Internal rate of return (IRR);
6) Return on Investment (ROI);
7) Breakeven Point (BEP).

Payback Period (PB)

This method is one of the most simple and widespread in world practice. It consists in calculating the number of years required to fully recover the initial costs, i.e. determine the moment when the cash flow of income equals the amount of cash flow costs.

Payback period can be calculated using following formula:

$$PB = n = \frac{IC_0}{CF_t}, \tag{11}$$

where PB — Payback Period; n — number of years; IC_0 — Investment Costs in the Initial Investment Period (0); CF_t — Cash Flow, net flow of payments in period t.

PB calculates the length of time required to recoup the original investment. A short PB period is preferred as it indicates that the project would "pay for itself" within a smaller time frame. So, projects with the shortest payback period are selected.

Example

1) The payback period can be calculated using formula (11) if the project is expected to generate equal cash flows for the life of the project.

Company is planning to undertake an investment project that has a cost of $15 million, which is expected to generate a cash flow of $3 million per year. Thus, the PB will be 5 years.

PB = $15m/$3m = 5 years.

2) If the project is to generate uneven cash flows then the payback period will be calculated as follows.

A project that has an initial investment of $15 million with a life span of 5 years. It generates the cash flows as follows: $Year_1$ = $4 million, $Year_2$ = $5 million, $Year_3$ = $8 million, $Year_4$ = $8 million and $Year_5$ = $ 10 million.

The payback period will be:

Year	Cash flow ($ million)	Cumulative cash flow ($ million)
0	−15	−15
1	4	−11
2	5	−6
3	8	2
4	8	10
5	10	20

PB = 2+ ($6m / $8m) = 2 + 0.75 = 2.75 years.

Payback period is a very simple technique that is easy to calculate. For companies with liquidity issues, PB serves as a good technique to select projects that payback within a limited number of years. However, PB does not consider the time value of money, thus is less useful in making an informed decision. Further, this method ignores the cash flows made after the payback period[1].

[1] *Difference* Between Payback Period and Discounted Payback Period. Compare the Difference Between Similar Terms. — URL: https://differencebetween.com.

Discounted Payback Period (DPB)

Discounted payback period is the length of time required to recover the cost of an investment after considering the time value of money. Here, the cash flows will be discounted at a discounting rate which represents the required rate of return on the investment. Discounting factors can be easily acquired through the present value table that shows the discounting factor with correspondence to the number of years.

Discounted payback period can be calculated using the below formula:

$$DPB = n = \frac{IC_0}{CF_t / (1+r)^t}, \qquad (12)$$

where *DPB* — Discounted Payback Period; *n* — number of years; IC_0 — Investment Costs in the Initial Investment Period (0); CF_t — Cash Flow, net flow of payments in period *t*; *r* — discount rate.

Example

For the above example, assume the cash flows are discounted at a rate of 12 %. The discounted payback period will be:

Year	Cash flow ($ million)	Discounting factor	Discounted cash flow ($ million)	Cumulative discounted cash flow ($ million)
0	−15	1.000	−15,00	−15,00
1	4	0.893	3.57	−11.43
2	5	0.797	3.99	−7.44
3	8	0.712	5.70	−1.74
4	8	0.636	5.09	3.35
5	10	0.567	5.67	9.02

DPB = 3 + ($1.74m / $5.09m) = 3 + 0.34 = 3.34 years.

Discounted payback period evades the main drawback of payback period by using discounted cash flows. However, this method also ignores the cash flows made after the payback period. *But what if* *the project that had a five year payback had tremendous cash flows that started after the fifth year?* The payback method is going to totally ignore the value of those cash flows[1].

Another thing about the payback method is there is no correct decision criteria. You can't say I'm only going to take projects with a one year payback or two year payback or with a three year payback. There is no correct way to determine whether a shorter or longer payback is better or worse.

Firms that use the payback tend to accept too many projects, which are short-lived and reject good projects which were longer-lived. And so it tends to focus the company on shorter term projects which may not be the projects that create the most value.

These two investment appraisal techniques are less complex and less useful compared to others such as Net Present Value (NPV) and Internal Rate of Return (IRR), thus should not be used as the sole decision-making criteria.

Net Present Value (NPV)

This method is based on a comparison of the investment cost (IC) and future cash flows (CF) the project generates over the projected period. With a given discount rate (r, set by the analyst (investor, entrepreneur) based on the annual percentage of return that he/she wants or can have on the capital invested by him/her), it is possible to determine the current value of all outflows and inflows of funds during the economic life of the project, and compare them with each other. The result of this comparison will be a positive or negative value (net inflow or net outflow of funds), which shows whether or not the project meets the accepted discount rate.

The formula for calculating the indicator NPV has the form:

$$NPV = \sum_{t=1}^{n} \frac{CF_t}{(1+r)^t} - IC_0, \qquad (13)$$

[1] *Difference* Between Payback Period and Discounted Payback Period. Compare the Difference Between Similar Terms. — URL: https://differencebetween.com.

where r — discount rate; n — number of project periods; CF_t — Cash Flow, net flow of payments in period t; IC_0 — Investment Costs, the amount of investment at the beginning of the project.

If NPV > 0, this means that during its economic life the project will reimburse the initial costs of *IC*, provide a profit according to the r, and some reserve equal to *NPV*.

If NPV < 0, this shows that the specified rate of return is not provided and the project is unprofitable.

When *NPV* = 0, the project only pays for the costs incurred, but does not generate income. However, the project with *NPV* = 0 still has an additional argument in its favor — in the case of the project, production volumes will increase.

If the project involves not a one-time investment, but a consistent investment of financial resources over m years, the formula for calculating *NPV* is modified as follows:

$$NPV = \sum_{t=1}^{n} \frac{CF_t}{(1+r)^t} - \sum_{j=1}^{m} \frac{IC_j}{(1+i)^j}, \tag{14}$$

where i — is the projected average inflation rate.

NPV criteria are is simple where we have a true objective, take projects that have a positive *NPV*, because those are going to increase the value of the firm.

Example

For the above example, assume the cash flows are discounted at a rate of 12 %. The Net Present Value will be:

Year	Cash flow ($ million)	Discounting factor	Discounted cash flow ($ million)	Cumulative discounted cash flow ($ million)
0	(-15)	1.000	(-15)	(-15)
1	4	0.893	3.57	(-11.43)
2	5	0.797	3.99	(-7.44)
3	8	0.712	5.70	(-1.74)
4	8	0.636	5.09	3.35
5	10	0.567	5.67	9.02

NPV = 3.57 + 3.99 + 5.70 + 5.09 + 5.67 – 15 = 9.02 ($ million)

NPV > 0, this means that the project is profitable.

Profitability Index (PI)

The profitability index shows how many units of current cash flow per unit of estimated initial costs. This method is essentially a consequence of the net present value method. The formula has the form:

$$PI = \frac{\sum_t \frac{CF_t}{(1+r)^t}}{IC_0}, \tag{15}$$

where r — discount rate; CF_t — Cash Flow, net flow of payments in period t; IC — Investment Costs.

If PI > 1, the project should be accepted;

If PI < 1, the project should be rejected;

If PI = 1, the investment does not bring income — the project is neither profitable nor unprofitable.

Thus, the PI characterizes the effectiveness of investments, it is the most preferable when it is necessary to organize independent projects to create an optimal portfolio in the case of limited investment.

Example

For the above example, assume the cash flows are discounted at a rate of 12 %. The Profitability Index will be:

Year	Cash flow ($ million)	Discounting factor	Discounted cash flow ($ million)	Cumulative discounted cash flow ($ million)
0	(-15)	1.000	(-15)	(-15)
1	4	0.893	3.57	(-11.43)
2	5	0.797	3.99	(-7.44)
3	8	0.712	5.70	(-1.74)
4	8	0.636	5.09	3.35
5	10	0.567	5.67	9.02

PI = (3.57 + 3.99 + 5.70 + 5.09 + 5.67) / 15 = 1.6 ($ /$).

PI > 1, this means that the project is profitable.

Internal Rate of Return (IRR)

The internal rate of return is the most widely used measure of investment performance. Under the internal rate of return understand the value of the discount rate *r*, in which the net present value of the investment project is zero:

IRR = *r*, at which *NPV* = *f*(*r*) = 0.

IRR is found from the formula:

$$IRR = r_1 + \left(\frac{NPV(r_1)}{NPV(r_1) - NPV(r_2)} \right) \times (r_2 - r_1), \qquad (16)$$

where r_1 — discount rate at which *NPV* (r_1) = $f(r_1) > 0$; r_2 — discount rate at which *NPV* (r_1) = $f(r_2) < 0$).

Two values of the discount factor $r_1 < r_2$ are selected so that in the interval (r_1, r_2) the function *NPV* = *f*(*r*) changes its value from "+" to „-".

Only if we have these inequalities we can substitute the values of r_1, r_2, NPV_1 and NPV_2 into the formula (16)!!!

The IRR shows the maximum allowable relative level of costs that can be associated with a given project. For example, if the project is fully financed by a loan from a commercial bank, the IRR value shows the upper limit of the allowable level of the bank interest rate, the excess of which makes the project unprofitable.

In general, *the higher the value of the IRR, the greater the efficiency of the investment*. The value of IRR is compared with a given rate of discount *r*.

If *IRR* > *r*, the project provides a positive *NPV* and rate of return.

If *IRR* > *r*, costs exceed revenues, and the project will be unprofitable.

Example

Entrepreneur can take a bank loan of $20 million at a rate of 15 % for a business project. Is it advisable? Let's calculate the internal rate of return.

Year	Cash flow ($ million)	r_1 = 12 %		r_1 = 20 %	
		Discounting factor	Discounted cash flow ($ million)	Discounting factor	Discounted cash flow ($ million)
0	(-20)	1.000	(-20)	1.000	(-20)
1	4	0.893	3.57	0.833	3.33

End of the table

Year	Cash flow ($ million)	r_1 = 12 %		r_1 = 20 %	
		Discounting factor	Discounted cash flow ($ million)	Discounting factor	Discounted cash flow ($ million)
2	5	0.797	3.99	0.694	3.47
3	8	0.712	5.70	0.579	4.63
4	8	0.636	5.09	0.482	3.86
5	10	0.567	5.67	0.402	4.02
NPV			4.02		-0.69

$$r_1 = 12\ \%\ NPV(r_1) = 4.02 > 0;$$
$$r_1 = 20\ \%\ NPV(r_2) = -0.69 < 0$$

We can substitute the values of r_1, r_2, NPV_1 and NPV_2 into the formula (15):

$$IRR = 12\ \% + (4.02 / 4.02 - (-0.69))^* (20\ \% - 12\ \%) =$$
$$= 12\ \% + (4.02 / (4.02 + 0.69))^* 8\ \% = 12\ \% + 0.8\ 5 \times 8\ \% = 18.82\ \%$$

18.82 % > 15 %, $IRR > r$, so the bank loan at 15 % is advisable.

The *IRR* is often an appropriate technique for evaluating projects and will often lead you to the right answer, but it doesn't always. It can lead you to select the wrong project in some circumstances.

One of those circumstances is mutually exclusive projects. And again, mutually exclusive projects are where you have, let's say, two projects, but you can't take both of them. That could be because there are two solutions to the same problem, and you're only going to solve the problem once. Or it could be you’re capital constrained, and you could only take one of the projects.

If you’re faced with a situation like that, you do not want to rank the projects based upon their internal rate of return and take the project with the highest internal rate of return. *What you want to do instead is take the project with the highest net present value*.

You can also get into situations *where the cost of capital varies over the life of the project*. So this would be a circumstance where maybe, for example, for the first three or four years of the project, the cost of capital is say 5 %. And then for the rest of the project’s life, let’s say the cost of capital is 10 %.

Well, you can get into situations where the internal rate of return is right between those two costs of capital. And of course, if that happens, you can't use the internal rate of return criteria because the internal rate of return is above one of the cost of capital and below the other.

So you don't know what to do. What would you do in that circumstance? *You would calculator the net present value of the project*, and if the net present value's positive, you would take it.

If the internal rate of return criteria does not provide a definitive answer regarding whether a project is good or bad, or if the net present value criterion and the internal rate of return criterion do not agree on which project to select, just use the net present value criterion.

Return on Investment (ROI)

This is another common evaluation technique that entrepreneurs use, and there are many different forms of return on investment.

They all tend to be some measure of accounting profits divided by some measure of investment. And the accounting profit measure can vary. It can be before tax, it can be after tax. It's usually not a measure of cash flows, it's usually an accounting-based measure.

But what entrepreneurs will do, is they will calculate the return on investment, by taking, again, some measure of accounting profitability, and dividing by the capital that has been invested in that project.

Firms usually have some specified minimum required return on investment before a project is accepted. One of the issues that you run into, however, is that the return on investment on a project can vary a lot from year to year.

So you could have a situation where the return on investment is negative for a few years, and then it turns positive, or you could have a situation where the return on investment was zero for a few years and then became positive.

And one of the problems with the return on investment is there's no correct procedure for aggregating those varying ROIs over time into some single point estimate of what the return on estimate is. And using the return on investment criterion usually causes firms to reject projects which are unprofitable in their early years.

ROI can be categorized as an important tool to derive the return from an investment. This is a frequently used formula by investors to calculate how much return is received for a particular investment as a proportion of the originally invested amount.

ROI is calculated as a percentage:

$$ROI = \left(\frac{Gain\ from\ Investment - Cost\ of\ Investment}{Cost\ of\ Investment} \right) \times 100\,\%. \quad (17)$$

Example

Entrepreneur invested \$1,000 in ABC Corp. in 2020 and sold his stock shares for a total of \$1,200 one year later.

To calculate his return on his investment, we would divide his profits (\$1,200 – \$1,000 = \$200) by the investment cost (\$1,000).

ROI = \$200 / \$1,000 = 20 %.

Suppose entrepreneur also invested \$2,000 in XYZ Inc. in 2018 and sold his shares for a total of \$2,800 in 2021.

ROI = \$800 / \$2,000 = 40 %.

While the *ROI* of entrepreneur's second investment was twice that of his first investment, the time between entrepreneur's purchase and sale was one year for his first investment and three years for his second.

Entrepreneur could adjust the *ROI* of his multi-year investment accordingly. Since his total *ROI* was 40 %, to obtain his average annual ROI, he could divide 40 % by 3 to yield 13.33 %.

With this adjustment, it appears that although entrepreneur's second investment earned him more profit, his first investment was actually the more efficient choice.

Different businesses will use different valuation methods to either accept or reject capital budgeting projects. Although the NPV method is considered the favorable one among analysts, the IRR and PB methods are often used as well under certain circumstances.

Managers can have the most confidence in their analysis when all three approaches indicate the same course of action.

There are a number of factors that should be considered when making investments, where returns play a vital role. Investments should be evaluated for their returns not only after the investment is being made, but prior to assigning capital in the form of forecasts.

INTERNAL RATE OF RETURN (*IRR*) vs RETURN ON INVESTMENT (*ROI*)

IRR and *ROI* are two widely used measures for this purpose. The key difference between the *IRR* and *ROI* is that while *IRR* is the rate at which the present value of a project is equal to zero, *ROI* calculates the return from an investment as a percentage of the original amount invested.

The main advantage of using IRR is that it uses cash flows instead of profits which provide an increased accurate estimate since cash flows are not affected by accounting practices. However, predicting the future cash flows for a project is subjected to a number of assumptions and it is very difficult to predict accurately due to unforeseen circumstances. Thus, this limitation can reduce the effectiveness of this measure as an investment tool.

What is the difference between *IRR* and *ROI*? *IRR* is the rate at which the Net Present Value is zero. *ROI* is the return from an investment as a percentage of the original amount invested.

IRR is used to decide the viability of a future investment. *ROI* is used to decide the viability of a past investment.

IRR uses cash flows. *ROI* uses profit.

The key difference between *IRR* and *ROI* is that they are used for two types of investments; *IRR* to evaluate future projects and *ROI* to assess the viability of already made investments. Since *IRR* is subjected to forecast of future cash flows, its effectiveness depends on how accurately they can be predicted. *ROI*, on the other hand, does not have such complications. However, *ROI* does not take into account the time period of the investment which is very important since some investors prefer to acquire a gain within a shorter period of time as opposed to waiting for a long time even to gain a comparatively higher return.

Break Even Analysis

The break-even analysis is one of the most important management decision-making concepts that has a widespread use. The main concentration is in calculating the “break-even point” (BEP), which is the point at which the company does not make a profit or a loss.

Calculation of break-even point considers the fixed and variable costs associated with production and the price at which the company wishes to sell the product. Based on the costs and estimated price, the number of units that should be sold in order to "break-even" can be determined.

Break-even analysis is also referred to as the CVP analysis (Cost-Volume-Profit analysis).

Calculation of break-even point are made through following formula:

$$BEP = N = \frac{FC}{P - VC}, \tag{18}$$

where *FC* — Fixed Costs associated with production; *P* — Price or the Revenue per individual unit; *VC* — Variable Costs per unit.

Break even analysis calculates the number of units that should be produced to cover the fixed cost. ***Entrepreneur determines how many units the company has to sell***:

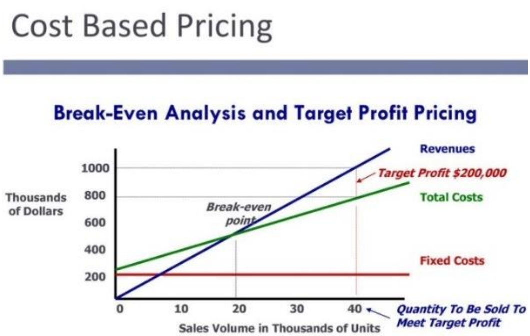
— If the company sells more units than N they will have profit;

— If they sell less than N, they will have a loss.

Example

Calculate the break-even point (BEP). The company produces cars. The Fixed Costs are $200,000 for this production. The maximum possible volume of output is 40 units. A unit of production is sold at a price of $25,000, variable costs are $15,000 per unit.

$$BEP = N = \frac{FC}{P - VC} = \frac{200\,000}{25\,000 - 15\,000} = 20\text{ units.}$$



Break Even Analysis is used:

— To determine the level of sales required to cover all costs and earn a profit;

— To assess how the profitability will alter if the company injects new capital in the form of fixed cost or due to changes in variable costs;

— To arrive at a number of short-term decisions relating to sales mix and pricing policy.

Questions and Exercises

Questions for self-control

1. The method based on calculating the number of years required to fully recover the initial costs of an investment project is called:

A. Payback period.
B. Discounted payback period.
C. Break-even point.

2. If *NPV* > 0:

A. The project is profitable.
B. The project is unprofitable.
C. The project is break-even.

3. If *IRR*> *r*:

A. The project is profitable.
B. The project is unprofitable.
C. The project is break-even.

4. The method that assesses the viability of already made investment:

A. *NPV*.
B. *IRR*.
C. *ROI*.

5. Discounted payback period evades the main drawback of payback period:

A. Calculating the number of years required to fully recover the costs of an investment.
B. Using discounted cash flows.
C. Determining the value of a potential investment project.

Exercises

Exercise 1

An entrepreneur needs to analyze and select one of the two projects. The cost of the capital is 10 %. Project characteristics ($ million):

A: −100, 50, 50, 40.

B: −2 000, 1000, 1000, 50.

Calculate the Net Income (*NI*). Compare.

Calculate Net Present Value (*NPV*). Compare.

Which project will the entrepreneur choose?

Exercise 2

The company produces smartphones. The value of the fixed cost is $ 200,000 for this production. The maximum possible volume of output is 10,000 units. On average, a unit of production is sold at a price of $100, variable costs are $50 per unit of production.

Determine the number of products at which the manufacturer does not suffer a loss, but also does not have a profit. Draw a break-even chart.

The company manager needs to optimize costs, as well as cope with competitors. The manager suggested 3 solutions:

1) Reduce the fixed cost by 25 %;

2) Reduce variable costs per unit of output by 25 %;

3) Increase the competitiveness of products by reducing the price by 25 %.

What happens to the break-even point if the owner of the company decides to make all 3 decisions at the same time?

Exercise 3

An entrepreneur is considering a project — the acquisition of a new production line. The cost of the line is 15 000 euros, period — 5 years; depreciation on equipment is calculated on a straight-line method of depreciation (20 % per annum); the proceeds from the liquidation of equipment at the end of the period of operation cover the costs of its dismantling. Revenue from sales of products is projected for the years in the following volumes (Euro): 10 200; 11 100; 12 300; 12 000; 9 000.

The current annual costs are as follows: 5,100 euros in the first year of operation; annual operating costs increase by 4 %. The income tax rate is 20 %. The price of advanced capital is 10 %. Start-up investments are made at the expense of entrepreneur's own funds.

Calculate PB, DPB, NPV, PI, IRR of this project.

Case: How entrepreneurs raise money on crowdfunding[1]

Many of the largest foreign corporations started with one small idea — a project that was successfully implemented. Decades ago, to implement it, it was necessary to spend years searching for interested investors. But today crowdfunding has come to help young and talented entrepreneurs.

Crowdfunding is a way to attract investments to implement your idea. Moreover, the necessary amount is donated by people interested in the project. As a result, as they say, "the whole world" can promote some invention, idea, game and not only.

How does it work?

1) An entrepreneur (innovator, author) or their team are developing a project;

2) Calculate the budget required for implementation;

3) Fundraising will be announced on a personal website, but a crowdfunding platform will be more effective;

4) Interested investors or benefactors transfer money;

5) When the required amount is reached, a transfer is made to the entrepreneur's account;

6) The implementation of the project begins.

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[1] Compiled by: *Clifford C.* These Entrepreneurs Raised Almost $40,000 for Their 'No-Sock' Socks. — URL: https://www.entrepreneur.com/article/231986.

At the same time, it is important to take into account that a standard crowdfunding campaign is not an uncontrolled collection of money. On special platforms, curators monitor all projects, and the author conducts a report to investors.

As a rule, a specific deadline for the end of investment is set for a crowdfunding project. The author (founder) also indicates the amount he needs to collect during this time. The principles of crowdfunding are transparency of all cash flows. The investor (backer) must understand where and in what amount his money has gone. In return, he receives either a part of the future profit of the project, or the funds deposited in full. Some projects provide for a gratuitous donation.

Usually crowdfunding is used when it comes to launching a startup. This method of fundraising is also suitable for charitable, educational, environmental projects, different Internet sites, and online media.

Now read the story *"These Entrepreneurs Raised Almost $40,000 for Their 'No-Sock' Socks"* by Catherine Clifford (or watch the video on the site https://www.entrepreneur.com/article/231986) and answer the questions.

There is nothing more satisfying than a simple solution to a pervasive and universally annoying problem. Which is why Sole Socks makes us grin.

Apparently, we aren't alone. With more than a week left in its Kickstarter campaign, Sole Socks has raised almost $40,000. That's more than eight times the $4,500 that the Boise, Idaho-based entrepreneur-brother duo set out to raise.

Sole Socks were designed for people who want to pull off the stylish "no-socks" look without smelling up their shoes. The product is a flat shoe insert that absorbs sweat, provides extra padding for your feet and is machine washable. That means that when your shoes stink, you can throw the Sole Socks through the wash.

"The idea for Sole Socks came about when we were trying to get that no-sock look. We wanted to pull off that look, but really, the alternatives out there were not really very good," says creator Tanner Dame in the Kickstarter video introducing the product. Little half socks slip off your feet; thin half socks can be folded down to be invisible, but then they develop holes, explains Tanner.

The top layer of Sole Socks is terry cloth to absorb sweat and odor and the bottom layer is a breathable latex that grips your shoe to prevent slipping. They are absorbent, invisible and convenient.

Tanner and his brother Taylor are launching the company together. Tanner and Taylor have worked together before, starting way back with their neighborhood lemonade stand. The brothers have complimentary talents: Tanner knows about manufacturing and product development and Taylor is a marketing and advertising guy.

From believing that a problem can have a solution to reaching out to the crowd for access to capital, Tanner and Taylor epitomize the entrepreneurial spirit.

Questions

1) How does crowdfunding work?

2) What are the opportunities and risks of crowdfunding for an entrepreneur and for an investor?

3) What international/national/regional crowdfunding platforms do you know? Describe them.

4) Why Sole Socks was a success?

Tips in Entrepreneurial Toolkit

How Do Entrepreneurs Make Money?

Entrepreneurs make money by capitalizing on an innovative solution for a unique, large-scale need and if, possible, repeating the process by providing additional solutions for additional needs. Once they protect their ideas and products with such legal instruments as patents, and move swiftly to meet market demand, they can achieve market dominance at least temporarily and reap huge financial rewards.

All business ventures aim for profitability. Owing to the high-risk/high-reward scenarios of entrepreneurial ventures, entrepreneurs expect to make substantial profits, provided that they plan their activities carefully and meet their objectives effectively.

Where Do Entrepreneurs Get Funding?

Entrepreneurs obtain funding for their ventures from different places. They often use their own money when first starting out. Family and friends may help with some financing in the early years of a business. Then, they may take on partners who are well capitalized and can help support the business financially. They may take out business loans to finance their efforts. Additionally, they might attract angel investors, venture capitalists, and crowdfunding.

Entrepreneurial cycle

An entrepreneurial cycle can last for a number of terms, during which products are created, markets are developed, patents are secured, distribution channels are selected, and profits are made.

The duration of terms and activities engaged in will vary depending on the nature of the product and markets. For example, a pharmaceutical drug may have a longer profit-making period of dominance because of a patent, while a mobile technology innovation may get replicated by competitors within a very short span of time.

Capital budgeting

Capital budgeting, also known as ‘investment appraisal’, is the process of determining the viability of long-term investments on purchase or replacement of property plant and equipment, new product lines, or other projects. There are a number of techniques in capital budgeting that entrepreneurs, managers or investors can choose from. Every technique may not be suitable for every investment option since the appropriateness significantly depends on the nature of the investment project. The main criteria used by the following investment evaluation techniques is the comparison between the cash inflows the capital project will generate in the future and the cash outflows it will incur.

The three most common approaches to project selection are the payback period (PB), the net present value (NPV) and the internal rate of return (IRR).

The payback period determines how long it would take a company to see enough in cash flows to recover the original investment. This measures the time the project takes to return the initial investment. Cash flows are not discounted, and lower payback period means that the initial investment will be recovered soon. Discounted Payback Period is the same as the payback period with the exception that the cash flows will be discounted. Therefore this is considered more appropriate compared to the payback period.

The net present value shows how profitable a project will be versus alternatives, and is perhaps the most effective and the most widely used of the three methods. *NPV* is equal to the sum of initial cash outflow minus the sum of discounted cash inflows. Decision criteria for *NPV* is to accept the project if the NPV is positive and reject the project if *NPV* is negative.

The internal rate of return is the expected return on a project. If the rate is higher than the cost of capital, it’s a good project. If not, then it’s not.

Although **an ideal capital budgeting solution is such that all three metrics will indicate the same decision**, these approaches will often produce contradictory results. Depending on entrepreneur’s preferences and selection criteria, more emphasis will be put on one approach over another. Nonetheless, there are common advantages and disadvantage associated with these widely used valuation methods.

CHAPTER 4

SOCIALIZING IN THE BUSINESS ENVIRONMENT

4.1. Principles and Tactics of Communication in International Entrepreneurship

Everyone is constantly communicating — with family members, friends, bosses, co-workers, or clients. Successful communication requires compromise from both sides. Both parties must gain something, and both parties must lose something. The communication is the give and take process.

Business communication can be conducted in three ways:

— in a face-to-face meeting,

— by the telephone,

— or by an exchange of written offers.

What method is more convenient? Entrepreneurs seem to prefer face-to-face talking, because it allows you to judge your opponent not only by what he or she says, but also by how the negotiator appears.

Face-to-face communication also allows you to present visual or other sensory evidence to support your position. The most difficult to communicate by telephone — in international negotiation the main problem is language. Sometimes it is very difficult to understand the partner by telephone (linguistic problems plus bad connection and as the result — misunderstanding) and it is easier to use e-mails or business online platforms.

Fundamental principles of communication and negotiation:

1) Separate people from the problem;

Separating people from the problem means separating relationship issues from substantive issues, and dealing with them independently. When different parties have different understandings of their dispute effective negotiation may be very difficult to achieve. People problems also often involve difficult emotions — fear, anger, distrust which can cause communication problems in disputes.

2) Focus on interests and needs, not positions;

Negotiating about interests means negotiating about things that people really want and need, not what they say that want or need. Often, these are not the same. I may "*wan*" a newspaper because I "*need*" to know what is happening in the world. I may "*want*" a pair of glasses because I "*need*" vision or "*want*" to use a drill motor because I "*need*" to make holes in something. Negotiators as a general rule will always start from the position of what they "*want*" and are willing to settle for what the truly "*need*".

3) Create options for mutual gain.

This means negotiators should look for new solutions to the problem that will allow both sides to win, not just fight over the original positions which assume that for one side to win, the other side must lose.

4) Insist on objective criteria.

If people are negotiating over the price of a car or a house, they can look at what similar houses or cars have sold for. This gives both sides more guidance as to what is "fair", and makes it hard to oppose offers in this range.

Principled negotiation is an excellent tool to use in many disputes, but in international negotiations you can have some restrictions — for example the US and Western European cultures prefer rational cost-benefit analysis, and personal relationships and emotions in business are not so important. And if we speak about Arabian culture, Latin America, South Europe — the situation is vice versa. *And it is important to take into account not only basic principles of negotiations, but also cultural peculiarities*.

ASIAN vs AMERICAN BUSINESS CULTURE[1]

Between Asian and American business culture, we can identify a number of differences and the primary being the distance between the owner and the employee. The values that might be really valued in Asia might not be pleasing to American business people. There are clear differences among distribution of power, collectivism of the two contexts, what they value, the uncertainties they face and how they think accordingly, people's long-term orientations in the two contexts and the happiness of people among Asia and the America.

What is the Asian Business Culture?

Importantly, the distance between owner and the employees of organizations are relatively high in Asian countries. The distance between the owners and the employees is defined upon the distribution of power within the organization. Therefore, business companies in Asia do not value this concept and, as a result, the distance between managers and employees become high comparatively. This distance leads organizations to create employee dependency. And as a result when you are planning negotiations with Asian partners, you should have a negotiator of equal status on your side. Theoretically, this nature refers to power distance (Hofstede).

Next, the collectivism among people in Asian countries is relatively high. People in Asia value a collective society. Business decisions are made collaboratively. This collectiveness leads to high organizational productivity. At the same time, the decision-making process is being delayed. This nature refers to collectivism (Hofstede).

In third, comparatively, competitiveness, success, and achievement of the society is less in Asian countries. However, this context holds the characteristics of masculine (Hofstede). It is accepted that Asian countries are masculine in nature in the perspective of visual display of power and success. Also, these countries value traditions and spirituals.

Next cultural factor that depicts the Asian business culture is uncertainty avoidance (Hofstede). This explains the extent to which the

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[1] Compiled by: *Hofstede G.* Culture's Consequences: International Differences in Work-Related Values. — Beverly Hills CA: Sage Publications, 1980. — 328 p.

society is threatened by inherent ambiguities and threats. It is said that Asia holds the characteristics of low uncertainty avoidance which means a low preference on the dimension. The next dimension discusses the linkages a society would make with people's present, past, and the future. A society that holds low in this dimensions, values timely honored traditions while the others assume pragmatic approaches. Asia holds a preference for uncertainty avoidance and thus pragmatic approaches are anticipated.

Finally, the dimension of indulgence refers to happiness of the society in general (Hofstede). The opposite of this dimension refers to restraint. Asian culture is restraint in general. As a result, restraining cultures control desires in relation to gratification. The restraining culture in Asia cause people to control their gratifications and thus dissatisfaction on business dealings are expected.

What is the American Business Culture?

In the United States, the distance between the owners and their employees are really low. And thus, positive outcomes are expected since the delegation of authority is practiced in organizations. Independence among organizational members is expected in this nature. On the other hand, the US holds characteristics of individualism, which is the society accepted 'I' culture. As a result, informal combination patterns, team management, information sharing is expected in conjunction with less power distant and individualism.

Masculinity is observed in a country like US, and thus power and success are anticipated in the country.

Also, the country prefers low on uncertainty avoidance. This effects on businesses to impose projections as ambiguities are comparatively low in the US. A low preference for long-term orientation states that the timely honored traditions are expected. In the business perspective, analysis of information to measure its accuracy prior to decision-making, performance evaluation on short term basis are expected.

Finally, strong preference on indulgent depicts that the society's people work hard in their businesses and thus positive results are expected.

What is the difference between Asian and American Business Culture?

Power Distance: Asia's power distance is relatively high compared to the US.

Individualism: Comparatively strong preference is observed in individualism in the US when compared to Asia.

Masculinity: Both countries show preferences on masculinity, and thus power and success are expected.

Uncertainty Avoidance: Both countries relatively show a preference for low uncertainty avoidance.

Long-Term Orientations: Relatively, Asia, especially, India shows a strong preference for long-term orientation and thus pragmatic approaches are expected.

Indulgence: Higher indulgence is observed in the US compared to Asia. This means people's controls over ratifications are less.

Types of behavior in negotiations: tricks and pressure

Aggressive or competitive negotiator. What is better and more effective?

This is a common dilemma for many negotiators. When faced with an aggressive and competitive negotiator, should they try to compete back or use more cooperative approach?

In fact, a more *cooperative approach* will often be more *positive*. This is particularly true over the long term in negotiations that occur between parties who want a future relationship and other situations involving non-zero-sum issues, where more for one side is not necessarily less for the other, and where a creative approach should help both sides expand the pie.

However, there is another type of negotiation in which the *cooperative approach often will put the user on the losing end of a win-lose deal*. And it will be win-lose, not win-win. It is typical for such situations: the partner don't really care about a future relationship. For example, if you are purchasing a used car and the salesperson appears to be your friend, but really starts playing good cop/bad cop or using pressure tactics like short deadlines. The second situation — zero-sum issues dominate the agenda. When your counterpart is selling his company, and wants to retire on the proceeds, they only care about maximizing their all-cash sale price.

In these kinds of situations, what should cooperative negotiators do?

Should initially evaluate the situation and determine the necessary tactic.

Factors which can influence on the approach:

1) The value of your future relationship. The more powerful the future relationship between the parties, the more a cooperative approach will be effective.

2) The number of issues. The more issues which are on the table, the more a cooperative approach will be effective.

3) The zero-sum nature of the issues. When there are more zero-sum issues, the less effective a cooperative approach.

Based on these factors, if you determine that a more cooperative approach works better but your counterpart appears competitive, reach into your negotiation toolkit and consider how you might persuade your counterpart to be more cooperative.

The problem in dealing with these situations is that positions (what we want and for how much) come to the first, and interests (why we want something) become secondary. *When positions become most important, emotional issues arise as well*. As intense emotions take over we start to work on each other, not the problem.

Of course, if you can't convince them to cooperate and/or you determine that a cooperative approach will be ineffective in that situation and there is some future relationship, use the following tactics:

Tactics if cooperative approach not possible:

— Reciprocate both their competitive — and cooperative — moves.

If they refuse to share strategic information, you should refuse to share strategic information. If they make an extreme offer or concession, respond in kind. But also remember to respond cooperatively if they start to cooperate. In addition, respond proportionately to them and don't overreact. Otherwise, you might permanently poison your potential to achieve your long-term goal.

— Occasionally make a peace offering.

Studies also have found that you should occasionally extend a peace offering just in case you misinterpret your counterpart's moves and the negotiation degenerated into a cycle of retaliatory moves, helping no one. Of course, don't walk too far. Just make a little peace offering every third move or so and see if they reciprocate.

— Consider using a third party.

Finally, some nice negotiators are just too personally uncomfortable when faced with competitive tactics, including using tit-for-tat. If you fall in this category, don't divert too far from your comfort zone. In those circumstances, consider hiring an agent or request a friend to negotiate for you.

But you should remember — that *you can only fix this particular situation. You cannot fix the other person*. Concentrate on making sure this negotiation remains on target, and do not begin to coach the other party in communication skills.

When *the other side starts to use tricks, psychological tactics, or becomes controlling*, what can you do?

Tactics and tricks can be combined into categories:

1) Psychological games and individual attacks: criticizing your integrity, personal put-downs, uncomfortable surroundings, and threats;

2) Misrepresentation of information;

3) Positional power: using tactics to pressure you to negotiate against yourself, make unneeded concessions, or even give concessions after the negotiation has concluded.

Psychological games and personal criticism:

No one wants to be around anyone who is attacking them or causing them discomfort. Confident, skilled communicators do not allow this to happen.

If a room is uncomfortable, request a change. Either another chair, or change rooms. If they refuse, tell them that the conditions are not satisfactory and we will have to meet at a different time or place to be able to have any chance at success. But do not use in this case personal attack, such as "You made me sit with the sun in my eyes!"

Example

If it is a personal affront:
"Are you qualified to be here?",
"You look ill. Are you feeling OK?"
What will be your reaction? Possible answers:
"You know my qualifications, so can we proceed?",
"I've never felt better, but thanks for your concern".

Using threats is a frequently used tactic to acquire concessions.

A supplier and customer are attempting to negotiate an arrangement for business growth. If the customer provides the supplier with 10 % sales growth in the next year, the supplier will give a 2 % commission. The bargaining commences without the customer really considering the value of the relationship. As the bargaining continues, tension increases with the customer finally exclaiming: *"I want 4 % and if I don't get it, I'll move my business to someone who will!".* The negotiator for the supplier responds: *"While we value the relationship with you, we do not value it enough to be unprofitable. Your request would make that occur. We hope you see the value for both of us in our proposal".*

Many negotiators, when attacked or placed in uncomfortable situations tend to overlook them and try to move on. This is the result the tactical negotiator needs.

Misrepresentation of facts

This can be very difficult to handle, as our emotional reaction would be to call them a liar. Remember, you cannot correct the person, only the situation. People issues have to be separate.

If you cannot trust the other party, you can still negotiate with them. If you cannot confirm something, ask to confer, or reconvene until you can to ensure that the facts are accurate.

If presented with contradictory information, present your facts as being in conflict with theirs, and ask for confirmation. Whenever possible, use third party sources as backup as those sources are unbiased towards this negotiation.

If the other party has represented themselves as the decision-maker and after an agreement has been reached advises you they "have to get it approved", let them aware that the agreement is now non-binding. Either side can now make alterations as needed. If the other negotiator does not have the authority to agree to the deal, there is no deal.

Positional Power

These tactics are employed by negotiators who are trying to position the other party into negotiating with themselves. They place the other party into a position where they are the ones making concessions, many times unnecessarily. This is very common when negotiators start negotiating to save the relationship instead of trying to reach an agreement.

Examples of tactics

Flinch: used when you submit your offer. The hope is that you might say something like: *"Oh, is that too much? I have some room here"* when your original offer was fine. A simple reply is to dismiss the flinch. If there is a real issue, it will come out later and can be negotiated without the use of tactics.

Hot Potato: the other side waits until the last minute to present their proposal, and allows no time to decide or prepare. Take a recess, caucus, reconvene. If it's a *"take or leave it"* deal, let it alone.

Walk out: a gambit to get you to concede something to get them to return to the table. Wait them out. If there are issues, they can be handled in due course in the negotiation.

Nibblers: they return after the deal has been concluded asking for a small concession. It can be because they *"forgot"* something, or *"something changed, can you help us out?"*. The best way to reply to this is to say, *"If we are going to reopen the contract, then it will be satisfactory to reopen the entire contract for further considerations. We would like a few small changes, ourselves"*. Usually, this stops the tactic.

NEVER give something away for free. Always obtain something in exchange that is of high value to you.

Tag-team negotiators: typically this occurs when a deal has been offered. For example, a company is negotiating to do business with another and there are *"two"* decision makers on the other side. The first one says: *"We can do this, but I can only pay a 5 % commission on your orders"*. The second negotiator says: *"Come on, we can do better than that. Why don't you pay them 6 %?"* In reality, they pay 10 %, and since you prepared your negotiation, you checked this out. What sounds like a concession is actually a tactic. A recommended way to respond to this is to say: *"It looks like the two of you have a disagreement. How about I go out for a while so you can work this out?".*

These are just several of the tactics used by negotiators. When faced with tricks and tactics, it is vital to remember some key points:

1) If you prepare and plan your negotiations, you will be more equipped to deal with tactics. You will always know where you are going, where you are in the process, and will know what you can do if negotiations are unsuccessful.

2) The objective of the negotiator is to obtain, efficiently, an agreement that is fair to both sides.

3) Remember you can only correct and control the situation, not the other person. Our focus has to be on the problem and the process.

4) A negotiator may not only require negotiating the issue, but also the ground rules of the negotiation process.

5) Recognize when a tactic is being employed. Address the tactic with the other party. Do not personalize it ("You are lying to me!").

6) Always have sufficient confidence to stop proceedings if they are not going well. This can be via a caucus, or even rescheduling for another day or venue.

7) Always know what you will do if an agreement cannot be realized. Know where you are in relation to what you will do if negotiations are unsuccessful, throughout the negotiation process. Do not allow the use of tactics cause an agreement to be worse that what could have been done on your own.

Most of us have to negotiate on a regular basis for goods and services we require in our lives. Few enjoy the process, and many do not because they are not equipped to handle the use of tactics in the negotiation process. Understanding tactics and how to deal with them, coupled with more detailed and focused planning of negotiations will give negotiators better outcomes for both sides. Last, when tactical negotiators learn how their tactics can be neutralized, they stop using them and begin to get better results.

Time pressure in negotiations

Experienced negotiators know that an interesting question is raised in the end of negotiations. That was putting extreme time pressure on the negotiation, and people become flexible under time pressure.

The basic rule in negotiating is that 80 percent of the concessions occur in the last 20 percent of the time remaining to negotiate. If demands are presented early in a negotiation, neither side may be willing to make concessions. If, on the other hand, additional demands or problems surface in the last 20 percent of the time available to negotiate, both sides are more willing to make concessions.

Some people are unethical enough to use this against you. They hold out, until the last minute, elements of the negotiation that could have been brought up earlier and easily resolved. Then when you're getting ready to complete the arrangements these problems come up because they know you'll be more flexible under time pressure.

But sometimes there are situations in which both sides are approaching the same time deadline. Which side should use time pressure and which side should avoid it? The answer is that the side that has the greatest power could use time pressure, but the side with the least power should avoid time pressure and negotiate well before the deadline. Fair enough, but who has the most power? The side with the most options has the most power.

Example
Story of estate agent in Montana

"Two months ago a man came into my office and wanted me to list his $600,000 home. Well, I had never listed anything that big before, and I guess I didn't express as much confidence as I should have, because when he asked me how much commission I would charge, he flinched, and I fell for it. I told him six percent. He said: 'Six percent. That's $36,000! That's a lot of money.' So I said: 'Look, if you have to come down much on the price of the property, ***we'll work with you on the commission***.' That's all I said, and I never gave it a second thought.

"As luck would have it, I ended up not only getting the listing, but I found the buyer as well. He didn't have to reduce the price very much, so now I have almost the full $36,000 commission coming into my office, and the property is due to close next week. Yesterday he came into my office and said: 'I've been thinking about the amount of work that you had to do on that sale. You remember you told me that you'd work with me on the commission?'

I replied, 'yes.'

"Well, I've been thinking about the amount of work you had to do, and I've decided that $5,000 would be an adequate commission for you."

$5,000 when she was due $36,000. This illustrates that you shouldn't leave anything to "We can work that out later" because a little detail up front can become ***a huge problem later when you're under time pressure***.

Time is money. They are invested, spent, saved, and wasted. Do invest the time to go through every step of the negotiation; do use time pressure to gain the advantage, and don't surrender to the temptation to hurry a conclusion. Power Negotiators know that time is money.

Effective Business Communicating Training Skills

1) Know what's going on.

We cannot be effective business communicators if we don't know the goals and objectives of our company or organization. Otherwise, we will find ourselves in the situation of *"the right hand doesn't know what the left hand is doing"*.

2) Prepare!!!

Good communicators can only be effective when they are prepared. We have to do our homework and research before the negotiation, meeting or presentation. To be unprepared is just asking for trouble. Preparation is the most important stage of negotiation or presentation to be effective.

3) Learn — Probe — Learn

When we sit down with our counterpart, we often don't have a lot of information about the aims of the other side. Every time we sit down with our counterparts we must be effective in learning to pry information from them to see the picture from their point of view. The more we can learn about our counterparts and what they need or want, the better are we able to develop our proposals or evaluate theirs.

4) See the BIG picture

The trainable communicating process is like the currents in a river. They are ever-changing. We can't go in the game with a fixed mind-set as this will result in tunnel vision. Being flexible allows us to change the rules of the communication game when necessary.

5) Thick skinned or staying cool

Emotions can get heated during a communication. A smart negotiator never takes what's said as a personal affront and has *the skill to separate the issues from the emotions*. It's not about us and it's not about them. It's about why we are negotiating.

Only one person is allowed to be angry at a time. If I answer your anger with my anger, the emotional level of communication will not allow to continue effective negotiating. If we can not reduce the level of angry quickly, we should keep our emotions under control, reminding ourselves from time to time "It is not my turn to be angry". It is better to express only positive emotions and at medium level. Letting parties know with a smile that you are pleased to be working with them is very simple approach. *But there are some peculiarities when you negotiate with people from different cultures*.

6) Active listening and asking questions

Making it clear that you are interested in partner increases the chances you will be able to open the door to serious discussion. Make it obvious that you are listening — nod your head, raise your eyebrows, lean forward with your chin on your hands to make it clear that you are paying attention. The best tactic during negotiations — not to answer, but to ask and ask good questions. If you search for information the best way is to ask open-ended questions and then discipline yourself to listen carefully to the answers. Rather that ask your customer "Do you like this product" it can make more sense to ask "How would you describe the product to your design group". The first question means the answer yes or no, and the second question allows you to receive detailed answer. *And the better we listen, the better we will negotiate*. Active listening requires paying full attention to other parties rather than focusing on ourselves.

If you are in the situation when your partner can not stop talking (so called *over-communication*), do not interrupt him, but make notes during the listening to keep track of the points that have been raised.

7) Responding to what we learn

When we receive information form partner during active listening it is important to say then: "If I understand you correctly, you said A, B, C…". We should not repeat everything word for word but we should confirm as clearly as possible what we have understood. *When you negotiate in foreign language it is very important*. But you should pay attention of your partner — "When I say I understand you, that does not mean that I agree with you". This point should be made diplomatically but clearly.

8) The power of silence

Sometimes the partner with whom we negotiate present ideas with wich we simply can not agree. In this case you can use such weapon as silence. If you say "Bill, that is the dumbest idea I ever heard" you add emotional component to the discussion. If you sit there wearing the poker face, you can make that point quite effectively.

9) Friendly silence

The point where you and your counterpart agree that your understanding of what he said is accurate is a good time to say: "Now that I understand you, I would like to think about your ideas before responding to them". This is different use of silence than the poker-face approach. Here you are indicating that you have focused so much on the party's points before you respond. It will allow to increase comfort level of your partner.

10) Questions rather than assault (De-escalation)

With difficult people when they attack you in rude form or too emotional ask the questions to demonstrate that you are interested and take the partner seriously. When partner says: "You product is awful. It doesn't work! I will go to the court and will complaint!", for you will be better to ask: "I understand your feeling. It is really awful. But could you explain more detailed what problems do you have? In electronic unit or with display?" Questions is far more convincing sign of respect than giving lecture.

11) Providing information step by step

Do not give too much information at once. It will be difficult to determine most important issues and your partner can concentrate his attention to the points which is not necessary or not important for you and it will prevent normal decision-making process. You should have internal plan of negotiation and try to give only necessary information exactly for the discussed point.

12) Informal talking

All negotiations it is necessary to start from introducing and informal talking (whether, travelling, nature, your country and the country of your partner).

Fundamental Reasons Why Negotiators Fail:

1) The great majority of negotiators never translate their general knowledge of negotiation into specific skill(s) that can be used practically.

2) The majority of negotiators focus on what they believe their starting positions are rather than focusing on the preferred outcome. No flexibility.

3) Fear. Fear will always invite you to aim for less than you are capable of achieving.

4) Attitude of mind. A listing of those inappropriate attitudes of mind follows:

Self-limiting expectations. We plan for failure even before we sit down at the table. We can be slaves to expectations.

Attitudes to money. Too many people look at company money as a completely different animal from personal money. Symptoms are addiction to the expense account and company-paid comforts.

Lack of self-control. The basic skill of successful negotiators is simply to be in control of themselves.

Drives. Driven people can accomplish great feats but are seldom able to choose to ignore the drive.

Ego. So much in negotiation is about feeding ego rather than obtaining the best possible deal, which usually necessitates leaving ego at the door.

Submissiveness. We lionize the small number of successful, risking-taking masters of the business. We forget that 90 % of those in business are people who can manage while keeping their heads down to protect their jobs, pay the home loan, and secure their pensions.

Identifying attitudes is essential to controlling them. Only when this is done we can effectively acquire the process skills that help us achieve negotiating excellence.

4.2. Perfect Presentation

Why introduction matters

In order to understand the anatomy of a perfect presentation and master this skill let's imagine the following situation. A person comes to his or her favorite fitness club for a workout. As soon as our hero crosses the threshold of a health institution and takes out a club card, a coach with a heavy bar jumps up to the reception desk and asks to perform a deadlift. Five sets of ten reps! Even the most trained athlete would not be able to do this under these circumstances, but rather would not even undertake such an absurd task. The athlete is well aware of the importance of the warm-up. Trainers rightly prefer to start with jogging, using an ellipse and stretching muscles and joints, and only then move on to power loads, increasing the mass lifted from an empty bar to heavy weights.

Yes, the situation described has little to do with reality, but I did not invent it. We see this kind of metaphorical disregard for the "warm-up" every day in classrooms, conference halls and online webinar rooms. Speakers, having barely appeared on the stage, behind the podium or in front of the camera, immediately load the audience with their material, moving on to the main part of the public speech. If a fitness and healthy lifestyle adherent has not warmed up, the risk of injury increases. But listeners are also at risk with this approach of the speaker. Fortunately, they are not threatened with an injury to their ears and eyes, except for a slight sprain of a finger from a long-forced use of a gadget, but wasted time is guaranteed. And we do know that time is our most valuable and at the same time exhaustible resource!

In the starting 15–30 seconds of our public speech, the listeners make a fundamental decision — to listen to us or not. If the answer is "no", it will be almost impossible for us to regain the flown away interest. We will keep on regarding the listeners in front of us, but mentally they will be somewhere in another world — in their dreams, fantasies, thoughts, ideas and gadgets.

An introduction in a public speaking is necessary in order to:

— draw attention to the speaker;

— warm up the audience;

— designate the topic of the speech.

The listeners come in different emotional states, and, as mathematicians say, we need to bring them to a common denominator and create a single vector of perception.

The good news is that there are many public speaking tools that we can effectively use. Of course, if the beginning of the presentation is banal and standard, the audience will not even pay attention to us. Therefore, the introduction should be unusual and out of the box.

Introduction Tools

1) Curiosity

At the very beginning of your speech, tell the audience something unusual — something that you are not expected at all. After that, throw a logical bridge to your topic and dive into it.

This tool is based on the understanding that curiosity and inquisitiveness are key features of every living organism, a kind of internal motor that moves forward. Since childhood, we are very curious, and this trait is preserved in each of us to varying degrees, therefore, as soon as something unusual happens nearby, it causes high interest.

2) Subject

Show the audience some material object, focus on it and connect it with the topic of your speech. However, the image on the slide can also become a "subject". Visibility enhances interest in what is happening and positively affects the perception of you by the audience.

For instance, you are going to tell your audience how to make slides. You could demonstrate a clicker (a gadget for switching slides) and say: "I have in my hands an item that a modern speaker often cannot do without — this is a clicker for switching slides with additional functions of a timer and a laser pointer. Today we will talk about the art of presentations.

3) Question

At first glance, the question is the simplest speaker's tool, but it combines two important aspects: ease of using and high efficiency in influencing the public. This technique will be a great launching pad for the inspiring rocket of your performances, the springboard from which you will jump into the minds and hearts of listeners.

Main part of public speaking

While the introduction is designed to be unusual, the main part should be interesting and useful. If the main part of your presentation is fun and colorful, but empty in terms of the content, it will disappoint the audience. Will Stephen satirized such speakers at a TEDx conference in New York. Throughout his speech, he did not say a single important, wise or inspiring thought, but looking at the speech without sound, one could conclude that the speaker was delivering a brilliant presentation. He looked very smart, moved thoughtfully around the stage, waved his arms and showed slides with graphs and drawings.

Another extreme pole of speaker's blunders is the situation, when the speaker has really prepared useful information, but is unable to present it in an interesting way. He is muttering, reading, refusing to interact with the audience, and the listeners' precious time flies away and will never return.

It is the combination of these two most important aspects — interest and benefit — that will make your public speaking unforgettable and inspiring. Let's see what tools will help us to act in such a way.

1) Linear structure

The linear structure is classic. In order to use this tool, you need to divide your entire report into several theme modules (optimally — three, five or seven) and sequentially present each of them, introducing appropriate links between blocks. Links glue the structural elements of a speech together and help tracking the logic of a presentation. I recommend using a linear structure for both novice speakers and experienced speakers, since the classics are eternal and reliable.

2) Storytelling

When you deliver a presentation, you could use storytelling, as individual emotional stories support your position, improve understanding by the audience, and inspire them to think and act. This technique allows you to turn your speech into an unforgettable source of inspiration.

You can go further and not just integrate individual emotional stories into your presentation, but build your entire presentation as a compelling narrative. In order to explain general storytelling clearly, we can simplify its main part as much as possible: problem → solution.

Conclusion in public speaking

Our memory is very selective, and the edge effect is inevitable for it. We always remember the beginning and end, whereas the middle part is not so memorable. For instance, on vacation, the first and last days seem very long. In turn, everything that happens between them merges into one big day with a general mood in which it is difficult to single out individual details.

But many speakers, alas, ignore this scientifically proven fact. Suppose that the speaker was blowing a balloon and finally inflated it. What will inevitably happen? The balloon will deflate with a characteristic sound. This is how many speakers end their speeches.

Why is conclusion so vital in a public speech?

— It helps to summarize the material;

— It leaves an emotional "aftertaste";

It makes possible to communicate a plan for further action.

Thus, if the introduction, as we said, should be outrageous, the conclusion should be made INSPIRING.

Conclusion Tools

1) Summary

It is one of the simplest but most effective tools of the conclusion. It represents a concise description of what you just talked about. You could say: *'Let me summarize what we've looked at.' 'I'll briefly summarize the main issues.' 'I'd like to summarize.' 'Let me just go over the key points again.' 'To sum up…' 'At this stage, I'd like to go over…' 'To summarize, I'll run through my three topics.'*

2) Call to action (CTA)

Since the goal of a presentation is the actions of the audience, you can tell the audience directly what you expect from them. It might be buying a product, taking part in a project or changing opinion about something. You might say: 'I'd like to conclude by strongly recommending…' 'To conclude, I'd like to leave you with the following thought…' 'In my opinion, the only way forward is to…' 'In conclusion, I'd like to leave you with the following idea.' 'I trust you gained an insight into...'

3) Quote

To make the end of the speech truly inspiring, an interesting move by the speaker is to use a quote of a famous person, a person that you know well or a proverb.

In general. the most important thing a speaker needs to strive for is not to let the audience get bored, and the clip approach is the way to ensure this. Of course, I do not mean the clip approach in the bad sense of the word, when we complain that many modern students grab knowledge at the top, but do not really go deep into any subject. Speaking about the clip approach, I mean the regular change of emotions, moods, ways of perception.

You ask a question, and the audience thinks about it. Then you formulate the problem, and everyone gets worried. You select a suitable quote, and the audience looks at the situation from an unusual angle. After that, you offer a solution to the problem, and listeners experience positive emotions. Suddenly you decorate your story with a joke, and the mood rises even more. Next, you show an interesting slide or video, and the listeners look at the screen with curiosity. And then you communicate with the participants of the event and ask them to raise their hands in response to your question, and the audience is involved in the dialogue. This is the general concept of the speaker's work — managing the attention of the audience through a variety of delivery tools.

You should try to appeal to different senses. Let the audience listen, discuss the material with each other, watch, play, record, take pictures, complete tasks.

One of the most common speaker mistakes is "losing" the audience. Walk into most conference rooms, auditoriums, and halls, and you'll have absolutely no idea who the speaker is talking to. Some seem to be talking to their notes, others are talking to their slides, still others are scrutinizing the floor and ceiling, more like workers getting ready to renovate a room than orators delivering a fiery speech.

Another blunder is when the speaker still manages to capture the attention of the audience using the tools that we discussed, but then there was a failure. Rejoiced at the quick success, the speaker began to rest on his laurels, forgot about the audience and lost its concentrated attention.

In order to fully understand the role and mission of the speaker, it is necessary to study the fundamental postulates of the sciences that underlie business. I'm talking about management and marketing.

On the one hand, the speaker needs to be a first-class manager and be capable of proper managing the attention of the audience.

On the other hand, the speaker should appear before the audience as a professional marketer and remember the main thesis that is taught in all business schools on the planet: the company should be customer centric. We can conclude that the main thing for the speaker is the listener, and all attention should be directed to him.

Key tools for interacting with the audience

It is important to make the audience feel involved. You can do this by asking rhetorical questions and by referring to the audience personality. Here are some tools that might be helpful to you:

1) Compliments

Are there those among us who do not like praise? I highly doubt it! Every person in the world loves to hear something pleasant in their address. Keep that in mind and fill the audience with sunshine! Add some honey to your performance!

2) Dialogue

Despite the fact that you are speaking alone, you should not turn your speech into a monologue on a given topic. The audience will quickly lose interest to the "talking head", especially the boring one. Engage your audience in your storytelling and make each viewer feel important.

Confucius was absolutely right when he said: “Tell me and I will forget. Show me and I might remember. Involve me and I'll understand."

3) Gamification

Remember the works of the famous American psychiatrist Eric Berne, who was stating that all people love to play games. As a speaker, you have a great opportunity to satisfy this need. We are not talking about playing poker or Monopoly with the audience. Incorporate small game elements into the performance. By doing this, you will ensure a better memorization of the material and will be able to maintain your reputation as an interesting interlocutor and create a positive atmosphere.

Multimedia tools in presentations

Very often in the modern world, you will choose to deliver your presentation with a broad usage of multimedia technologies. You should remember, though, that multimedia (slides and videos) is a tool, and each time you need to carefully consider whether they will be appropriate for the particular context. The more emotions we provoke in the audience, the higher our chances are to achieve our goals and ensure active response of the public, which is what we strive for. Multimedia technologies help to evoke emotions, and as in everything, moderation and professionalism are important here.

The main rule for a speaker is not to start preparing a speech with making your slides. First, you need to decide on the main idea, structure and delivery, and only then proceed to their visual interpretation. Always remember that slides should help you to make a better and more understandable perception, but in no case they should replace the speaker. The main person on stage is a speaker, not his visual accompaniment.

Slides can be prepared in Microsoft PowerPoint, Keynote, Prezi, Google Slides, and other software. But do not forget about Plan B. Make sure you can show your presentation with the equipment provided and be prepared to speak without it, if something goes technically wrong.

You could use the following techniques for preparing your slides:

1) Different types of slides: text, images, charts, diagrams

Don't limit yourself to text slides. Yes, they are the easiest to prepare, but at the same time your visuals will look boring and monotonous. We have already talked about the need to apply the clip approach, which consists in managing the emotions of the audience through a regular alternation of activities through a variety of oratory tools. A similar approach should also be used while preparing the slides. Here are some hints on how to use them:

Text slides: quotes that fit the meaning (preferably with a photo of the author and an indication of his or her type of activity); a large-print summary of a theme block or a wise remark that can be accompanied by the inscription nota bene (Latin expression meaning "you need to pay special attention"). Use a reasonable amount of text;

— *Images*: photographs, drawings, icons, pictograms and other pictures that can bring your story to life. You could also use maps, if you are talking about travel, exploration or want to show where you come from;

— *Charts*: the most commonly used ones are pie charts (if you need to show a fraction of a whole), bar chart (shows the relationship between objects) and the graph (shows the change of indicators over time). An important advice assumes that in the title of the chart you do not write a general description, but the main idea that you want to convey. For instance, "The market share of our company has increased since 2010" is a better option rather than "Dynamics of companies' market shares ".

— *Diagrams*: if you need to explain something in detail, you can use organizational structures of companies, engineering diagrams, building and interior design projects, mind maps and much more. The key point is to keep the diagrams as simple as possible in order to look understandable, and not confuse listeners even more.

In presentations, hybrid options are also quite acceptable in the form of a combination of the above-mentioned options: for example, you could combine a text slide with a photo or a graph with pictograms, but an overabundance of information should not be allowed.

2) Use structure slides

— *Title page*: the importance of this element should not be underestimated, because it will be shown on the screen for quite a long time while you are announced by the host (if there are several speakers) or while the audience is gathering on the site (if you are the only speaker).

Put on the first slide the topic of the speech, the speaker's name and short regalia along with the logo (your personal or organizational one). In the modern world, speakers often show their contacts using the QR-code immediately on the title page. This is a good idea, because in the process of waiting for a report or a break at the beginning, listeners may subscribe to you on social media. And in the future, the audience may be so engrossed in the report that they may forget about it at the end of the presentation.

— *Bumper slide*: it does not carry meaningful information, but is necessary in order to separate parts of the presentation among themselves. Bumper slides divide the report into subsections and are very convenient for tracking the logic of the speech, like titles in "silent" films.

— *'Thank you for your attention' slide*: timeless classic! Etiquette and good manners are an important part of a speaker's reputation. Thank the audience for coming/connecting to the online performance to listen to you and devoting their most precious resource, which is time. As a creative idea, you can write words of gratitude in different languages, if the audience represents different countries of the world, or use a background with a theme picture of the performance (dinosaurs, space, company office);

— *Contact information*: the fact that in the modern world it is appropriate to place contacts on a title slide for a presentation does not mean that it will not be needed on the final slide. This is such an important piece of information that it is wise to show it twice. Moreover, if earlier the speaker's email address was the most relevant, now the most effective way to share your accounts on social networks, and the most convenient and quick way to do this is by placing a QR code to become a subscriber to your YouTube channel or Telegram account.

3) Videos

Images used to be the key means of communications in the past. Then came the long era of text media, followed by our era of video. This does not mean that the two previous formats have disappeared, but the video has taken its rightful niche.

If earlier, in order to understand the level of a person's culture, it was necessary to ask: "What have you read?", Today, this question should be supplemented with "What have you watched?"

Video is the main content on YouTube. And if this is the case, the audience gets used to the video content and expects speakers to use it. Try to use laconic videos, not more than 3 minutes.

4) Handouts

Several years ago, handouts were recommended for use in almost every public speech. It could be flashcards with basic information, a short summary of the presentation, pictures, key statistics, or something else.

But now the world has changed dramatically not only in technologies, but also in values. This is due to the fact that the audience is tired of paper being wasted — often handouts in large volumes are on the floor, in a basket or in the corridor. In addition, in the modern world, people's environmental awareness has increased, and they are very worried about the trees that are mercilessly cut down for unnecessary advertising brochures.

Therefore, now the advice is the opposite — it is better to use such a technique less often, only in extreme cases of need. In our classes at the university, for example, for a long time I have been using exclusively reverse paper when I give out study materials to students, and homework is submitted electronically.

If you are conducting a training, workshop or other educational program, workbooks are often used as handouts, in which some templates and blanks are already written for further note taking. A similar technique is used, for example, by the Business Education Center and the Fashion Office style school.

An elegant idea would be to use the principles of the Japanese etiquette, when you give out booklets with two hands, looking into the eyes of the viewer. Of course, this will work for a relatively small audience.

We talk a lot about the growing number of online performances in the modern world. For the digital space, there are also forms of handouts that are becoming increasingly popular. You can send viewers of your webinar or live broadcast (before or immediately after) the following useful materials:

— ***A guide*** that describes the sequence of actions to achieve a specific goal. The information is presented in a very concise and clearly structured way (for example, a home fitness training guide or a cappuccino-making guide);

— ***A checklist*** is a list of things to do with "done" marks next to each item. They come from aviation, where pilots need to remember to do a lot of things.

— ***Onepager*** — a written presentation of your project on one page. It is very capacious and convenient. You can make a whole collection of one-pagers — each of them is valuable in its own way, but together they acquire a holistic view of the issue under consideration (for example, one-pager for SMM project promotion, one-pager for organizational structure and a business project team).

— ***Useful links to interesting resources*** — you can send them in private messages or e-mail to participants in an online event or attach links in the descriptions under the video to YouTube. Often, for the ease of navigation, video descriptions and useful additional links are attached to the timecode of the video.

Non-verbal communications

There are various studies on verbal and non-verbal information that we perceive. For the purposes of this book, it makes no sense to dive into the depths of scientific treatises, but we need to conclude that our attitude towards a person depends on, both verbal and non-verbal signals. It is important for us that the audience perceives not only the words we say (verbal communications), but also how we do it and how we behave on the stage (non-verbal communications).

It is very easy to prove this thesis. Even in the written communications that we use daily on social media and messengers, we are aware that words and punctuation alone are not enough to write a message. We use emoticons, gifs, emojis, stickers and other symbols, as they help us express the emotions that we experience and allow the addressee to read them more correctly.

Non-verbal communications of the speaker include: the tone of voice, postures, facial expressions, gestures, moving around the stage space, and much more. In no case should we let this important element of communications take its course. Yes, it is not possible and, frankly, expedient to think through every gesture and eye movement, but it is definitely worth controlling the key elements, because the audience will catch the smile of our lips and eye movements.

Eyes are one of your best tools for involving the audience in what you are saying. Good posture, movement and gestures will be of little use if you fail to support them with appropriate eye contact. Great presenters understand that eye contact is critical to building trust, credibility, and rapport. Far too many have a habit of looking at everything but the audience. One way of spotting inexperienced presenters is to see how they focus on a small group, usually in front of them and usually those giving off positive expressions of interest or encouragement. This focusing has the effect of rather embarrassing those people while, at the same time, losing contact with others in the audience. It is advisable to maintain eye contact with your audience at least 90 % of the time. It is appropriate to glance at your notes or slides from time to time, but only as a reminder of where to go next. You are speaking for the benefit of your audience. Speak to them, not the slides.

You will also need to think how you communicate using body language. Body language can distract people from what you are saying or even irritate. People can bite their nails, twiddle with things, sniff and so on. If you have distracting habits, find a way of controlling them. Hold your hands behind your back or hold a sheet of paper so you can’t fiddle.

Hand gestures and facial expressions can be used to your advantage to emphasize particular points. However, treat these with caution because inappropriate gestures can also interfere with your presentation and detract from what you say. The way that you stand will have a huge impact on the way that you breathe. The way that you breathe will have a huge impact on how you sound. Think about whether you will be sitting or standing during the presentation and which will be most appropriate for the event. Avoid standing frozen like a statue, try not to pace about like a caged animal, but aim to move naturally and appropriately.

Steve Jobs used to smile all the time during his keynote speeches. When you send out a smile, it comes back to you. If you physically engage with your audience, you will also engage them mentally. If you look like you are having fun, your audience probably, will too. As well as showing enthusiasm with exaggerated body language, Steve Jobs showed massive enthusiasm with the language he used — fantastic, amazing, incredible, and extraordinary. When you are excited, it is difficult for your audience to resist.

Public speaking preparation

Preparing a speech begins with the fact that you decide on the context of the speech: topic, audience of listeners, regulations, venue. You need to start with the technical, and not with the creative moments, because they are the baking dish in which you pour the dough to make a chocolate cake.

It is also important to understand that ideas are not born out of a vacuum. In order for the productive operations of your supercomputer (brain), you need to carry out fruitful research to ensure the collection of the necessary information.

Conducting this research you may find the following information blocks useful:

— ***facts supporting your idea*** — they will allow you to competently build a reliable line of persuasion;

— ***counter-arguments*** — to effectively repel the attacks of haters and build a "problem-solution" structure;

— ***opinions of professionals*** — what do the gurus of your field think about this (what they write about in books and articles, say in interviews), quotes that can be cited;

— ***views of amateurs*** — talk about the topic of your speech with a person as far as possible from your field — a child, a person of age, a specialist from another field. This will tell you what the people who are not experienced in the topic think, and will allow you to build understandable schemes for explaining the material using appropriate metaphors, examples and cases.

— ***experience of the past*** — something new is often something old well-forgotten. The experience of previous generations can be very valuable and interesting.

— ***modern views*** — presentations in which the cases of the past days are perfectly presented, but modern realities are absent, are not so interesting and relevant. You risk losing the attention of the audience. It is very important to look at what is currently happening in this area. Social media and current publications will help with this;

— ***international and domestic practice*** — see who in the world has made the most significant progress in the topic you have chosen. Discover what are the best organizations, companies, foundations, brands, works of art associated with what you do;

— ***interesting facts and fascinating stories*** — remember that the audience needs not only to be inspired with certain thoughts and actions, but also wants to learn something new.

— ***pictures, memes, jokes*** — prepare to have an elegant joke and cheer yourself up as you prepare your presentation. Study interesting jokes and memes on your topic and think about what can be included in the report and what can be left as a premeditated impromptu.

After selecting the material, it's time to start building the main part. When the main body is ready, it is important to think through the two key elements of public speaking — the introduction and the conclusion.

I would also like to point out two important things to keep in mind when preparing a public speech:

1) You should make a decision on writing the whole script of your public speech. If it is a 5-minute talk in a forum, where the regional authorities or the CEO of your company are participating, or a 15-minute talk at a local TedX conference, the speech should be recorded and memorized, as there are high responsibility and reputational costs, if something goes wrong. To improvise under such conditions will mean showing disrespect to the audience. If this is a lecture or a workshop on a topic that you are confident in, or a long presentation of the product to potential buyers, and you are an

experienced sales manager, writing a speech in advance and memorizing it will cause irreparable damage, and almost no one will listen to you and take you seriously.

2) Be sure to leave about 20 % for improvisation. Interesting ideas, moves, quotes and tools for playing with the context will invariably come to you right on the stage (and such insights will only increase, as you are progressing). Such unplanned passages create liveliness, positivity and high spirits for the speaker and the audience.

Now we can move on to the rehearsals. The best and the most effective way to practice speech modules is to rehearse during non-productive time. Speak while washing dishes, driving a car, going to school, running on a treadmill. Actors memorize huge amounts of text by reading the material very often.

When the performance has been worked out, it's time to remember that the best impromptu is prepared in advance. Write down and then think through the questions you might be asked and your potential responses to them.

If you do receive a rude, hostile or discourteous question that appears to be an attack on you, then do try and stay calm. The audience will be very much on your side if you can stay calm and not be provoked. It is very tempting to retaliate and bite back. This will play directly into the hands of the questioner. Stay calm and respond on the lines of: ‘I think it is best for us to discuss this later’. ‘You’re fully entitled to your opinion. Can I respond to the general point you’ve made’…

Preparation for the presentation continues on the day of the performance. Its important aspect is preparation on site.

You should pay special attention to the following aspects:

— check the equipment: slides, videos, sound, microphones, clicker. If the performance takes place online, ask those who have already joined the broadcast in advance to say how well you can be seen and heard, whether sound files are played;

— take a close look at the stage: mentally think about where you will stand, how you will move and what interesting features you can mention;

— in the case of multiple speakers, keep a close eye on what happens before your presentation. Write down 3–5 ideas that you can refer to at the end of the talk.

— smile, nod while greeting the audience, create a positive mood from your mere presence in the hall / webinar room.

— if possible, before a public speech, talk briefly with some people in the hall, find out their expectations. This information can be perfectly used on stage. Of course, this is an aerobatics figure, but you must always raise the bar for yourself higher and higher.

In order to manage the emotions of the audience, you need to learn how to cope with your emotions and properly tune in to the presentation. In no case should you wait for the excitement before public speaking to disappear: this is the first sign of failure. You should turn your nerves into enthusiasm.

In order to do that, try some actions just before you are due to appear on stage. Consciously relax your shoulders and straighten your back. Think of the space between your ears and the top of your shoulders expanding. Stand as tall as you can, or if you are sitting, push your bottom to the back of the chair and straighten your spine, try not to hollow your back and push your chest out, this only tightens the chest and will make you sound breathless.

Dealing with numb hands and a dry mouth: shake your hands loosely and, if you can, run cold water over the back of them, this cools you down and relaxes your hands and arms. If you don't know what to do with your hands, hold a pen or pencil lightly between them with your hands at about waist height, this causes you to open up the torso and stops you from 'comfort hugging' yourself. Breathe out deeply and then breathe in and out as slowly and calmly as you can. Make sure that you have a glass of water at hand, and if your mouth is really dry, apply colourless lip salve to the inside of your lips which will stop your lips sticking to your teeth.

Coping with a fast heartbeat and peculiar sense of time: slow yourself down as much as possible, walk deliberately slowly, make gestures deliberately slowly, speak deliberately slowly, breathe deliberately slowly.

Fighting the desire to run away: face the audience head on as you walk slowly into position, look round the audience calmly. Look between their eyes which will give an impression that you are looking at them without the alarming prospect of having to make direct eye contact. It is also very useful to have a friend in the audience (within your sightline) who can smile encouragingly at you. Take up as much space as you can — the whole stage is yours to use and if you take up the space and gesture broadly this reduces muscular tension.

Before you actually speak, let a little breath out and relax your shoulders again. Stand with your feet slightly apart, as this will balance you and make you look relaxed, and don't worry about the trembles — the audience would have to be very near indeed to notice them

During the public speech stand tall with a straight back. Don't hunch, twist or hide your body behind folded arms or your notes. Keep your shoulders level and relaxed. Keep your audience in sight — we all instinctively know the difference between staring and good eye contact. Unless you look at the people you are talking to they will not believe you. Slow down your breathing, walking and gestures. Take up as much space as you can, don't keep your arms close by your sides, instead, clasp your hands loosely at waist level if you feel nervous. Make your gestures wide, upward and outward. An entrance like this will give you great credibility.

After the event, write to 3–5 people on social media. Say that you are writing because you trust and value opinion very much. Ask your addressee to briefly formulate the general impression of the speech — what they liked, what they paid attention to, what people said on the sidelines.

In addition to external reflection, internal reflection is very important. You should remember your speech and answer, preferably in writing, three main questions:

— What have I done right?

— What have I done wrong?

— What would I have done differently?

Flip through the notes as you prepare for performances, and you will be very grateful to yourself for the many tips and valuable recommendations.

In general, a good presentation, should:

1) involve the audience in which you are supposed to establish clear objectives at the introduction and create interest and promote involvement;

2) be clearly structured and link the different section together;

3) involve the use of visual aids effectively;

4) employ appropriate non-verbal language: gesture, facial expression, eye contact;

5) involve effective use of voice: volume, rhythm, pauses, intonation;

6) should be prepared thoroughly.

4.3. Meetings and Negotiations

All the tools mentioned here might be applied to conducting business meetings and negotiations, as they also have to do a lot with communicating. Negotiations assume the willingness of people to talk and come to an agreement. Negotiations have always been an integral part of human life. We all negotiate throughout our lives sometimes without even thinking about it. Every day, we are fully or partially in the role of negotiators. Both the personal result of each of us and the fate of the world as a whole depend on how well we are able to negotiate among ourselves.

In order to improve the effectiveness of negotiations, we must understand the basics. The success in negotiations is influenced by many factors, including the mentality and level of the participants in the meeting, and much more. We have all heard that successful negotiations depend on how much you stick to your position and rejecting the position of the interlocutor. This only partially true. Because in such a situation there is already a loser, and this is your interlocutor. The purpose of negotiations is to agree on further relationships and achieve the desired goals which are mutually beneficial, so the main concept of successful negotiations is a win-win strategy.

At the beginning of the negotiation process, share your goals and expectations with your partners and ask them to do the same. This will allow both parties to increase the degree of trust and openness to each other.

Be positive and open-minded. This will create an atmosphere of trust throughout the negotiation process and significantly increase the likelihood of achieving your goals.

Listen and ask questions. Analyze every word, ask your interlocutor questions. The more information you have, the higher the chances of your success are. Do not immediately start offering something to the other side. Listen, determine the needs of the interlocutor, and only then voice your offer. Help the interlocutor come to the solution by asking: “What do you think about the result?”, “How can these people help us solve our problem?” instead of "Can I help you with something?" and “Should we include them in our work?”.

Learn to read the interlocutor by the gestures, facial expressions and other body language features. In many cases, this will already be enough to predict the outcome of the negotiations.

Your task is to create a dialogue and state your position. The list of arguments should be compiled beforehand. From the very start of the negotiations, form a dialogue, in no case slip into a monologue. Help the other person see their problem and offer a solution to that problem. For example, in the company of the interlocutor, the flow of customers has decreased, and you offer a service for launching online advertising. Show that you know how to deal with that issue.

Argue, build your speech convincingly, give facts and arguments that are not subject to dispute due to their significance, objectivity and unshakable evidence. For negotiations to be successful, you need to select the right statements. They should correspond to reality, be related to the subject matter of the contract, engage in personal interest, be in line with your partner's values:

Take notes during negotiations, be sure to fix the key points, and sum up the results at the end. This will make it possible to protect yourself and not lose the thread of negotiations. Results are an important point. At the end of the negotiations, take stock to come to an unambiguous understanding from both sides.

You should choose an appropriate negotiation model depending on the counterpart, specifics of the enterprise, the nature of the leader, national and regional characteristics. We must know exactly the subject of the contract and other conditions important for the parties, as well as understand who makes the final decision and how to influence this person. It is necessary to find out in advance the motives of the partner.

During negotiations, everything is important — how far and on which side you are sitting, how and where you put furniture for your counterpart, whether you speak quietly or loudly. To prepare for the meeting, you will need to find out detailed information about the interlocutor along with his or her intentions. When you have enough information, then negotiations can go faster, more constructively, and you will come to a favorable result for both parties.

Determine the conditions under which you can start a discussion. Most likely, no one will immediately agree to them, but the conditions must be realistic and reasonable. Determine the optimistic goal — the conditions that will be the most profitable and favorable. Also know the concessions you can make. Understanding those boundaries will help you to find a compromise in order for the negotiations to be successful.

Fix agreements. When negotiating, be sure to record all agreements, especially in a complex and lengthy process of communication with many participants. When the negotiations are over, send the partners the miutes of the meeting and a summary with a motivational phrase such as: *"Colleagues, congratulations! We have already agreed on three positions. It remains to work effectively with the rest of the positions."* Emphasize the point at which negotiations stopped. Set a date for a new meeting.

If you know how to intercept and hold the initiative, you are more likely to achieve your goals. Learn to give the initiative to your partner in a timely manner and then take it at the right time. You can keep the initiative with the help of sentences ending with a question, or replicas that allow you to predict the reaction of the interlocutor. If a partner asks about something, answer and ask your question, you will again gain the initiative.

At the beginning of the conversation, let the interlocutor clearly understand who are you and why did you invite him to this conversation. This will help avoid many questions in the future.

Make sure the negotiations go through in the right place, where no one might interfere you. If this is an office, its furnishings should be set up for business. Close the door (but don't lock it) and make sure no one bothers you. If this is a cafe, try to find a cozy one.

Control the negotiation time, but do not look at the clock every five minutes. It is a sign of bad taste and your insufficient interest to the transaction.

After negotiations, the parties must come to a mutually beneficial agreement. Make a decision in a calm environment by discussing with colleagues everything that you talked about in the process of negotiations. If the interlocutor offered you several cooperation options you should thoroughly analyze and think about each of them.

Questions and Exercises

Questions for self-control

1. Rhetoric is a philological discipline that studies the attitude:

A. Of words to thoughts.
B Thoughts on the words.
C. Definitions to Expression.

2. The formula: "rhetoric is the art of persuasion" belongs to:

A. Cicero.
B. Quintilian.
C. Aristotle.

3. The aim of the public speech is to construct an idea for an expedient statement intended:

A. To any audience in any circumstances.
B. To the specific audience in specific circumstances.

C. To any audience in specific circumstances.

4. The rise of rhetoric is associated with:
A. Democratic forms of political structure.
B. Despotic forms of political order.
C. Autocratic forms of political structure.

5. The rules for public speaking including intonation techniques, voice setting, facial expressions, gestures, stage movement are called:
A. Non-verbal communications.
B. Memory techniques.
C. Innovational measures.

Exercises

Exercise 1

Watch any TED talk at your choice.

Answer the questions in writing:

1. What is the structure of the speech?
2. What tools has the speaker used to keep audience's attention?
3. What can you say about the slides and other visual aids?

Exercise 2

Watch the 'King's Speech' movie.

Write an essay on the topic: "What did you learn about the importance of public speaking and its preparation?"

Exercise 3

Work in small groups of 3–4 persons. Prepare an individual complete presentation, use some tools stated in the textbook. Prepare your visual aids. In the group, take turn to do your individual presentation. Groupmates will act as the audience who will ask questions after the presentation. At the end of every round, group mates will give feedback concerning the presenter's performance.

Case: Saturday — Working Day

Read the case study and develop the negotiation strategy for each of the parties.

Because of the delay in completing the annual plan of the company named "Vista" the CEO issued an order stating that staring December 1 (next month) Saturday is declared a working day for all company’s staff with a working schedule from 8:00 till 18:00. The unit managers were tasked with bringing the order to the attention of their subordinates, explaining its expediency and ensuring compliance with the new order.

At one of the meetings, the Unit Manager announced the introduction of a new order to the team. One of the managers, Michael, openly spoke out in defense of the “legitimate” day off. His statements were supported by his colleague and friend, Alex. He said that if things continue like this, then he and his friend will have to look for a new job with a more convenient schedule. The Unit Manager tried to calm the team down and explained that, frankly speaking, he himself did not see an urgent need to go to work on a Saturday, but then he added that “an order is an order, and it must be carried out!”

The time has come for the first Saturday of the new month, and two people were missing in the department of the Unit Manager — Alex and Michael. Information about their absence reached the General Manager. On Monday, the General Manager calls the Unit Manager for a serious talk.

Roles and interests

General Manager needs to understand the situation, apply appropriate measures; form a correct understanding of the order in the team.

The Unit Manager understands the production need, but wants to look friendly towards the employees. He is afraid of losing employees and authority in their eyes. Does not want to take responsibility for what happened; is unwilling to ruin the relationship with management.

Michael and Alex do not feel guilty, rely on the support of their immediate supervisor and each other. Do not intend to be held responsible for absenteeism.

Tips in Entrepreneurial Toolkit

Tips for Presentation

— Plan your public speech.

— Practise with the help of the video and time your presentation.

— Use breathing techniques before the speech.

— Use your body language properly and show enthusiasm about the topic of your speech.

— Use visual aids to help the audience better understand what you are talking about.

— Arrive early and bring water.

— Prepare points for the discussion and be careful to the feedback.

Consider the following aspects:

The audience

Why are they there? What do they want from the presentation? How do they listen? What will they remember? What will turn them on or off, make them comfortable or uncomfortable? What language do they speak? How much do they know? What questions will they ask? What will they find hard to listen to? What are their business needs? How do you find out about them? Can you analyse their response? What might make them hostile? How will you get feedback from them?

You — the speaker

Why are you there? What do you want to achieve? What do you look like, what do you sound like? What will you do about nerves? How will you rehearse? How will you remember what to say? What is charisma? How will you handle questions? What will you do if they are hostile? How will you keep your energy up? If you are being interviewed, how will you handle this? How will you introduce yourself? Is there an efficient way of handling the technology?

The presentation

What is it trying to achieve? What is it about? What are its limits? What visuals or handouts will be needed, what technology is available? How long should it be? Will it need following up? How will the information it contains be remembered? Which parts will be difficult or hard to understand? How will the script be prepared? What about the location and staging?

Tips for Negotiations

Tips for Sellers

1) You are entitled to reasonable compensation

Just as your doctor, your accountant, and your plumber are entitled to a reasonable compensation for their services, you are entitled to a reasonable compensation for your product or service. What is reasonable? Whatever you can convince your buyer that your product or service is worth. The operative principle here is value. No buyer will begrudge you a price that is reasonable relative to the perceived value of the product or service

2) Don't sell yourself short!

Do you believe that what you are selling is worth the price? If the answer is yes, and I certainly hope it is, then you should expect to receive a worthy price. If you lack confidence about your product or service, buyers will become aware of your doubts. You should know range of prices for similar products and services.

3) Don't apologize!

Once you have established the value of your product or service, present your price with confidence. Never apologize for your price. If you believe your price is correct, just assume that your customers will agree.

4) Always be willing to walk away!

You must be prepared to say "Next!" The willingness to walk away from a sale comes from having options. It is crucial to have other potential sales in the line-up. When you know that your sales career doesn't hinge on this one deal, you can exude confidence. And buyers will bow to confidence.

5) How to justify your price

Once you have decided on your price, you must provide reasonable justification so your buyer will say, "Okay, that makes sense. I can accept that." Here is your justification:

— Give your price legitimacy: "My price is reasonable for the marketplace. This is the going price for this product or service." If your buyers are doing their homework, they will know you are telling the truth. And remember you are entitled to a reasonable compensation.

— Focus on the value of your product or service, not on the price. Buyers will pay for value. Sell features and benefits.

6) When to negotiate your price

Obviously, there are exceptions. You want to leave yourself the option of negotiating a lower price if it is in your best interest to do so. The operative principle here is called "saving face." In other words, you will lower your price only if you can save face, i.e., maintain the integrity of your basic pricing structure. So you tell your customer: *"I accept a lower price only under the following circumstances..."*

What are those circumstances?

You might consider offering a discount if the customer will buy more than one, or plan serial purchases.

7) Make the buyer work for concessions

If you provide concessions to the buyer, you should receive something in return. Ask for concessions in return, such as additional business.

8) Qualify your prospective buyers

If you think a buyer may be out of your price range (either below it or above it), ask: *"What kind of budget are we looking at?"* or *"What range are we looking at here?"* You may want to let them know that you are not in the same range.

9) How to deal with three typical buyer tactics

— The Flinch: The buyer says, *"Your price is what!"* and they start choking. Your response: Silence. They just wanted to see if they could get a reaction out of you. Don't react. It's a test. Be persistent. Repeat your price and justify it as in Tip Number Five.

— The Squeeze: The buyer tells you, *"You have to do better!"* or *"I can get it for less."* Your response: Sell your unique qualifications. Take the focus off of the price. Get them to agree that yours is the one they want, and that the price is only a technicality. If they really want yours, they will find a way to pay for it. Offer to reduce your price only in return for additional volume, or a commitment to purchase other products at full price.

- The Sob Story: They cry, "*All I have in my budget is..." or "All we can afford is..."* Your response: Call their bluff. They may be testing to see how firm your price is. Ask, "Are there any other budgets you can draw from?" Their budget for your product or service may not be the only one available to them.

10) Leave the customer feeling satisfied

Whatever you do, remember that your objective is to create a satisfied customer. How to satisfy your customers without lowering your price — be a good listener. The best negotiators are not necessarily the best speakers. They are the best listeners. They are listening for the reasons why the other party is asking such as needs, wants, or they demand something. And they are listening for all the "whys", not just one.

Tips for Buyers

1) Do your homework

You need to know some important things about the service or product you want to buy ***before*** you begin negotiations:

— *How much do competitors charge?* If you can tell the seller you know the item is available for a lower price, it puts a lot of pressure on them to lower their offer. Furthermore, it lets you know that you don't have to accept the seller's offer. You can walk away from negotiations and still get what you want.

— *What Is the Cost to Your Seller?* It's useful to know the margin between the seller's costs and asking price, especially when buying a new car. Research the invoice price that new car dealers pay the manufacturer — then you know the absolute lowest that they can go and still turn a profit.

— *Is the seller facing a deadline?* If a seller has to get rid of a product before a deadline, they are more motivated to sell at a lower price. Making money on the deal may not be the most important goal when a deadline is involved. Food or home sellers often have a deadline, as they may need to sell their property by a deadline so they can purchase another for which they are under contract.

— *Why Is Your Seller Selling?* You don't always buy from a business — sometimes you negotiate with sellers who aren't even most concerned about making money. For example, someone who is moving may be willing to accept a very low offer for a large piece of furniture, just to be rid of it. Knowing why an item is for sale can give you an idea of how much money you need to pay.

2) Make the other side name a price first

By allowing the other side to name its price first, you may get a chance to counter with a number that is lower than what you would have offered initially. Of course, the initial price named by the seller may anchor you at a higher price, and this is where doing your homework can help. By knowing the competing prices, you may be able to significantly lower your anchor before negotiations start.

3) Don't be reasonable

The classic model of negotiation is that two parties offer different prices, eventually settling somewhere in the middle. If you are going to make the first offer or name a price in a counteroffer, make it ridiculously low. Not only does it set the price anchor very low, but it puts the seller on the defensive. If they have a negotiating plan, it's unlikely they will follow it after a ridiculous offer. They instead focus on getting a price higher than what you offer, and not what they want. The end result is a much lower price than what is considered reasonable.

Many sellers know that ridiculous offers are part of the negotiating process and are very unlikely to refuse to make the sale. Instead, they're going to counter. But such trick can annoy your partner. So it's up to you to decide what is more important. Do you want to be liked, or do you want to save a lot of money.

4) Know the limit

You need to gauge what is important to the seller. If they need to make a certain amount of money, they're not going to budge. While you're not trying to be reasonable, you need to let the seller walk away feeling they got something out of the deal. Knowing a car dealer's invoice price is powerful information. You know the truth when a dealer counters your offer with "I can't go any lower." Of course, while offering an extremely low price may work as an anchoring tactic, be prepared to settle for a price that allows the seller to make money.

5) Be quiet

Silence between two people can be uncomfortable, and you can use that to your advantage after someone names a price. Instead of responding, look thoughtful without saying anything. This makes the seller fill the silence, and often, he or she will try to justify the offer. Let them keep talking and feel insecure. If you need to fill the silence, express hesitation about paying their price.

6) Ask for extras

This is an important tactic to employ when you feel like you're not getting anywhere. Maybe you can get accessories included with the purchase, or perhaps the seller will be willing to include some other low-cost items to make a sale on a large-margin item. For instance, cell phone providers make their money on long-term contracts. To motivate you, they may be willing to supply extras, such as phone cases or car chargers. When the seller agrees to your target price, as it may be the lowest they can go, it's time for you to see what else you can get for that price.

7) Walk away

This is perhaps the most powerful tactic you have. In this economy, very few businesses can afford to lose a sale, and are afraid to let someone walk away without making a purchase. Above all, this gives you the upper hand in the negotiations. Even if you walk out the door, the seller may bring you back in or call you if you leave contact information. It's an extreme tactic, but it can work sometimes.

However, the problem is that once you walk away, it is very difficult to go back. If the seller has a unique product and you have no other options, you can't go to someone else. If you return after walking away, the power shifts to the seller. They will know you're motivated to buy from them, and they don't need to make any major concessions.

CHAPTER 5

MANAGING AND GROWING A BUSINESS. GLOBAL MARKET OPPORTUNITY

5.1. Business Strategy and Business Model

The global economy is fueled by new trade agreements, new markets and new technologies that have profoundly restructured the ways in which companies view business expansion.

Any decision to export your product must follow an intense period of study and planning. Fortunately, there are many resources that can assist entrepreneurs in assessing whether international markets are the right choice for the products and services of their particular company.

A first step in exploring foreign markets is usually an internal examination of your firm's product quality, production and marketing capacity, and service performance. Analyze your company's objectives for exporting and determine whether management and staff possess the experience and risk capacity for foreign trade.

The next step is to evaluate your firm's external activities in distribution, marketing and competitive positioning. Firms that are well-managed and profitable in the domestic market usually perform well in the international market. The decision to venture into international markets should be based on:

The opportunities of exporting:

— larger market for your goods and services;

— longer product life for some products;

— ability to reduce seasonal fluctuation in demand;

— decreased dependence on domestic markets;

— fresh insight from overseas markets, which can enhance your position domestically;

— larger production runs, which may reduce fixed costs per item and enable companies to purchase materials at lower unit costs;

The challenges of exporting:

— possible long lead times from marketing efforts to actual sales;

— high costs of entering export markets, including travel, trade shows and samples;

— possible requirement of foreign language labeling and point of sale materials;

— risk of non-payment by the foreign buyer;

— requirements to meet overseas standards, certifications and inspections;

— possible need to reformulate product or packaging for overseas buyer;

— long lead times for shipping and delivery;

— difficulty competing against local suppliers due to additional costs from shipping, financing, tariff and non-tariff barriers;

— local culture, customs and negotiations are different from dealing with U. S. customers.

International entrepreneurship is defined as the recognition of opportunities (i. e., needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures on a new foreign markets.

A business strategy is the central, integrated, and externally oriented concept of how an organization will achieve its performance objectives[1].

Business strategy refers to the long-term direction of the company and it expresses in the foreseeable future what the company's expected position is. Being competitive and achieving competitive advantages are necessary to attain a desired strategy.

In fact, there are different classifications of strategies: corporate strategy, operational strategy, and business unit strategies[2].

Corporate strategy refers to the overall scope and the purpose of the business. Corporate level strategies address the whole company.

Business level strategies always focus on Strategic Business Units (SBUs). An SBU is defined as a separate department or an entity of a large business conglomerate. The decisions such as, which foreign markets to follow, and what competitive strategies should be used in those foreign markets are determined in business level strategies.

Operational strategies focus on organizational process designs, organization in order to produce goods and services as facilitators of business level and corporate strategies.

A business model refers to a plan or a diagram, which talks about how a company uses its resources, how it competes, how it develops business relationships, how it deal with consumers, and how the firm creates value to generate sustainable earnings.

Before developing a strategy for entering foreign markets, it is necessary to understand: what we have, what are our growth points, where to move.

So, entrepreneur has to start with understanding business model of his/her company.

The business model makes it possible to understand "on the shore" whether it is worth doing international business. The business

[1] *Carpenter M., Sanders W. G.* Strategic Management: A Dynamic Perspective, Concepts and Cases. — New Jersey: Pearson Education, 2007. – 687 p.

[2] *Barringer B. R., Ireland R. D.* Entrepreneurship: Successfully Launching New Ventures. — Global edition of 4th revised ed. — New Jersey: Pearson/Prentice Hall, 2008. — 563 p.

model of an organization allows you to gain an understanding of the key aspects of its activities:

— how it works;

— how it creates value for customers;

— in what way provides value to the main stakeholders.

The most well-known tool for building business models is the outline of a business model canvas proposed by A. Osterwalder and Yv. Pigneur, which allows you to visually represent its elements, their potential relationships and impact on value creation[1].

This business model tool can be used to support sustainable development through the study of the company's capabilities and the potential for innovation. The business model canvas also allows us to form the archetypes of the most successful companies, which helps new firms to use existing experience to build their own business models. Another reason for the popularity of this tool is its simplicity and visibility of the business model elements.

Business model canvas divides the company’s business model into nine interrelated components (table 8):

1) Customer Segments: an organization serves one or several Customer Segments;

2) Value Propositions: it seeks to solve customer problems and satisfy customer needs with value propositions;

3) Channels: value propositions are delivered to customers through communication, distribution, and sales channels;

4) Customer Relationships: customer relationships are established and maintained with each customer segment;

5) Revenue Streams: revenue streams result from value propositions successfully offered to customers;

6) Key Resources: key resources are the assets required to offer and deliver the previously described elements;

7) Key Activities: a number of key activities;

8) Key Partnerships: some activities are outsourced and some resources are acquired outside the enterprise;

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[1] *Osterwalder A., Pigneur Y.* Business Model Generation. A Handbook for Visionaries, Game Changers, and Challengers. — Hoboken, New Jersey: John Wiley and Sons, 2010. — 288 p.

Table 8

Business Model Canvas[1]

<table>
<tr>
<td colspan="2" rowspan="2">Key Partners
Who are our key partners and suppliers?
What do we get from them?
What do they expect from us?</td>
<td colspan="2">Key Activities
What actions are necessary for the work, the sales channel, building relationships with customers, reflecting income and expenses?</td>
<td colspan="2" rowspan="2">Value Proposition
What problems do we solve for different segments of consumers?
What is the value of our offers?</td>
<td colspan="2">Customer Relation
What are our relations with each segment of consumers?
How are they integrated?</td>
<td colspan="2" rowspan="2">Customer Segments
Who are we working for?
Who is the most important customer?</td>
</tr>
<tr>
<td colspan="2">Key Resources
What resources are needed to create value, distribution channels, and revenue?</td>
<td colspan="2">Channels
Through what channels do customers want to receive values?
What are our channels?
What is their effectiveness?</td>
</tr>
<tr>
<td colspan="5">Cost Structure
What are the most important costs? What resources and activities are the most expensive?</td>
<td colspan="5">Revenue Streams
What are customers willing to pay for? What are they paying for now and how?</td>
</tr>
</table>

[1] *Kapustina L., Gaiterova O., Agababaev M. et al.* Transformation of LEGO GROUP Business Model in the Digital Economy // Proceedings of the Second Conference on Sustainable Development: Industrial Future of Territories (IFT 2021). — URL: https://www.atlantis-press.com/proceedings/ift-21/articles.

9) Cost Structure: the business model elements result in the cost structure;

All these elements can be divided into the following main groups:

— Infrastructure — focuses on how the company produces value (key resources and activities, partners);

— Value proposition — goods and/or services offered by the company;

— Customers — the main segments of customers, as well as ways of working with them (consumer segments, channels of interaction and relationships with customers);

— Finance — features of the company's cash flows (cost structure and income streams).

The "customer segments" element answers the questions:

— "Who are the most important customers of the company?";

— "What segments can they be divided into?";

— "What are their expectations from the company?"

The value proposition focuses on the key advantages of a product or service that solve customers' problems and meet their needs.

Interaction channels describe how the company interacts with consumer segments and communicates its value propositions to them. Channels of interaction include direct and indirect, as well as own and partner sales channels.

The *"customer relationships"* element describes the types of relationships that a company establishes with individual consumer segments, which can range from personal to automated relationships.

Revenue streams list revenue sources and work models.

Key resources include material, financial, intellectual and human resources that are of great importance for the company's activities.

Key activities contain the actions of the company that are necessary for the implementation of its business model, for example, production, supply, marketing activities, etc.

The *"key partners"* element describes the network of suppliers and partners through which the business model functions, as well as the nature of relationships with them.

And *the cost structure* reflects fixed and variable costs.

As a result, the levels of the business model show how the organization generates economic, environmental and social value.

In the era of the digital economy, international companies need to respond to market challenges. As a rule, with the advent of innovations in the market, companies need to make a number of decisions:

Should we accept the new business model in its existing form, modify it or reject it;

Should we keep the old business model, change it, or reject it.

Transformation of Business Models

According to a study by the Center for Digital Business at the Massachusetts Institute of Technology, digital transformation affects both the internal and external environment of the company, the value proposition, customers, value representation, monetization, company opportunities, etc.[1]

The development of the digital economy, the emergence of new generations of products services, and consumer needs, as well as globalization and the shortening of the product lifecycle are forcing companies to transform their business models.

Areas of transformation of the business model in the digital economy:

— Transformation of the value proposition. At the moment, social networks are widely distributed, which act as platforms for communication and allow meeting both basic communication needs and recreational needs through entertainment content. They also act as a platform for finding partners, buyers, etc. At the same time, the number of offered digital goods is growing: software, subscriptions, services, etc. An important aspect is also monetization, where in the conditions of a digital company they have the opportunity to develop various ways of monetization, for example, using a subscription

[1] *Kane G. C., Palmen D., Phillips A. N. et al.* Strategy, not Technology, Drives Digital Transformation. Becoming a digitally mature enterprise. — London: Deloitte University Press, 2015. — 25 p.

system or the freemium model — providing a free version of a product or service and their fully functional paid version.

— Transformation of methods for identifying customer needs. To better understand the needs of customers, companies can use social networks and specially developed algorithms based on big data analysis. At the same time, companies are studying ways and tools to promote the brand through social networks. Understanding customers helps transform the sales process. For example, companies are able to combine data on customer purchases and social media activity to provide personalized sales and service, as well as offer individual product packages.

— Transformation of the ways of customer interaction. More and more companies are turning to omni-channel technology as a way of providing value, since it allows providing an integrated approach to the buyer, in which he/she independently chooses the most optimal channel for making a purchase. In particular, applications are being developed that provide self-service opportunities, saving customers' time and reducing company costs. At the same time, companies can develop social networks and email newsletters to maintain constant contact with customers. In addition, with the spread of platforms, the importance of the network method of providing value has increased, open software has been developed, platforms for joint content creation that provide valuable information based on user feedback.

— Transformation of operational processes to expand the company's capabilities. The current trend is towards automation of production processes, which significantly reduces labor costs, improves product quality, increases the safety of personnel and the environment. At the same time, thanks to the introduction of new technologies, employees have the opportunity to work and improve their skills remotely. Big data analysis contributes to more effective performance management, since digital systems allow a deeper understanding of the properties of the company's products and the regional specifics of demand.

Therefore, in the digital economy, it becomes possible to make decisions based not only on qualitative assumptions, but using actual data in real time. Smart enterprises have become widespread, representing a production environment that can cope with the turbulence of the production process in real time through the use of a decentralized information and communication structure for managing the production process [1]. At the same time, there is a need to accompany the digital transformation with parallel management improvement.

Factsheet[2]

According to research data, the majority of operating companies — 69 % — strive to preserve existing technologies and their own business models by implementing improvements that support them. At the same time, new players are more likely to address to innovative solutions due to low costs. The growth in the number of innovative companies has a negative impact on companies that are limited to the strategy of improving the business model, since about 22 % of supporting innovations exceeded the needs of customers, without bringing the expected results. As a result, 62 % of existing companies were completely or partially displaced by innovative companies.

There are seven strategies for responding to market challenges, the choice of which will depend on a number of factors of the external and internal environment of the organization (table 9).

Table 9

Strategies for responding to market challenges[3]

Strategies	Selection factors
Maintaining the status quo	Uncertainty in the relative effectiveness of the new business model (BM). High costs for transferring resources or combining them.

[1] *Kang H. S., Lee J. Y., Choi S. et al.* Smart manufacturing: Past research, present findings, and future directions // International Journal of Precision Engineering and Manufacturing-Green Technology. — 2016. — Vol. 3, no. 1. — P. 111–128.

[2] *King A. A., Baatartogtokh B.* How useful is the theory of disruptive innovation? // MIT Sloan Management Review. — 2015. — Vol. 57, no. 1. — P. 77–90.

[3] *Ahuja G., Novelli E.* Incumbent responses to an entrant with a new business model: Resource co-deployment and resource re-deployment strategies // Resource redeployment and corporate strategy. — Emerald Group Publishing Limited, 2016. — P. 125–153.

End of table 9

Strategies	Selection factors
	Uncertain liquidity of the company's assets outside the existing business
Improving your own BM	Uncertainty in the relative efficiency of two BMs. There is a slight coincidence in the preferences of buyers. Approximately equal expected competitiveness of models. Similarity of historical development. High costs for transferring resources or combining them
Transition to a double BM	High speed of winning the market and new customers. Small costs for adding a new BM to the existing one and for transferring part of the resources from the existing BM to another
Synthesis of two BMs	Small costs of transferring part of the resources from the existing BM to another. The small size of the new BM market. The high degree of novelty of the new BM and its prevalence over the existing one
Switching	High efficiency of the new BM with weak efficiency of the existing one. Low resource transfer costs
Leave the market/start from the beginning	The presence of highly common assets or a large difference in the valuation of specific assets. A large number of areas related to the existing type of activity

If an existing company decides not to adopt a new business model, it can maintain the existing business model using the status quo strategy, can change the existing business model to compete with the new business model, or can withdraw from the market or use existing resources and assets to work in other areas.

Alternatively, an existing company can adopt a new business model and use it in parallel with the existing one, modify the existing model, synthesizing the features of the new one in it, or switch completely to the new model.

Entrepreneurship, like strategic management, helps enterpreneurs to think about the opportunities available and transformation when they connect new ideas with new markets.

At this point it’s also important understand the concepts of intrapreneurship and the entrepreneurship.

INTRAPRENEURSHIP vs ENTREPRENEURSHIP[1]

An entrepreneur is a person who designs, launches, and manages a new business. The word 'entrepreneur' was formed by frencg economist Jean-Baptiste Say, meaning "undertaker or adventurer". Entrepreneurs get the opportunity to enjoy almost all the rewards such as high profits, fame and growth opportunities, yet they will have to face all the risks that come with the development and continuation of the business as well. People who successfully create new ideas, services, and goods are also called innovators.

Entrepreneurs' skills are essential to predict the needs of people in society and to bring their new ideas onto the market accordingly. Entrepreneurs have a lot of freedom and responsibility since they run their own companies. They increase national wealth, create job opportunities and develop human civilization.

An intrapreneur is a person within the established business who takes direct responsibility for turning an idea into a profitable finished product through assertive risk taking and innovation.

An intrapreneur is a person who works on improving new ideas and products within the boundaries of the business that they already work at. The word 'intrapreneur' is a combination of the two words 'internal' (intra) and 'entrepreneur'. It was invented by Gifford Pinchot III and Elizabeth S. Pinchot in 1978. An intrapreneur refers to any person in a company that provides his skills, vision and predictions for the benefit of the company. This helps them to form new ideas and apply them to achieve the company's aims and objectives without facing any risks. Generally, an intrapreneur may be anyone, from an intern to the vice president of the company. There are occasions that companies allow intrapreneurs to take full control of various significant projects that are crucial for the development of the company. Sometimes those who begin their careers as intrapreneurs gradually become entrepreneurs when they decide to leave the company that they work and form their own business.

An entrepreneur is starting a business, while an intrapreneur is developing a new product or service in an already existing business. Thus, the ideas of entrepreneurship can be applied not only in new ventures but also in the context of existing organizations.

[1] *Carpenter M. A., Dunung S. P.* Challenges and Opportunities in International Business. 2012. — URL: https://2012books.lardbucket.org/ books/challenges-and-opportunities-in-international-business; *Sethmini*. Difference Between Entrepreneur and Intrapreneur. — URL: https://www.differencebetween.com/difference-between-entrepreneur-and-intrapreneur/#Key%20Difference.

Entrepreneur	Intrapreneur
— creates and initiates a new concept; — recognizes and makes use of opportunities; — manages resources successfully, — takes suitable actions; — faces risks and uncertainties confidently; — adds value to the products or services; — takes decisions to make the profit's; — foresees the necessities of the customer/s	— risks time or financial resources; — shares the reward of an intrapreneurial project between the corporation and the intrapreneur in an equal way; — is given independence by the corporation to conduct various tasks; — sometimes, become the own "venture capitalist" within the corporation
Some famous entrepreneurs	**Some famous intrapreneurs**
Bill Gates, Microsoft. Jeff Bezos, Amazon. Steve Jobs, Apple. Mark Zuckerberg, Meta Platforms (formerly Facebook, Inc.). Oprah Winfrey, The Oprah Winfrey Show	Ken Kutaragi, creator of PlayStation at Sony. Paul Buchheit, the creator of Gmail. Brothers Lars and Jens Eilstrup Rasmussen, creators of Google Maps

Entrepreneurs and intrapreneurs face difficult decisions and relationships when entering foreign markets:

1 Decision: Alone or with partners

Entrepreneurs can create alliances to optimize their business models, reduce risk, or acquire resources. We can *distinguish between different types of partnerships* (table 10).

Table 10

Types of international entrepreneurial partnerships

Types	Definition
Strategic alliances	This is an agreement between non-competitors, two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations. *The alliance is a cooperation or collaboration* which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. *Collaboration* is a cooperative arrangement where two or more parties work together towards achieving a common objective, sharing work as well as ideas and insights. Within a collaboration, the parties not only have to work together, they also have to think together. All parties are equal partners in a collaboration; thus, there is no leader. Effective collaboration

End of table 10

Types	Definition
	often leads to synergies where alignment between ideas and useful insights from both parties is essential for the success of the alliance
Coopetition (cooperative competition)	This is a strategic partnerships between competitors. Coopetition takes place when companies-competitors work together in the exploration of knowledge and research of new products, at the same time that they compete for the market-share of their products and in the exploitation of the knowledge created. In this case, the interactions occur simultaneously and in different levels in the value chain. E.g. arrangement between PSA Peugeot Citroën and Toyota to share components for a new city car –simultaneously sold as the Peugeot 107, the Toyota Aygo, and the Citroën C1, where companies save money on shared costs while remaining fiercely competitive in other areas.
Mergers and acquisitions (M&A)	M&A are defined as consolidation of companies and one of the major aspects of FDI. *Mergers* is the combination of two companies to form one. *Acquisitions* is one company taken over by the other
Joint ventures	This is a strategic partnerships to develop new businesses. A joint venture occurs when two or more parent companies form a smaller (child) company together. Partners can choose between a 50/50 joint venture, in which both parent companies own an equal portion of the child company, and a majority-owned venture. In a majority-owned venture, for example, one partner company could own 80 % of the child company, while the other partner owned the remaining 20 %.
Buyer-supplier relationships	This is a strategic partnerships to assure reliable supplies

2 Decision: Make — or — buy

International entrepreneurs face decisions about whether they make all or just some of the components used in their final product and therefore buy from other sources (*outsourcing*) those components they decide not to make. This make-or-buy decision is related to the degree to which a firm is vertically integrated: that is, the extent to which a firm is its own supplier and market.

At one extreme a firm can make all of its own inputs and be its own supplier; at the other extreme, it can buy all its inputs and rely on external suppliers. Partial integration implies that some components are made and others bought.

A major benefit of making inputs is the degree of control maintained over cost, quality and timeliness of delivery. Major disadvantages are the cost of investment and expertise needed to provide these inputs.

A benefit of buying is the ability to choose one or more suppliers. A corresponding disadvantage is the reliance on suppliers. Advantages and disadvantages of make — or — buy decisions are summarized in following table:

Table 11

Advantages and disadvantages of make — or — buy decision[1]

Decision	Make	Buy
Advantages	— control over costs; — control over quality; — control over delivery; — not competing for supply; — develop new expertise	— choice among suppliers; — avoid their business risks; — no additional investment; — no need to learn about a new business
Disadvantages	— increased investment; — need for expertise; — need for management; — may be inefficient; — overspecialization	— reliance on outsiders; — need to compete for supplies; — supplier may go out of business

Make-or-buy decisions in an international firm may be complicated because they are made relative both to the whole company and to each of its subsidiaries. Three make-or-buy options exist:

1) A subsidiary is fully integrated and makes its own parts;

2) A subsidiary is vertically integrated with other parts of the company and buys inputs from other subsidiaries or from the parent company;

3) There is no vertical integration and inputs are obtained from outside suppliers.

3 Decision: Centralization or decentralization[2]

[1] *International* Business Management. DocShare.tips. — URL: http://docshare.tips.

[2] *Ibid*.

The location of decision making power may vary within the same company over time as well as by product, function, and country.

Centralized decision making is a global strategy while decentralized decision making is a multi-domestic strategy. A combination of the two is called a *transnational strategy*. The reason for choosing one over the other is partly a function of companies' attitudes.

Example[1]

An ethnocentric attitude would influence a company to develop competencies, such as knowledge and technology, in its home country and control how they are transferred aboard.

A polycentric attitude would cause the company to delegate decisions to foreign subsidiaries because headquarters personnel believe only people on the spot know best what to do.

A region-centric attitude would permit more openness to capabilities either at home or abroad and be conducive to a transnational strategy.

A geocentric attitude would be conducive to a global strategy where core decisions lie with the headquarters.

Pressure for global integration leads to centralized decision structure and pressure for responsiveness to local conditions leads to decentralized decision making.

4 Decision: Level of control[2]

Controlling is tool for achieving organizational goals and activities. Control is management's planning, implementation, evaluation, and correction of performance to ensure that the organization meets its objectives in the short, medium and long terms. In the case of Multinational Enterprises (MNE), the top management's toughest challenge is to balance the company's global needs with its need to adapt to country-level differences.

Some of the mechanisms that Multinational Enterprises use to help ensure that control is implemented are given below:

[1] *International* Business Management. DocShare.tips. — URL: http://docshare.tips.

[2] *Ibid*.

1) **Corporate Culture**

Every company has certain common values that its employees share, expect fellow members to follow. Corporate culture is a form of implicit control mechanism that helps enforce the company's explicit control mechanisms. Employees conform to company traditions of work commitment, interactions with customers and so on. These are unwritten, informal, but more effective.

But MNEs have more difficulty relying on a corporate culture for control because cultural background of employees differs, exposure level varies, norms differ and so on. To overcome this MNEs promote worldwide corporate culture with the aim of conveying a shared understanding of global goals and norms for reaching those goals, along with the transference of "best practices" from one country to another.

2) **Coordinating Methods**

The purpose of controls is ensuring that goals are optimally achieved. Any wanting in this regard may be due to non-coordinating attitude of some people, at some places. So, ensuring coordination ensures goal achievement, the goal of control mechanisms. Some of the mechanisms of coordination are:

— Developing multi-culture teams for building scenarios on how the future may evolve;

— Developing the attitude to listen to different view-points among the corporate personnel;

— Transferring and rotating organization people across nations and cultures;

— Keeping proximity between global and domestic personnel;

— Establishing liaisons among subsidiaries within the same country/region;

— Developing teams from different countries to work on cross national special projects;

— Placing foreign personnel on the board of directors and top-level committees;

— Giving credit to all concerned for business resulting from cooperative efforts;

— Linking reward systems to both global and local performance.

3) **Reports**

The basis of control is information. The source of information is reporting systems. Control needs timely, up-to-date and accurate reports. Reports must be frequent and purposeful to assure meeting the MNE's objectives. Parent concern uses reports to evaluate the performance of subsidiary to reward and rectify, if need be. Written reports are more important in a global setting than in a domestic context because personal contacts are few and far between.

4) **Visits to Subsidiaries**

Visits to subsidiaries by headquarters people make wonders for their motivational, directive, strategic and signaling effects. It is better members of the corporate staff spend much time visiting subsidiaries for on the spot assessment of ground realities which have great implications for control. However corporate personnel visits to subsidiaries must not be of the boondoggles type. Further, if visits result because of upsets over subsidiary's performance, subsidiary's managers may become concealing and/or defensive.

5.2. Growing an International Business

To grow an international business entrepreneurs have to develop a growth strategy — strategy to grow sales through new foreign markets. Sometimes foreign markets need new products and innovation. Developing a strategy helps to evaluate where you've been and where you want to go.

Growing a business — maximizing the effectiveness and productivity of the four key business areas:

1) Management, Operations and Business Processes (how well you operate/ produce/serve);

2) Human Resources (how you manage, motivate and communicate with your talent);

3) Marketing and Sales (how well you reach and communicate with your target market);

4) Financial Management (how you manage your numbers, see Chapter 3).

Management, Operations and Business Processes

Entrepreneurs have to decide how best to grow the business by analyzing a number of factors affecting expansion:

— corporate mission;
— strengths and weaknesses of the business;
— financial resources: existing and potential;
— customer needs;
— competitive influences;
— life cycle of existing products;
— profitability of potential products;
— human resources: sufficiency and capability;
— sales and service capability;
— research/development time and expense for new products;
— economic conditions, access to raw materials, industry trends.

As you begin to assess your goals for expansion, take your time and be thorough. Rapid growth is tempting and exciting, but it can also be a costly trap that can lead to expensive problems rather than continued success. Because you have been successful, you have established a level of quality and an overall vision for your company that identifies your brand and is something in which you take pride. The opportunity for growth can be built upon the foundation you created with your business plan. Revisit your initial planning, take stock of lessons learned and begin to renew your planning efforts with the same thoroughness, persistence and creativity that you used when starting your business.

Entrepreneurs frequently define growth as an increase in sales. Your experiences as a business owner will have undoubtedly exposed you to a variety of sales strategies. Some of these strategies may be your own creation while others may have come from observing how your competition operates. As you consider plans for growth, you can jump-start the process by considering the following questions:

Can growth be achieved by finding new markets for your present products?

Are there any uses for your product / your customers in other countries?

What additional resources would be needed to expand geographically to sell to new customers? Do you need additional staff, promotion, longer hours, better customer service or any other alteration in your business practices when entering foreign market?

Which foreign markets are most appropriate for your product?

Are there customers of a different age, income level, industry or other characteristic who are not presently purchasing from you but have a need for your product?

Can your product be used to serve more than one need? Can it be sold to a different group of buyers based on a need you have not yet promoted?

Is a competitor with a sizable market share changing products or business practices? Will the change allow you to sell to a competitor's previous customers?

Would a change in brand name, packaging, channel of distribution or other marketing variable allow you to sell your present product to new groups of customers?

After purchasing a product from you, are your customers buying supplemental or related products from another vendor? Could your foreign customer buy supplemental or related products in his/her country? Could these add-on products or services be part of your product line?

What new products or adaptation are needed by your foreign customers? Would these new products fit into your corporate mission?

Can growth be achieved by developing new products or services for new markets/groups of customers?

Are there unmet needs in the marketplace that are emerging as a result of changes in technology, lifestyle, the economy or other conditions?

What additional products are sold by others in your industry, but are not presently part of your offerings?

Are you presently purchasing services from a vendor that could be supplied by an expansion of your own firm?

Hiring and Managing Employees (Human Resources)

The entrepreneur chooses the type of business to start, develops a business plan and secures financing. The business owner may serve as manager, marketer and manufacturer. If the initial efforts to grow the business are successful, hiring employees becomes a necessity regardless of how motivated the entrepreneur may be. A single person has 168 hours a week, some of which must be spent on sleeping, eating, personal responsibilities and family demands.

If the entrepreneur dedicates 50 hours a week to the business, the maximum sales volume of the firm has a ceiling of 50 times the number of dollars per hour charged (service business) or 50 times the number of products produced in an hour multiplied by the price of the product. After deducting business expenses, most entrepreneurs realize they need help to grow the business, but they are apprehensive about adding employees because of the additional expense and required record-keeping.

The first step in recruiting help is often one of the following:

A temporary employee is hired through a local personnel agency.

A family member or friend is asked to volunteer to answer telephones, perform data entry or invoicing.

A similar company is contracted to produce some of the product or deliver some of the services.

A management task is delegated to an outside firm, i.e., accounting, sales or advertising.

If an entrepreneur decides to enter international markets, especially through foreign direct investment, he will have to learn how to manage an international workforce.

International human resource management (IHRM) — is the process of selecting, training, developing, and compensating personnel in overseas positions.

Thus IHRM training is much more complex and challenging than domestic HRM and therefore, needs specialized training. Companies that have multinational presence would be on the lookout for human resource professionals with this kind of training.

Opportunities exist in staffing, training and performance management of international HR and also in handling industrial relations of international operations.

Table 12

Differences between domestic HRM and international HRM

Domestic Human Resource Management	International Human Resource Management
Deals with local recruitment and HRM training	Handle international recruitment and training issues
Primarily about the development and needs of domestic employees	Complex needs and development of employees of multi-ethnic origin, hence cross-cultural issues need to be handled
Knowledge of domestic legalities and legislation is sufficient	Needs to be aware of the laws and regulations of the host country
Employee relocation and transfer is limited to within the country so major changes are not involved	Cross-country relocation is involved so HRM needs to handle various complexities in relocation and expatriation

Challenges in IHRM:
— Differences of labour markets;
— Differences in culture;
— Differences in legal systems;
— Differences in economic systems.

One of the most critical factors in the success of a company's international success is its hiring program. Generally, hiring production workers is not a major problem, companies recruit locals to perform the daily work. In all likelihood, first-level supervisors and possibly some of the middle managers will also be members of the local community. Hiring upper-level management, however, is another matter — one that must be handled with care and sensitivity.

International companies have several primary *approaches to recruiting and assigning upper-level managers*[1]:

1) Parent country nationals (PCN) or expatriates — individuals who are not citizens of the countries in which they are assigned to

[1] *International* Management — duties, benefits. — URL https://referenceforbusiness.com.

work. If they assign expatriates to foreign operations, they must make sure those individuals relate well to the local population. Relying strictly on employees' technical skills, to the detriment of interpersonal skills and sensitivity, can harm a company's reputation and destroy its operation in the process.

2) Host country nationals (HCN) — local people hired by MNE. Purposes for selecting HCN — local responsiveness, cost savings, supporting on favourable local image.

3) Third country nationals (TCN) — citizens of countries other than the home or host countries. Purposes for selecting TCN — viable PCN alternative (when PCN is determined to be the best choice for foreign assignment but circumstances are such that a sufficiently qualified PCN is unavailable, a qualified TCN may be considered as alternative), building regional leadership (to create center of competence or regional headquarters).

4) High-qualified persons without regard to their native countries. For instance, they might place a foreign resident who was educated in the United States in a management position simply because that individual is best qualified for the job.

Factors that are used to identify individuals regarded as most suitable for overseas assignment:

— Adaptability — the ability to adapt to cultural changes. It is necessary to examine work experience with cultures other than own, previous overseas travel, knowledge of foreign language, the ability to solve problems within different frameworks and from different perspectives;

— Self-reliance — the manager should be self-reliant and independent because he often has to make on-the-spot decision without consulting the home office;

— Age, experience and education;

— Health and family status — unhappy family life can have negative effect on employee productivity;

— Motivation and leadership — motivational factors include desire for adventure, pioneering spirit, desire to increase the chance for promotion, opportunity to improve economic status.

The most common selection procedure is the interview and sometimes test. Also before foreign assignments many MNE have system of different trainings. The most popular the following types of programs:

a) environmental briefings used to provide information about such things as geography, climate, housing and schools;

b) cultural orientation designed to familiarize the individual with cultural institutions and value systems of the host country;

c) cultural assimilators using programmed learning approaches designed to provide the participants with intercultural encounters;

d) language training;

e) sensitivity training designed to develop attitudinal flexibility;

f) field experience which send participant to the country of assignment to undergo some of the emotional stress of living and working with people from different culture.

When the person works abroad he receives not only base salary, but also some compensations, some benefits. It is important to compensate the employee difference in expenditures between the home country and the foreign location — "cost-of-living allowance" — payment for house, food, transport for ex.

The compensation package available for expatriates is made up of the basic salary plus allowances. These allowances include:

1) Cost of living allowance (COLA);

2) Housing allowance — by helping sell or rent the expatriate's house in the home country;

3) Home leave allowance — payment made to the expatriate with a view to facilitating their visit back to the home country, once or twice a year. Home leave enables the expatriate to renew business, family and social ties, and thus avoid adjustment problems subsequent to repatriation;

4) Education allowance — payment made with a view to supporting the education of the expatriate's children, i.e. tuition, language class, school enrollment fees, books and supplies, transportation to educational establishment, room and boarding, school uniforms etc.;

5) Relocation allowance — includes moving, shipping, storage costs, subsidies for purchase of appliances and (possibly) an automobile;

6) Spouse assistance allowance.

There are three factors that are beginning to have large impact on IHRM for the 21st century:

1) The changing role varying from country to country of trade unions and worker's associations in the operations of businesses around the world;

2) Changes in employment legislation in different parts of the world with particular emphasis on laws relating to a range of forms of discrimination in the workplace;

3) Greater emphasis on flexible working and improving the work-life balance.

When you are working in Germany you should remember about strong position of worker's associations and obligatory participation of the workers in management processes.

Principles of managing people across the borders in international companies:

— Centralization — the principle refers to the extent to which power is exercised by international company head office instead of its subsidiaries. Companies that concentrate power in the center must find the way to motivate subsidiary managers so that they feel valued. If subsidiary employees are supposed to focus on their host country alone it is important that they fell at home in this environment. Otherwise they will need to have more of regional or global outlook.

— Hierarchy — this principle is rooted in the recognition of authority. In corporate environments which are more or less undemocratic and have often been compared to military organizations, this would appear to be a relatively straightforward principle. Whereas employees in the domestic company usually work in proximity to their boss, international company's employees often have two bosses — their local country manager and the person in charge of their product or functional area. And if the person has 2 bosses pursuing 2 different business philosophies it can also be very hard knowing whom to please.

— Specialization — in SMEs this principle is difficult to use because the people have several roles, the collective is small. When you use this principle in big international companies it can cause such problem as "tunnel vision" — when the people cannot see how their personal mission fits in with what colleagues in other departments or locations are doing.

— Coordination — each employee has the territory to manage. This territory can be defined along functional lines, but also in terms of products or geographic area. The company need to ensure that all these territories fir together in cost-efficient manner and in a way that theyare defined minimizes and duplication of efforts while maximizing speed of action. This can be achieved through organizational planning and design and by getting different territories to adopt similar language systems. Problems can arise when boundaries change between empolyee's territories — because the company perceives a need for greater coordination, because one employee has the ambition of taking over the territory or due to external circumstances

— Control — visits of subsidiaries by staff from head office, global reporting system, but information transmitted over long distance and it does not allow to receive full picture of what is happening in foreign subsidiaries. On the one hand, country managers have a bested interest in protecting their local units from head office interference and there for may not communicate all relevant facts. On the other hand, head office executives suffering from information overload may not have the time to cope with anything more than a short and necessarily incomplete document. It is common for example, for a manager seeking permission to enter e new market to be asked to describe the opportunity on single sheet of paper.

— Learning — international newsletters, conferences, trainings — it is now very important part of company's effective work in the international markets.

— Integrating international teams — it is impossible to start effective work in new country with another culture and traditions without process of integration the team which include people from different cultures.

International team

The words *'group'* and *'team'* are often used interchangeably, but they are actually different in context. A 'Group' consists of individuals who come together to perform a specific task, whereas a 'Team' is a collection of people who are interdependently committed to each other in order to achieve a goal or a task.

So, in groups performance typically depends on the work of individual members. The performance of the team however depends on both individual contribution and collective work products. Differentiation of the roles presented in table 13.

Table 13

Roles commonly played by international group members

Function	Roles	Description
Task-oriented roles	Initiator-contributors	Recommend new solutions to group problems
	Information seekers	Attempt to obtain the necessary facts
	Opinion givers	Share own opinions with others
	Energizers	Stimulate the group into action whenever interest drops
Relations-oriented roles	Harmonizers	Mediate group conflicts
	Compromisers	Shift own opinions to create group harmony
	Encouragers	Praise and encourage others
	Expediters	Suggest ways the group can operate more smoothly
Self-oriented roles	Blockers	Act stubborn and resistant to the group
	Recognition seekers	Call attention to their own achievements
	Dominators	Assert authority by manipulating the group
	Avoiders	Maintain distance, isolate themselves from fellow group members

In today's global world, the question is not whether international teams are effective or ineffective. They are a simple fact of corporate life. We work in an environment with real-time audio visual communication with colleagues on the other side of the world and online translation tools. Even small companies can operate internationally with outsourcing agreements and partners overseas.

A team is international even if only one member is from a different country than the others. Types of teams are shown in the table 14.

Table 14

Types of international teams

Criteria	Type	Description
Purpose or mission	Work teams	Teams whose members are concerned primarily with using the organization's resources to effectively create its results. They are concerned with the work done by the organization — developing and manufacturing new products, providing services for customers…
	Improvement teams	Teams whose members are oriented primarily toward the mission of increasing the effectiveness of the process used by the organization. For ex., texas instrument has relied on teams to help improve the quality of operations at its plant in malaysia.
Time	Temporary teams	Exist for a finite period, are established for specific project
	Permanent teams	Remain intact as long as organization in operating. For ex., teams focusing on providing effective customer service tend to be permanent parts of many organizations
Degree of autonomy	Work groups	Leaders make decisions for group members
	Semi-autonomous work groups	In which employees get to share in the responsibility for decisions with their bosses and are jointly accountable for their work outcomes
	Self-managed work teams	Teams whose members are permitted to make key decisions about how their work is done
	Intact teams	Work within own speciality area
Authority structure	Cross-functional teams	Teams consisting of members from several different specialities
	Physical teams	Members are physically present
Physical presence	Virtual teams-members	Meet via electronic means

Four stages of creating and developing international teams:

1) Prework — determine whether or not to form a team and if team is formed establish objectives and authority structure;

2) Create performance conditions — ensure that team has proper resources to function — material, human resources, support from the organization;

3) Form and build team — form boundaries — clearly establish who is and who is not a member of the team; members must accept purpose and mission of the team; organizational officials should clarify the team's mission and responsibilities;

4) Provide ongoing assistance — once team is functioning supervisors may be needed to help eliminate problems that arise, to help team get and use resources.

The advantages of the international team:

— Teams involve more people, ideas, resources, and energy than almost any individual possesses;

— Teams maximize an entrepreneur's potential and minimize his/her shortcomings;

— Teams provide multiple perspectives on needs and goals;

— Teams can simply do more than an individual/entrepreneur.

But it is difficult enough to manage international team effective. International team is complicated structure because sometimes not all members can communicate perfectly in a common language, and cultural differences (cultural diversity) can present even more misunderstandings.

5.3. International Business Environment: Analytical Tools and Performance Criteria

The international business environment can be defined as the environment in different countries, with factors exogenous to the home environment of the organization, influencing decision-making on resource use and capabilities. The international business environment includes social, political, economic, regulatory, tax, cultural, legal, and technological aspects.

International entrepreneurs face intense and constant challenges that require training and understanding of the foreign environment. Managing and growing a business in a foreign country requires entrepreneurs to deal with a large variety of cultural and environmental differences.

International business environment includes several key performance criteria which should be taken into account in the researching process:

1) Patterns of international trade:

— Global trade patterns are assessed and multinational markets are identified in terms of location, ownership, products and companies involved;

— The terms Free Trade and Protectionism are defined and international markets that operate under these respective trade structures are identified;

— International trade agreements that involve a country are examined, trading partners are identified and access arrangements for these markets, including WTO (GATT, GATS, TRIMs, TRIPs);

— International trade policies that impact upon a country's trade are examined and trading partners, including EU, NAFTA, and ASEAN etc. are identified.

2) Economic and political factors that impact upon international business opportunities:

— Risk factors are identified and international business opportunities are ranked against risk factors;

— Range: political stability, financial stability, legal and regulatory requirements, cultural factors, trade barriers, corruption risks;

— Risk factors are related to international business cycles in terms of economic conditions of prosperity, recession, depression, recovery, and business cycle stages are identified for proposed international markets;

— Operational factors are identified and international business opportunities are ranked against operational factors;

— Range: ownership structures, employment and work practices, technology resources, distribution infra-structures, resource availability, income distribution.

The political environment can foster or hinder economic developments and direct investments. This environment is ever-changing. As examples, the political and economic philosophies of a nation's leader may change overnight. The stability of a nation's government, which frequently rests on the support of the people, can be very volatile.

Political considerations are seldom written down and often change rapidly.

Examples of political factors: form and stability of government, attitude toward private investment by government, customers, and competition, degree of anti-foreign discrimination, level of red tape (bureaucracy), level of corruption, deregulation and/or regulation.

As a result, entrepreneur can have the following political risk in the Host country:

— Expropriation of corporate assets without prompt and adequate compensation;

— Forced sale of equity to host-country nationals, usually at or below depreciated book value;

— Discriminatory treatment against foreign firms in the application of regulations or laws;

— Barriers to repatriation of funds (profits or equity);

— Loss of technology or other intellectual property (such as patents, trademarks, or trade names);

— Interference in managerial decision making;

— Dishonesty by government officials, including canceling or altering contractual agreements, extortion demands, and so forth.

Ways of Managing Political Risk

— Voidance — either the avoidance or withdrawal of investment in a particular country;

— Adaptation — adjust to the political environment;

— Dependency — keeping the host nation dependent on the parent corporation;

— Hedging — minimizing the losses associated with political risk events.

The legal environment regulates the operations of firms in international markets. It is sufficient for a firm operating at the domestic level to stick to regulations of the land, but organizations operating in different countries need to know and comply with the laws of the domestic country as well as all the host countries they operate in. Legal system in the Host country also can be differ from entrepreneur's.

Existing legal systems:

— Common Law — past court decisions act as precedents to the interpretation of the law;

— Civil Law — comprehensive set of laws organized into codes, interpretation is based on reference to codes and statues;

— Muslim law — based on religious beliefs, it dominates all aspects of life.

Governments impose laws to protect the home industry from global competition. They impose different kinds of tariffs, enter into agreements and sign treaties to protect own industry and promote local trade. To protect domestic industry, they can also impose non-tariff barriers and frame regulations on foreign investments.

The economic environment: currency, infrastructure, inflation, interest rates, wages, taxation, size and growth rate of GDP, size of market for your product, unemployment rates, fiscal and monetary policies, state of marketing and distribution system, competitive situation, quality of life for expatriates

3) Social and cultural factors for international business operations[1]:

— Social characteristics of international markets are analyzed in terms of reference groups, family roles and status, social values, and these characteristics are assessed for their impact upon business operations;

— Cultural characteristics of international markets are analyzed in terms of cultural traditions, preferences and behaviors, and these characteristics are assessed for their impact upon business operations.

The sociocultural factors: education of consumers, age of population, life expectancy, number of divorces, births, deaths,

[1] *The International* Environment. — URL: https://cliffsnotes.com.

immigration and emigration rates, influence of minorities, changes in life styles, cultural and linguistics differences.

Cultural differences, which can be very subtle, are extremely important. If a business fails to understand the cultural methods of doing business, grave misunderstandings and a complete lack of trust may occur.

Management differences also exist. In Morocco, women can assume leadership roles, but they are usually more self-conscious than American women. In Pakistan, women are not often found in management positions, if they're in the workplace at all.

In addition, the importance of work in employees' lives varies from country to country. For example, the Japanese feel that work is an important part of their lives. This belief in work, coupled with a strong group orientation, may explain the Japanese willingness to put up with things that workers in other countries would find intolerable.

Americans tend to emphasize personal growth, accomplishment, and "getting what you deserve" for performance as the most important motivators.

However, in Asian cultures, maintaining group solidarity and promoting group needs may be more important than rewarding individual achievements.

Finally, language differences are particularly important, and international managers must remember that not all words translate clearly into other languages. Many global companies have had difficulty crossing the language barrier. For example, in regards to marketing, seemingly innocuous brand names and advertising phrases can take on unintended or hidden meanings when translated into other languages. Advertising themes often lose or gain something in translations.

Example

The English Coors beer slogan "get loose with Coors" came out as "get the runs with Coors" in Spanish.

Coca-Cola's English "Coke adds life" theme translated into "Coke brings your ancestors back from the dead" in Japanese. In Chinese, the English Kentucky Fried Chicken slogan "finger-lickin' good" came out as "eat your fingers off."

4) Technological environment

In modern world it is important to study technological environment.

Technological Factors:

— level of innovations, computerization, digitalization;

— rapid developments in information and communication technologies.

5) Global E-Business

E-business — the integration of systems, processes, organizations, value chains and entire markets using Internet based and related technologies and concepts:

— Convenience in conducting business worldwide; facilitating communication across borders contributes to the shift toward globalization and a global market;

— An electronic meeting and trading place, which adds efficiency in conducting business sales;

— A corporate Intranet service, merging internal and external information for enterprises worldwide;

— Power to consumers as they gain access to limitless options and price differentials;

— A link and efficiency in distribution.

In order to evaluate factors of international business environment, there is an analytical tool — **PESTEL (Political, Economic, Social, Technological, Environmental, Legal) analysis**.

PESTEL Analysis[1]

Political — Here government regulations and legal factors are assessed in terms of their ability to affect the business environment and trade markets. The main issues addressed in this section include political stability, tax guidelines, trade regulations, safety regulations, and employment laws.

Economic — Through this factor, businesses examine the economic issues that are bound to have an impact on the company. This would include factors like inflation, interest rates, economic

[1] *PESTEL*, Globalization, and Importing. — URL: https://saylordotorg.github.io.

growth, the unemployment rate and policies, and the business cycle followed in the country.

Social — With the social factor, a business can analyze the socio-economic environment of its market via elements like customer demographics, cultural limitations, lifestyle attitude, and education. With these, a business can understand how consumer needs are shaped and what brings them to the market for a purchase.

Technological — How technology can either positively or negatively impact the introduction of a product or service into a marketplace is assessed here. These factors include technological advancements, lifecycle of technologies, the role of the Internet, and the spending on technology research by the government.

Environmental — Energy sourced from wind and solar, cultural attitudes toward being "green", recycling, influences of weather, influences of climate change, frequency of natural disasters, pollution of air and water, environmental laws, availability of health care, sustainability

Legal — are external factors which refer to how the law affects the way businesses operate and customers behave. Product transportation, profit margins, and viability of certain markets are all examples of things which may be influenced by legal factors. They may be: Consumer law, Discrimination law, Copyright law, Health and Safety law, Employment law, Fraud law, Pyramid scheme legality, Import/Export law, etc.

The whole process of PESTEL analysis can be divided into the following stages:

1) Identification of factors that may affect the company's sales and profits;

2) Collecting information on the dynamics and nature of changes in each factor;

3) Analysis of the significance and degree of influence of each factor;

4) Creating a summary table of PEST analysis.

Information and understanding of the situation is the most important stage of any analysis. To get a realistic picture of changes in market factors, interview people who look at the market from different perspectives: independent market experts, sales managers, sellers (directly interacting with end customers), business owners, heads of different departments, top management of the company, marketers of related industries. Learn all the open market information in the Internet and print media. See how your industry has developed in more developed countries, and what problems it has encountered in the markets of similar countries.

Step one: determine the factors to analyze

The first step is to make a list of factors that can affect the company's sales and profits in the long term (3–5 years). Divide these factors into 6 groups: political, economic, socio-cultural, technological, environmental, legal.

1) Political

— How stable is the political environment in the prospective country?

— What are the local taxation policies? How do these affect your business?

— Is the government involved in trading agreements, such as the European Union (EU), the North American Free Trade Agreement (NAFTA), or the Association of Southeast Asian Nations (ASEAN)?

— What are the country's foreign-trade regulations?

— What are the country's social-welfare policies?

2) Economic

— What are the current and forecast interest rates?

— What is the current level of inflation in the prospective country? What is it forecast to be? How does this affect the possible growth of your market?

— What are local employment levels per capita, and how are they changing?

— What are the long-term prospects for the country's economy, gross domestic product (GDP) per capita, and other economic factors?

— What are the current exchange rates between critical markets, and how will they affect production and distribution of your goods?

3) Sociocultural

— What are the local lifestyle trends?

— What are the country's current demographics, and how are they changing?

— What is the level and distribution of education and income?

— What are the dominant local religions, and what influence do they have on consumer attitudes and opinions?

— What is the level of consumerism, and what are the popular attitudes toward it?

— What pending legislation could affect corporate social policies (e. g., domestic-partner benefits or maternity and paternity leave)?

— What are the attitudes toward work and leisure?

4) Technological

— To what level do the local government and industry fund research, and are those levels changing?

— What is the local government's and industry's level of interest and focus on technology?

— How mature is the technology?

— What is the status of intellectual property issues in the local environment?

— Are potentially disruptive technologies in adjacent industries creeping in at the edges of the focal industry?

5) Environmental

— What are the local environmental issues?

— Are there any pending ecological or environmental issues relevant to your industry?

— How do the activities of international activist groups (e. g., Greenpeace, Earth First!, and People for the Ethical Treatment of Animals) affect your business?

— Are there environmental-protection laws?

— What are the regulations regarding waste disposal and energy consumption?

6) Legal

— What are the local government's regulations regarding monopolies and private property?

— Does intellectual property have legal protections?

— Are there relevant consumer laws?

— What is the status of employment, health and safety, and product safety laws?

PLEASE NOTE! When assessing political, economic, socio-cultural, technological, environmental and legal factors, it is necessary to take into account not only their actual state, but also to predict possible changes in each factor for several years to come. That is why it is so important that industry experts or company personnel who have been interacting with the market for a long time participate in the PESTEL analysis.

Step two: determine the degree of influence of factors

After all the factors that can affect the company’s sales and profits are selected, it is necessary to evaluate the strength of each factor.

The strength of the influence of the factor is estimated on a scale from 1 to 3, where:

— 1 — the influence of the factor is small, any change in the factor practically does not affect the company's activities;

— 2 — only a significant change in the factor affects the sales and profits of the company;

— 3 — the influence of the factor is high, any fluctuations cause significant changes in the sales and profits of the company.

PLEASE NOTE! Factors that do not affect the company's activities at all are simply not included in the table. The assessment of the influence of a factor is a subjective expert assessment.

Step three: we evaluate the probability of changing the factor

The probability of fluctuations is estimated on a 5-point scale, where 1 means the minimum probability of a change in the environmental factor, and 5-the maximum probability.

It is better to conduct an assessment not individually, but among a circle of people who have some experience in the industry and expertise in any of the areas of work.

Step four: assessing the real significance of the factors

The next step is to calculate the real significance of each factor. Real significance allows you to assess how much the company should pay attention to and control the factor of environmental change, and is calculated as the probability of a change in the factor, weighted by the strength of the influence of this factor on the company's activities.

The higher the real significance of the factor ("Weight-adjusted score" column), the more attention and effort should be given to reduce the negative impact of the factor on the business.

Step five: creating a PESTEL Analysis summary table

The final step of the analysis is to bring all the calculations into a matrix form. All factors are listed in the following table in descending order of importance.

In order to complete the analysis, it is necessary to draw conclusions: for each factor, specify the impact of the factor on the industry, on the company and plan the programs that need to be carried out in order to reduce the negative impact of the factor and maximize the positive impact of the factor on the company's activities.

Table 15

Form of PESTEL factors matrix

1	2	3			4	5
		Expert rating (1–5)			Average rating	Weight-adjusted score (2) × (4)
Factors	Influence of the factor (1–3)	1	2	3		
Political						
1						
2						
…						
Economic						
1						
2						
…						
Sociocultural						
1						
2						
…						
Technological						
1						
2						
…						
Environmental						
1						
2						
…						

End of table 15

1	2	3			4	5
		Expert rating (1–5)			Average rating	Weight-adjusted score (2) × (4)
Factors	Influence of the factor (1–3)	1	2	3		
Legal						
1						
2						
…						
Total result						

Table 16

Summary table of PESTEL analysis

Political		**Economic**		**Sociocultural**	
Factor	Score	Factor	Score	Factor	Score
…		…		…	
Technological		**Environmental**		**Legal**	
Factor	Score	Factor	Score	Factor	Score
…		…		…	

If a company sells its products in different geographical markets and operates in different industries, it is recommended to conduct a PESTEL analysis for each industry, for each market.

> **PLEASE NOTE!** You can use PESTEL factors in SWOT as opportunities and threats.

Competitiveness Polygon

Competitiveness Polygon is a method that allows you to quickly analyze the competitiveness of a company's goods/services in comparison with key competitors and develop effective measures to increase the level of competitiveness of products.

Step one: identify key competitiveness criteria

Identify the key criteria of the company's product that affect the commitment and satisfaction with the product, the profit from the sale of the product and the attractiveness of the product to the target audience.

Ehe criteria of competitiveness can be:

— assortment;
— uniqueness;
— price;
— quality;
— appearance and packaging;
— efficiency and result;
— expiration date;
— distribution;
— delivery time;
— advertising activities;
— brand knowledge;
— brand loyalty;
— level of technology development, etc.

The criteria depend on the specific company and the industry in which it operates.

Step two: evaluate the competitiveness of your product and competitors' products

Evaluate the competitiveness of your product and competitors' products on a 10-point scale, where 1 is the lowest score, and 10 is the maximum score.

Step three: graphically form the Competitiveness Polygon

After the axes are built and their values are determined, it is possible to determine the place of each company, goods on them using a system of points. According to this position, a competitive polygon is drawn for each object, that is, points — indicators are connected.

Step four: make an action plan

Make an action plan to improve the competitiveness of the product according to the criteria that are lower than competitors.

Looking at the figures obtained, entrepreneur can see the advantages and disadvantages of all the objects evaluated. On the basis of the information received, good results should be consolidated and work should be done to eliminate the drawbacks that appeared during the comparative analysis.

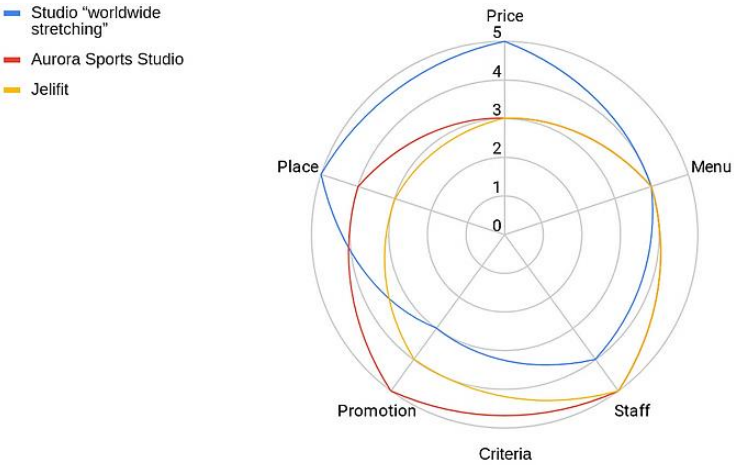

Figure 8. Example of the yoga-studio "Worlwide stretching" Competitiveness Polygon

It should be noted that all marketing moves that will be conducted must take into account not only the specific plans of the entrepreneur, but also similar proposals of competitors. For example, the discount program of the store should not only be profitable, it should be the best.

Graphic polygon of competitiveness has several drawbacks:

— it is impossible to derive predictions about a future product or service;

— unscrupulous types of struggle for the consumer are also not taken into account.

Therefore, you should use several research methods.

> **PLEASE NOTE!** You can use key competitiveness criteria in SWOT as strengths and weaknesses.

SWOT (strengths, weaknesses, opportunities, and threats) analysis

One of the basic tools of strategic planning is SWOT (strengths, weaknesses, opportunities, threats) analysis. SWOT analysis assesses internal and external factors, as well as current and future potential.

The analysis of the internal and external environment is extremely important for the growth of a business. Therefore, it is necessary to analyze both the internal and external environment to maintain a smooth and sustainable business.

Internal business environment refers to the environment that is in direct contact with a business organization and can directly affect the daily activities of the business. The internal environment comprises of factors like *competitors, suppliers, customers, employees, shareholders*. In other words, the internal environment is a collection of all the forces that are close to the business organization. Moreover, *these factors have a short term impact on the organization*.

The following is a description of how elements of the internal environment affect the business.

Suppliers — They provide raw products and other commodities to the business to manufacture products.

Competitors/Rivals — They compete in the market with equivalent products or services.

Customers / Consumers — They purchase products or service.

The firm itself is a combination of a number of elements like owners like shareholders or investors, employees and the board of directors who are interested in profit and the stability of the business.

In general, the internal environment is analysed by SWOT analysis. SWOT stands for Strength, Weaknesses (internal factors).

External business environment refers to the outside factors that influence the organizational performance, decision making and strategy of all businesses. It does not affect only one business entity but has an impact on similar business groups at the same time.

Macro environment is another name for the external environment. In the context of macro, it stands for global scale or large scale. Moreover, it has a vibrant nature which keeps changing.

The study of the external environment is illustrated above as PESTLE analysis. Businesses can be more strengthened by identifying external business environment business or by conducting PESTLE analysis. As a result, there will be new product development, price changes, identifying new ventures, increasing market share etc.

PLEASE NOTE! Internal environmental factors are controllable by its own, while external environment factors are not controllable by the business.

Additionally, the features of an internal environment directly and regularly affect the firm, but which is the opposite in the case of an external environment.

INTERNAL BUSINESS ENVIRONMENT vs EXTERNAL BUSINESS ENVIRONMENT

Internal environment refers to the environment that is in direct contact with a business organization and can directly affect the daily activities of the business.

In contrast, the external environment of a business refers to the outside factors that influence the organizational performance, decision making and strategy of all businesses.

Key difference between internal and external business environment: the internal environment (micro environment) is specific and has a direct impact on the business; the external environment (macro environment), has no direct impact on a particular business, but it has an impact on all business groups.

Step one: identify factors of internal and external business environment

1) Strengths

Strengths describe what an organization excels at and what separates it from the competition: a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on.

Answer the following questions:

— What is our competitive advantage?

— What resources do we have?

— What products are performing well?

For example, a hedge fund may have developed a proprietary trading strategy that returns market-beating results. It must then decide how to use those results to attract new investors.

2) Weaknesses

Weaknesses stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital.

Answer the following questions:

— Where can we improve?

— What products are underperforming?

— Where are we lacking resources?

3) Opportunities

Opportunities refer to favorable external factors that could give an organization a competitive advantage.

Answer the following questions:

— What technology can we use to improve operations?

— Can we expand our core operations?

— What new market segments can we explore?

For example, if a country cuts tariffs, development of a new foreign market, increasing demand, sales and market share.

4) Threats

Threats refer to factors that have the potential to harm an organization.

Answer the following questions:

— What new regulations threaten operations?

— What do our competitors do well?

— What consumer trends threaten business?

For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for materials, increasing competition, tight labor supply, lack of fuel and high gasoline prices, restrictions on the part of the state.

The graphical form (often using the popular 2 × 2 matrix) will allow you to correlate all the factors with each other.

Step two: make TOWS analysis[1]

TOWS is an acronym for the same factors that are in SWOT, but the application is different because here we deal with combinations of these factors. Basically we combine the two internal factors with the

[1] *Momin A.* TOWS Analysis: The Framework and How it Works in 4 Steps. — URL: https://pestleanalysis.com/tows-analysis.

two external factors in order to come up with four separate strategies for future growth and development.

SWOT vs TOWS

SWOT is primarily concerned with analyzing a particular entity, usually a business or organization in order to have a better understanding of its position within the market it operates in.

TOWS is more actionable and practical because it takes the information from the SWOT and uses it to formulate strategies for improvement.

In SWOT, the four factors are considered individually but TOWS actually combines internal and external factors into combos of four in order to utilize the information for something beneficial for the company.

We can say that SWOT is the primary step and TOWS is the secondary action that follows, building on the information retrieved.

The goal is to take maximum advantage of strengths, mitigate weaknesses, exploit good opportunities, and get rid of the threats using these four strategies. Here they are:

Strengths and Threats (ST)

Here you go through *every single strength* which is mentioned in the SWOT and then map out how they can be used to get rid of or at least minimize the threats which exist outside.

Weaknesses and Threats (WT)

Here the aim is to come up with different strategies that mitigate both the internal weaknesses of an organization along external threats. These strategies are also known as *defensive strategies* because they essentially defend the organization from deterioration and potential collapse.

Strengths and Opportunities (SO)

Here, our goal is to formulate strategies that employ the use of all of our internal strengths to make the most of the external opportunities that present themselves.

Weaknesses and Opportunities (WO)

This is all about coming up with strategies to get rid of as many weaknesses on the inside as possible by using external opportunities which find their way towards us.

Table 17

The TOWS Framework

Internal factors	External factors	
	Opportunities	Threats
	Opportunity 1	Threat 1
	Opportunity 2	Threat 2
Strengths	**S-O Strategies**	**S-T Strategies**
Strength 1	S-O Strategy 1	S-T Strategy 1
Strength 2	S-O Strategy 2	S-T Strategy 2
Weaknesses	**W-O Strategies**	**W-T Strategies**
Weakness 1	W-O Strategy 1	W-T Strategy 1
Weakness 2	W-O Strategy 2	W-T Strategy 2

As you can see, this framework is made after the SWOT has been conducted. Once all the main factors are plotted down in their main SWOT quadrants, you can start working on the appropriate strategies.

Strength 1 is combined with opportunity 1 and is written in the S-O Strategy 1 quadrant of the matrix and so on.

The order does not matter, what matters is that each external factor is combined with each internal one in order to improve strengths and opportunities and to eliminate threats and weaknesses.

Example[1]

Suppose you are the owner of a multinational company called XYZ and you want to exploit more opportunities all the while reducing your threats. You already have a SWOT carried out and now want to work on making strategies.

Internal factors	External factors	
	Opportunities	Threats
	O1 More Markets	T1 Competition
	O2 Companies for Sale	T2 Changes in Trends
Strengths	**S-O Strategies**	**S-T Strategies**
S1 Brand Equity	S-O Strategy 1: use brand equity to increase market share	S-T Strategy 1: Use brand equity to differentiate from competitors

[1] *Momin A.* TOWS Analysis: The Framework and How it Works in 4 Steps. — URL: https://pestleanalysis.com/tows-analysis.

End of the table

Internal factors	External factors	
	Opportunities	Threats
	O1 More Markets	T1 Competition
	O2 Companies for Sale	T2 Changes in Trends
S2 International Reach	S-O Strategy 2: Use global status to stay ahead by purchasing similar companies	S-T Strategy 2: Use international access to stay on top of emerging trends
Weaknesses	**W-O Strategies**	**W-T Strategies**
W1 Not Sustainable	W-O Strategy 1: Enter new markets to stay relevant and in business	W-T Strategy 1: Enter countries with low/no competition
W2 Prices too high	W-O Strategy 2: Expanding Business to other areas around the world will help in achieving economies of scale	W-T Strategy 2: Invest in R&D in newer markets to understand consumer preferences

By combining strength of brand equity, you can easily use the opportunity to expand to new markets. Similarly, you strategize to improve your sustainability by using the opportunity of having new markets to step into to get rid of a big weakness.

Your international status which is a huge strength has enabled you to be on top of emerging consumer trends thereby getting rid of the threat of changing times.

You can be proactive. In the last quadrant of your defensive strategies, you can improve the sustainability issue by entering into a country where the threat of competition is low or even negligible. This will allow you a chance to grow.

How to assess a strategy?[1]

There are different tools to assess business strategy.

1) **Critical Success Factors (CSF).** This tool is used to identify a limited number of areas to ensure the performance of the company. In other words, identifying critical success factors of a company will lead to track and measure the progress towards accomplishing strategic goals, and finally the mission of the company.

A CSF is a high-level goal that is essential for a business to meet. Furthermore, it determines what's most significant in ensuring the

[1] *How to* Determine Critical Success Factors for Your Business. — URL: https://www.clearpointstrategy.com.

progress and stability of the company. CSF is also known as **Key Result Areas**.

Here are some examples of CSF:

1) Increasing market share with the existing customers;

2) Achieving On time in Full (OTIF) through excellent on line process improvement.

Project Success depends on:

— Planning;

— Communication;

— Skills;

— Tools;

— Process;

— Management;

— Team-work.

Identifying and communicating CSFs within the firm ensures that the business or project is focused on its objectives. Moreover, this reduces the effort and time taken to focus on less important areas.

2) **Key Performance Indicator (KPI)**. This is used to measure the performance of a company in terms of achieving organizational objectives. KPI can evaluate the performance of an individual as well as organization performance. Firms use KPIs at multiple levels to evaluate their success at reaching targets. Most of the time, KPIs are measurable values. For instance, to increase sales revenue by 20% this year. Generally, the best KPIs are SMART.

SMART stands for:

— Specific;

— Measurable;

— Attainable;

— Relevant;

— Time-based.

Moreover, high-level KPIs are given to top management for organizational performance while low-level KPIs are given to middle-level management to drive organizational objectives. It is important to understand the organizational objectives and its impact on the business when developing a strategy to formulate KPIs.

Objectives and KPIs may vary from organization to organization. The progress of KPIs has to be reviewed in a timely manner.

What is the Relationship Between CSF and KPI?

CSF and KPI have a close relationship in achieving the progress of a company. CSF results from an organization's mission and strategic goals. Companies can develop KPIs according to the CSFs they have identified. Moreover, KPIs have measurable and specific criteria; the top management uses them to evaluate the performance of the company. They also provide data that enables organizations to decide whether CSFs have been met or objectives have been achieved.

What is the Difference Between CSF and KPI?

The key difference between CSF and KPI is that CSF is the cause for success whereas KPI is the effects of success. In general, KPIs are more descriptive and quantitative than CSFs.

For example, a company can identify CSF as *"significant increase sales volume in European markets"* and to drive the identified CSF, a KPI can be assigned as *"Increase sales revenue in European markets by 10% against last year, by year-end"*.

KPIs need to be SMART, but there is no specific requirement for CSF to be smart.

KPIs are assessed or evaluated in a timely manner by top management while CSFs do not need to be evaluated.

CSFs are identified by top management whereas KPIs are assigned by department heads to drive CSF or company objectives.

KPIs are used to evaluate individual performance whereas CSF is not used to evaluate individual performance.

Most CSFs are quite universal across the business world whereas KPI differs from company to company and depends on the business situation.

So, both CSF and KPI are quite common concepts in the modern business world. They are useful as tools to measure the progress of the business. The key difference between CSF and KPI is that CSF can identify the significant factors for the company, leading to finding the causes of success, while KPI can measure or evaluate the success of an organization (refers to the effects of success).

Questions and Exercises

Questions for self-control

1. **The peculiarity of an international corporation is that it:**
   A. Connects economic units through strategic alliances.
   B. Conducts a coordinated policy and management of controlled units through government.
   C. Has business units in two or more countries.
2. **The tool for scanning the international business environment is:**
   A. PESTEL.
   B. Business Model Canvas.
   C. BEP.
3. **Plan-scheme of building a business, which consists of nine parts, where each of them is a key element of doing business:**
   A. Gantt chart.
   B. Business Model Canvas.
   C. PESTEL.
4. **Which tool allows you to develop strategies based on the intersection of internal and external business environment factors:**
   A. SWOT.
   B. TOWS.
   C. PESTEL.
5. **Comprehensive set of laws organized into codes, interpretation is based on reference to codes and statues:**
   A. Common Law.
   B. Civil Law.
   C. Muslim Law.

Exercises

Exercise 1

Discussion

Strategic Alliance — Whirlpool Corporation and Inland Steel CASE[1]

Strategic Alliance — Whirlpool Corporation and Inland Steel CASE faced with intense competition, increasing expectations from customers, reduced product life cycles, and localized geographic markets, Whirlpool Corporation (a Fortune 500 manufacturer of appliances) realized that the need to achieve a competitive advantage from its sourcing and material efforts was greater than ever. Part of the strategy to achieve this advantage involved pursuing an alliance with a key steel supplier. Steel is a major component used across all of the company's finished products (such as washing machines, dishwashers, refrigerators, and others).

The purchasing managers at Whirlpool faced a number of questions with regard to their purchasing strategy:

— What do we need to do to be competitive?

— Who is best suited to be the primary steel supplier?

— What do we need to know, and how do we get the information required to answer this question, especially with regard to our organizational culture, technological roadmap, and where both organizations are moving in the long term?

— How do we implement a strategic alliance?

— How do we establish a strategic alliance in terms of confidentiality agreements, termination agreements, and negotiation strategies?

— How do we provide the supplier with evaluations to ensure that this alliance continues, with regard to continuous performance, goal achievement, and commitment?

— What do we do if we do not meet our objectives — change the situation or simply terminate the agreement?

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[1] *Strategic* alliance — Whirlpool Corporation and Inland steel. — URL: http://expertsmind.com.

— Whirlpool realized it needed to reduce the number of steel suppliers it used and locate a supplier with a common desire to enter into a longer-term alliance. Whirlpool's organizational goals were to leverage the selected supplier's technical capabilities through early supplier involvement, day-to-day redesign support, and process improvement.

At the same time, top executives realized that in order to obtain these benefits, it was important that the supplier partner perceive value in the relationship. While all of this was occurring in 1984 at Whirlpool, the management team at Inland Steel was considering a different set of questions. Four vice presidents of marketing at Inland Steel, an integrated steel producer located in the same geographic region as Whirlpool, were reviewing their market strategies and the recent changes that had occurred in their strategic alliances. They had made the decision to reduce their customer base, and were forming a new management plan.

This was part of Inland's Customer Relationship Management strategy, which entailed reducing their customer base in order to serve only their preferred customers that would yield the highest long-term profitability for the company. This strategy was a direct result of Inland Steel's total quality management program, which dictates that to delight the customer, one must identify key markets and focus on those markets. A major component of this market strategy was to approach key customers with the idea of entering into long-term agreements.

In doing so, Inland Steel realized that the best opportunity for reducing costs was to become involved early in new product design with key customers. However, to achieve this objective, the vice presidents realized that significant capital investment would be required to update Inland Steel's facilities with state-of-the-art steel processing technology to align technologies with key customers. In some cases, this involved some degree to risk, as aligning capital investments with specific key customers could "shut out" new business with other potential customers.

However, the management team reached a consensus that the only way to succeed in the current market structure was to reduce costs through early involvement in customer new product designs, and to back this up with capital investments in design capabilities and new facilities. Meanshile, Whirlpool executives were mulling over whether Inland Steel was the right supplier to form an alliance with. Whirlpool Corporation had used Inland Steel as a supplier for several years, but had used many different steel suppliers during this period.

The strategy of forming a formal buyer-supplier partnership was a relatively new one. As these two companies explored the idea, it became obvious that a complementary common strategic vision existed between the two companies, which could make such a partnership a reality. This common vision was based on the fact that the Whirlpool Corporation needed to sustain a competitive advantage and support its direct customer relationships, while Inland needed to manage the transition inherent in a customer-focused market strategy.

Thus, Whirlpool Corporation sought to work with Inland Steel to realize reduced costs vis-a-vis the competition, and Inland sought to obtain a major share of Whirlpool's steel contract. While this initial concept seemed straightforward, it required almost seven years to make it a reality. The vision was made a reality by first understanding that reducing cost did not simply mean lowering the price paid per ton of steel, but rather to take cost out of the business processes, which takes much more time.

Linkages throughout every step of the value chain, not just between purchasing and sales, had to be established (See Exhibit 1). The end goal became to maximize profitability at both companies, while not relying on explicit formulas and equations formalized in contract form. Along the way, the companies encountered a number of obstacles. However, as the vice president of purchasing at Whirlpool Corporation described the process, "Neither of us let these problems get in the way of cost reduction efforts, which in the long run far exceeded the changes in market steel prices. Overcoming the obstacles in the relationship required a seamless organization and the elimination of levels of bureaucracy. Functional personnel in each firm had to be able to communicate directly with their counterparts in the other firm, all the way to the chief executive office. The underlying foundation of the relationship was challenged many times during the early years. "The reason why this relationship works," says the vice president of marketing at Inland Steel, "is that Whirlpool Corporation created an environment that allowed questions to be laid out on the table every time a new issue came up. A Roadmap to Trust The following is a timeline of the development of the strategic relationship between Whirlpool Corporation and Inland Steel. In 1984, Inland Steel began to share its market strategy and management vision with Whirlpool. The sharing was unique because the supplier (Inland Steel) actually took the initiative when pursuing the strategic alliance. By 1986, Whirlpool had reduced its supply-base from eleven steel suppliers to seven, and Inland had invested over $1 billion in new capital investment.

This investment was specifically designed for Whirlpool's steel requirements in the appliance industry, which could not be used in their other major market, the automobile industry. Inland Steel needed to be granted access to Whirlpool's engineering personnel to identify the different ways that Whirlpool Corporation was using steel and convert these into process specifications. At this point, Inland was given assurances that it would receive a larger volume of Whirlpool's orders. One of the most important of Whirlpool's later actions was that the company actually did place the orders it said it would.

In 1988 and 1989, the alliance was reevaluated by Whirlpool Corporation, and Inland's orders from Whirlpool increased by 30%. Simultaneously, Inland began the first of their joint cost-reduction projects, which sought to eliminate cost from the business processes. By 1990, Whirlpool had reduced its number of steel suppliers to four. The companies held a joint leadership meeting to bring discussion of the alliance to top management's attention and to formally develop a supplier council. The companies also developed a long-range vision, which was deemed critical to the success of the partnership.

The alliance solidified in 1993. By this time, Inland Steel had established resources at its technical center dedicated to the needs of Whirlpool. In 1994, Whirlpool increased its orders to Inland Steel by another 15%, bringing the total to approximately 80 % of Inland's total steel requirements. At this point, the two companies were sharing joint strategies, and Whirlpool's organizational restructuring was developed around the Inland Steel relationship. Purchasing management was actively involved in top-level strategic planning.

To date, the strategic relationships between Whirlpool Corporation and Inland Steel is in place and producing benefits that a traditional relationship could not have produced. Issues and Concerns In the process of developing greater trust between the two organizations, the companies had to address a number of issues directly. First, different employee practices between the two companies often led to conflict. This conflict was reduced in part by promoting greater cross-cultural interaction, such as having a purchasing manager work at the supplier's plant, which helped to smooth over any differences in corporate culture that existed.

The sharing of cost data was also problematic, but this happened in segments so as to target specific cost drivers in different areas of the business process. In the long run, by focusing on quality improvements and reject-rate reduction, hourly labor costs became almost a non-issue. Even though Whirlpool had several CEOs during this period, the relationship between the companies remained intact because of the level of trust that had developed over time. The relationship was no longer between people but rather between organizations.

Inland Steel was also concerned that a single-sourcing policy might cause it to lose touch with the market, and was concerned with confidentiality of information. At the same time, Whirlpool was concerned about the technological risks of relying on only one supplier. However, these concerns were ultimately dwarfed by the belief that both companies would be low-cost producers in the long-term because of the relationship. Mechanisms to Support the Relationship Executive management at both companies recommend that organizations considering pursuing partnerships need to think early on how they will deal with issues such as those just mentioned. Although there are no single right or wrong answers, there are different approaches to these issues that must be tailored to the specific situation. For example, significant organizational realignment was needed so that people could work specifically with their counterparts in the other firm. The creation of a supplier council was also instrumental to the relationship.

This approach permitted the sharing of strategies and tactics so that each party became aware of each other's activities. Senior management discussion, both structured periodic meetings and informal spontaneous telephone conversations, also helped promote greater trust. Quarterly performance reviews by Whirlpool were helpful to Inland for understanding how well they were meeting performance expectations. Engineers from Inland were also co-located at Whirlpool's product development center, which created many other informal avenues for communication.

Recently, Whirlpool has begun to apply the same "customer service" principles used by Inland to their own customer based. Whirlpool CEO David Whitwam redefined his company's mission as a fabric-care of a food-preservation enterprise rather than as a washing-machine or refrigerator maker. Whirlpool sales executives recognize that certain distribution channels make up the majority of their sales volumes — in this case, what they call the "Power Retailers", such as Circuit City, Sears, and Electric Avenue. These retailers demand 100 % availability, and Whirlpool's logistics managers meet this expectation.

A second set of customers, building contractors and government agents, purchase in smaller volumes, but also require higher levels of customer service. Thus, they promise close to 95 % availability for this group. Finally, the "Discount Outlets and "Mom and Pop" operations require 85% availability, as they purchase infrequently and in smaller volumes. In effect, a different customer service standard is set for different customers, depending on how important they are! This same principle is used by the airlines, who reward their "Frequent Fliers" with upgrades, preferential seating, and advance boarding.

The underlying outcome for both parties in this agreement is that the relationship became viewed as a covenant, which implies a greater commitment than a contract. In the words of one Inland Steel executive, "A covenant implies a promise that is enduring and provides a way to manage expectations. The single most important tenet of the relationship is the need to satisfy the end consumer who purchases the finished appliance. By focusing on this covenant, the relationship should survive and prosper over the long term."

Questions for discussion:

1. Discuss what the following statement means: 'It can take years for a buyer/seller partnership to begin delivering results'.

2. What role does trust play in the relationship between Whirlpool Corporation and Inland Steel? Provide examples from the case that illustrate trust within this relationship.

3. Why is it important to have a strategic fit between the companies involved in a buyer/seller alliance or partnership?

4. When formulating its purchasing strategy, what other strategy alternatives besides an alliance with another company could Whirlpool Corporation have pursued?

5. How can the companies involved in a buyer/seller partnership tell if the partnership is successful? What specific indicators can the companies use to measure progress and performance?

6. Under what conditions might the parties to the alliance discussed in this case dissolve or end the relationship?

7. How can firms minimize or manage the bumps, hurdles, or conflicts that often occur when firms join together in an alliance or partnership?

Exercise 2

In small groups (2–3 students) choose a host country and an expatriate group. Make a list of all the cultural differences which an expatriate and his or her family may encounter in that country and which may be problematic.

Example:

Host country: USA.

Expatriate group: Algerian technicians on a six-month technology transfer assignment.

Cultural differences: food (need to adapt to a diet of highly processed food; difficulties in obtaining basic items); sex roles (women have equal status and identical rights); smoking (forbidden in public places; frowned upon by many Americans); punctuality (for both professional and social activities); informality (in dress, use of Christian names).

Here are some further questions for discussion:

— How do people greet each other?

— Do they embrace, shake hands, avoid physical contact?

— Do they use first names or surnames?

— Is there a high regard for rank or social position?

— How is this manifested?

— Is there a rigid code for greetings or are many things permissible? etc.

Roleplay this scene.

Exercise 3

Training global mangers[1]

One of the reasons why the Japanese have been so successful in penetrating world markets is that they have understood and responded to the challenges of doing business in alien countries and cultures. Japanese expatriate personnel are far better equipped than their American counterparts for living and working abroad.

In a recent survey, three-quarters of the 80 US corporations responding reported that between 10 % and 40 % of their personnel assigned overseas had to be recalled or dismissed due to poor performance. Maintaining a US family overseas costs an average of $200,000 per year. Recalling key personnel is not only expensive but also highly disruptive, often leading to confusion and lost opportunities. Furthermore, an expatriate who is recalled will, in most cases, leave the company even though his or her performance may have been good prior to the overseas assignment. Replacing him or her means that the company has permanently lost a valuable human asset.

Even those US expatriates who complete their assignments may not be working to full capacity and although technically they have not failed, they may be costing their company a great deal in foregone profits.

The reason why Japanese and American expatriates perform so differently may be explained by the better preparation and support which Japanese managers and technicians receive. In Japanese companies, a thorough selection is made at least one year before the assignment is to begin, so that anybody at risk is rejected.

The selection procedure is followed by a training programs where assignees learn the culture, customs, language and ways of

[1] *Lectures* for learning. Training global mangers. — URL: https://doclecture.net/1-625.html.

doing business in the host country. They learn that they will have to do without many home-country comforts, and to accept, respect and even enjoy inconvenient customs and procedures.

Upon arrival in the country, the Japanese expatriate is assigned a mentor. This is usually a local person who will help the newcomer to settle in and get through the first year or so.

During their assignments Japanese managers or technicians are in constant contact with head office. They are kept up-to-date on any changes that take place during their absence and this reduces any worries about returning home. They also know that their foreign assignments are an integral step in their career plans.

Two-thirds of American companies have no formal training programs to prepare personnel for overseas work. The other third limit their training to an informational briefing just before departure, but with no simulation activities or question-and-answer sessions with host nationals. Furthermore, no attempt is made to involve the family in preparing themselves for their new environment. Many expatriate personnel are recalled because their spouse or children cannot adapt, and this creates immense pressure on the whole family.

One of the reasons why American companies are so reluctant to set up effective training and support programmes is that a trend has developed to replace expatriate personnel by host-country nationals. However, the increasing globalisation of business has led to a net increase in the number of Americans working overseas, in spite of the trend to replace them. This increase is likely to continue if American headquarters want to maintain and strengthen links with their overseas businesses.

Expatriate personnel may be divided into three categories, each with its own set of needs. Firstly, there are the short-stay technicians engaged in technical assistance or the transfer of technology. Because they rarely stay for more than a few months abroad their needs are mainly limited to techniques for survival. For example, they will need to know something of the uniqueness of the host-country culture and learn to engage in activities which make life in an alien land tolerable.

Secondly, there are the long-term expatriates whose needs go beyond pure survival. Learning to be effective is a major challenge, and this means knowing what to expect, how to read cues, and how to adjust one's management style to the foreign culture. Furthermore, learning to enjoy the foreign culture is essential in order to avoid culture fatigue.

The third type of expatriate is the foreign national coming to America, and they too have their own needs which must be met.

Any training programme must take into account the different needs of these three groups. It should also be specific to the country of assignment or, in the case of foreign nationals coming to America, the country of origin. Cultural differences encountered in France are very different from those in Russia, Nigeria or Saudi Arabia, and it is the instructor's job to identify these differences, explain why they might be problematic and teach the skills necessary to cope with them and, ultimately, to appreciate them.

Questions for discussion:

1. What are the costs of the high rate of failure among US expatriates?

2. What do the Japanese do to minimize their failure rate?

3. What training activities are available for American managers and technicians working overseas?

4. What are the three kinds of expatriates and what are their needs?

Exercise 4

For organizing effective international team it is important for team leader and for team members to have high level of CQ.

Cultural Intelligence (CQ) is the ability to relate and work effectively across cultures, to interpret and to understand foreign culture. First there was IQ (intelligence quotient), and now there is CQ.

The bad news is that very few people have high cultural intelligence, but the good news is that people can change that.

Taking into account CQ level most managers fit within one of six established profiles.

1. The provincial: Effective when working with people of similar background, but lacks the ability to work with people from other cultures.

2. The analyst: Tries to methodically analyzes other cultures and tries to apply learned strategies.

3. The natural: Relies entirely on his own natural intuition and avoids learning more or improving based on established techniques.

4. The ambassador: Likes differences and welcomes them, does not know much about the culture, but he is confident he can handle it.

5. The mimic: Has a high degree of confidence in his actions. Easily communicates.

6. The chameleon: Possesses high degree of CQ and could be even mistaken for native in certain situations.

Working with colleagues and clients in other countries is far away from working in your domestic market. But if you have necessary skills and CQ level or if you are ready to study cultural peculiarities you have possibility to receive benefit from this work.

Visit web-site and check your CQ: https://commonpurpose.org/knowledge-hub/what-is-cultural-intelligence/cq-test.

Case: Transformation of the company's business model in the digital economy[1]

Read the story about LEGO and answer the questions.

The LEGO Group company began its activity in 1932 and became known as a manufacturer of LEGO bricks. However, in 2004, the LEGO Group faced the risk of bankruptcy. One of the contributing factors was the inability to meet the changed preferences of consumers — during this period, the popularity of video games increased significantly. For example, in 2003, the global video game market was estimated at more than 21 billion dollars, and online games for personal computers brought in revenue of 450 million dollars. Further, the popularity only grew — from 2000 to 2008, the gaming industry grew more than 2 times.

[1] *Kapustina L., Gaiterova O., Agababaev M. et al.* Transformation of LEGO GROUP Business Model in the Digital Economy // Proceedings of the Second Conference on Sustainable Development: Industrial Future of Territories (IFT 2021). — URL: https://www.atlantis-press.com/proceedings/ift-21/articles.

Table 18

LEGO Group business model Canvas

<table>
<tr>
<td rowspan="2">Key Partners
Plastic Suppliers, Merlin Entertainments, WWF, Disney, Affiliated Partners
New
Users participating in the joint creation,
Warner Bros, Sony Corporation</td>
<td>Key Activities
Identification of needs, development and evaluation of new products, packaging, production, promotion, sales, service, R&D, theme park support, store management
New
Creating movies, developing video games, maintaining online platforms, websites, applications</td>
<td rowspan="2">Value Proposition
LEGO bricks, theme parks
New
Bricks augmented with technology, video games, movies</td>
<td>Customer Relation
Direct sales in own and retail stores, theme parks
New
Mediated through online gaming platforms, the possibility of joint creation, support and communication through social networks, self-service through a website</td>
<td rowspan="2">Consumer Segments
Children
Parents
School
Adult fans
Collectors</td>
</tr>
<tr>
<td>Key Resources
Brand, plastic, theme parks, shops
New
Software for 3D modeling, website and applications</td>
<td>Channels
Theme parks, retail stores
New
Website, my LEGO network, apps, cinemas, gaming platforms</td>
</tr>
</table>

End of table 18

Cost Structure Management, support of theme parks and own stores, purchase of raw materials, product development, sales organization, production, distribution, promotion **New** Content creation, R&D, website support, online platforms and applications	**Revenue Streams** Sales of goods and tickets to theme parks **New** Content monetization, licensing, movie ticket sales

The LEGO Group's business model can be attributed to the product models, since so far the main product is sets of LEGO bricks. At the same time, the company was engaged in the development of its own theme parks, clothing, etc. However, by 2004, the excessive diversification of LEGO Group business model became obvious — buyers lost the idea of what the company is like. This also contributed to the need for modernization and digital transformation of the existing business model. As a result, the LEGO Group has addressed to the synthesis of its own traditional business model and the business models of digital companies.

The most significant innovation was the crowdsourcing platform LEGO Ideas. It acted as a new communication channel and allowed to identify the needs of customers and involve them in the process of creating new products by voting for the launch of new products. As a result, the company has created a global network of customer interaction with the company and with each other, as well as increased the number of regular customers who are receptive to new products. LEGO Minecraft is an example of a crowdsourcing product that received 10,000 votes within 2 days, and after successful sales, further development of thematic sets followed[1]. To increase interaction with customers, the LEGO Group has also created social media platforms. One of them is My LEGO Network — a special website for children and LEGO fans. It combines a social network with games where players can advance through levels and exchange virtual prizes.

In addition, LEGO decided to enter the gaming industry, but not to replace its main product — LEGO bricks, but to complement it. So, a multiplayer online game and an online platform LEGO Universe was created, which was distributed by Warner Bros. Also, LEGO creates games on the PlayStation gaming platform together with Sony Corporation. Today there are more than 17 LEGO applications, both full-fledged games and additional applications for games with LEGO sets, for example, the Powered up application, which allows you to control mobile constructors from your phone. All these measures are

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[1] *Brickipedia* fandom: My LEGO Network, 2020. — URL: https://brickipedia.fandom.com/wiki/My_LEGO_Network.

aimed at maintaining children's interest in LEGO bricks and meeting their needs for digital products.

There was also the introduction of new technologies in addition to LEGO bricks. For example, LEGO Mindstorms is a hardware and software framework for creating programmable robots based on LEGO bricks. Another example is LEGO Power Functions — electrical components for LEGO sets. In addition, LEGO has developed software for users to create their own sets: LEGO Digital Designer — for building models using virtual bricks and 3D modeling software for creating 2D–3D drawings from sketches.

Entering the film industry can also be considered as part of the process of digital transformation of the business model. In 2011, the LEGO Group became a partner of Warner Bros and developed the collections “The Lone Ranger”, “The Hobbit”, etc. LEGO also decided to create its own movies. The Lego movie was a success with a budget of 60 million dollars and a worldwide gross of 468 million dollars[1]. Next movies also were paid off and were highly praised by critics. This helped to strengthen the brand and increase interest in LEGO products.

At the same time, the company also appealed to the digital transformation of the management system with the introduction of LEGO Digital Enterprise, which created new opportunities, consisting in rationalizing the decision-making process, focusing on the development of IT and creating a global community culture. LEGO Group sought to integrate business processes, for which networks of experts and leaders from each technology team were responsible. As a result, the "Process Expert Network (PEN)" was created — a network of process experts, whose goal was to create end-to-end global processes. PEN managed the overall optimization of processes through formal audits and reviews, approval of technological documentation and data entry into business cases. At the same time, PEN also ensured the exchange of knowledge within the organization to achieve mutual understanding and consistency in all areas of business. So, PEN has helped to bridge functional and organizational gaps within and

[1] *LEGO*: About Us. — URL: https://www.LEGO.com/en-us/aboutus.

between business units. Today, as a result of the reorganization, the LEGO Group has 3 main business areas:

Operations: procurement, planning, production, distribution and operational activities throughout the LEGO Group;

Marketing: all commercial functions, such as product development, innovation, marketing and sales;

Business support: support for the LEGO Group's general business, includes corporate finance and corporate center functions.

Thanks to the synthesis of two business models — the traditional business model for the production of LEGO bricks and a digital business model that complements the main product, the company was able to avoid bankruptcy. Digital transformation and customer orientation allowed LEGO Group to optimize its management system, as well as to supplement, rather than replace, its main product with digital components. The company was included in the list of the 100 most expensive brands in the world in 2018 according to Forbes, taking the 97th place in the list with a value of 8.6 billion dollars and brand revenue of 5.8 billion dollars[1].

Questions

1) What are the features of the new LEGO business model? What were added to the elements? What sectors were not transformed?

2) Who are the most important customers of the company?

3) What is PEN?

4) Analyze the business model of selected international company according to the methodology of A. Osterwalder and Yv. Pigneur. What transformation has it undergone or not in connection with digitalization?

[1] *Forbes*: The World's Most Valuable Brands, 2018. — URL: https://www.forbes.com/sites/kurtbadenhausen/2018/05/23/the-worlds-most-valuable-brands-2018/#-4b89e89610c1.

Tips in Entrepreneurial Toolkit

Tips for managing international project teams

1) Accept and research the cultural challenges of international teams

National culture plays a big part in how we act, and we can't change that — we can just learn how to make it work for everyone concerned. That can be hard for senior managers to accept. Here are some examples of cultural differences that manifest themselves in a team environment:

— Leadership: collaborative style will work better with Scandinavians than with Russians, who will distrust a leader who is too friendly with subordinates;

— Time: in some countries, time is a flexible concept. French business meetings rarely start on time. For Arabic and Latin American to be late is normal. Plan your conference calls to allow for the Mexicans to join even later. When a deadline is a drop-dead date make sure everyone actually understands the significance of missing it. For some cultures, milestones are just a guide;

— Saving face: some cultures find it easy (or at least acceptable) to hold up a hand and say 'I made a mistake'. But others don't. That makes managing issues much more complicated.

Way to overcome: to carry out training with team members to help them understand cultural peculiarities of each other.

Rules for team leader:

— learn about others' cultures and customs in order to build and sustain relationships within your international team. Learn about each other's strengths and weaknesses;

— Do not put your own culture and way of doing things above others;

— Pre-departure training in geography, customs, culture and political environment in which the employee will be living will help for cultural adaptation;

— Guarantees for better position will motivate employees for cultural adaptation in the new country;

— Employees who return to their home country after working in another nation for sometime tend to suffer cultural shock in their own homeland. Hence, organizations need repatriation policies and programs to help returning employees obtain suitable assignments and adjust to the 'new' environments.

2) Deal with the practicalities of time zones

How will you conduct real-time team meetings? Who is going to be the person who gets up in the middle of the night for a call with the Australian development team?

If you can nor refuse from night communications, it is necessary to shift meeting times around so the burden isn't always on the same individuals.

3) Understand the challenge of split locations

Projects with international teams often take longer and involve higher travel costs than projects where the entire team is co-located — and that isn't always a welcome message to the senior team.

In fact, co-location can be a problem even with projects completely based in one place. A project team that is split across several locations can also be difficult to manage. Research done by the US Civil Engineering Research Foundation shows that co-location contributes to effective decision making, attention to detail and helps the team form a partnership.

Projects where the team was not based together suffered from poor communication, procurement problems and lack of direction.

4) Focus on communication

The biggest issues for international projects are cultural understanding and communication. Even when we use the same words it does not mean that we use the same language. This is especially evident when we compare American English and British English. Two people might be using the same words, but understand one another on a completely different level. Multi-International teams have individuals who will not be able to use their native tongue. Undoubtedly, this will lead to some form of misunderstanding. Specific areas of miscommunication can be found in the form of vocabulary, language style, non verbal communication, and the unwillingness to express ideas.

a) Vocabulary. The vocabulary that we and others use can sometimes be confusing to others who do not speak the same native language.

b) Language Style. When working in teams some individuals may be very direct, while others may be indirect in their communication. Each person may interpret these language styles differently. It is important to recognize the differing language styles and the common misunderstandings that can come from it. Accents, pronunciation, slang and the use of idioms can also cause fundamental misunderstandings.

c) Non Verbal Communication. Gestures form a significant part of communication. However, there are only few universal gestures. Non-verbal behaviours or 'body language' vary considerably from one culture to another. For example, a high level of eye contact is considered a sign of attentiveness in some cultures and a sign of rudeness in others. In some cultures individuals are encouraged to express their emotions openly, while in others openly demonstrating feelings is not possible. These differences in body language can lead to misunderstandings between people of different cultural backgrounds.

d) Unwillingness to express ideas. The person things that he is not good in English and do not want to express ideas. How to help in this situation?

Ways to overcome:

— to provide opportunity to write the ideas.

Establish conversational rules from the beginning. Acknowledge differences in accents and encourage team members to be mindful of them. Remind team members do not use words with multiple meanings, idioms, or slang.

— Keep in mind that there exists no body movement, no facial expression, no gesture which could arouse the same reaction all over the world;

— Limit hand gestures and maintain a moderate body posture;

— Remember, that silence can mean agreement, disagreement, or contemplation. Do not interpret the absence of disagreement as agreement

5) Use the right tools

The geographical distances that often exist between international team members means that technology plays an important role in communication on a regular basis. Telephones and video-conferencing allow to communicate verbally, while e-mail and faxes enable fast, efficient communication 'out of hours'. However, using technology for communication does have difficulties. Problems with incompatible technology or lack of access to appropriate technology can mean that some individuals do not receive all information they need to be able to perform effectively. Furthermore our increasing dependence on fast communication methods that do not involve face-to-face contact, such as e-mail, can lead to misunderstandings and decrease trust level between team members.

Ways to overcome:

— provide possibility of face-to-face communication

— using two types of technologies — phone or video and e-mail to check sending information additionally to avoid misunderstanding.

6) Include different types of people in your team

Depending on the mission of the business, you may need to focus on building a team of creative, analytics, intellectuals, or spiritualists. A PR firm would more likely hire creative and intellectual people, accounting firm — analytical members ant etc. It is important to have good understanding of the strengths and weaknesses of each individual member. Some members of the team may be better suited in the office, responsible for administrative tasks such as bookkeeping, emails and answering phones. Others prefer active negotiations and trips. You'll find that your business runs far more efficiently when you have properly assigned your team members to tasks that suit their personality and feed their interests.

But you should have different types of people in your team. For example, you are energetic, active person and you prefer to have in your team only such people, in this way you will receive problem — in your team you will not have person for calm and routine work inside the office. For different tasks you should have different people.

Key benefits of international team working for team members:

— Increased knowledge — Working with people from different backgrounds exposes you to a wider variety of experiences and knowledge than you may have the opportunity to access in your home environment. It also helps you to keep up to date with progress at an international level;

— Broader skills — Being part of an international team can greatly enhance your interpersonal skills and give you a broader perspective;

— A valuable experience — As more and more work teams cross national boundaries, having experience of working within an international context is becoming increasingly important. Experience of working as part of an international team within may be very useful to you in future roles;

— Increasing your creativity and flexibility — team working helps person to be more flexible, open to other ideas and teach to create new ideas. Research shows that heterogeneous groups are more creative than homogenous groups because team can generate a wider range of ideas.

RECOMMENDATIONS
FOR WRITING A RESEARCH PROJECT

When presenting a project students must do the following:

1. The project is developed in a group of 2–4 students.

2. Each group independently chooses business idea. Business idea should correlate with the achievement of the Sustainable Development Goals.

So, you must start your business on the principles of environmental friendliness, social responsibility and high-quality corporate governance.

3. The project is developing for a new, just created enterprise.

4. A project is being developed for a potential foreign market. It is necessary to justify which country, field of activity and why you have chosen).

5. Content of presentation — a brief business plan with calculations and analysis:

— Team (organization structure, main roles);

— Business idea explanation (what problem is solving);

— Business model explanation (how business earns money, etc.);

— Justification of the country (why do you enter the market of this country, conditions of doing business, incentives, etc.);

— Target audience;

— Competitive analysis;

— PESTEL abalysis;

— TOWS analysis;

— Marketing Plan;

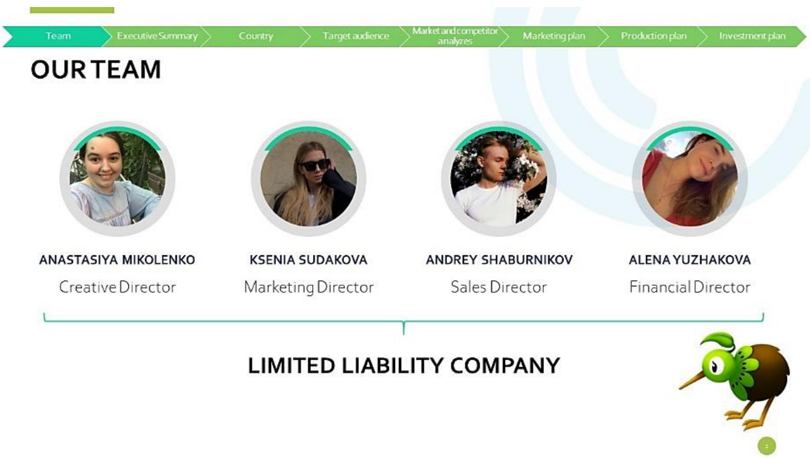
— Production Plan;

— Financial Plan;

— Capital Budgeting.

6. Use tips for perfect presentation (Chapter 4). Presentation time — 15 minutes.

Example of presentation



Team > Executive Summary > Country > Target audience > Market and competitor analyzes > Marketing plan > Production plan > Investment plan

OUR TEAM: ORGANIGRAM

BOARD OF DIRECTORS

Creative Director | Marketing Director | Sales Director | Financial Director

Team > Executive Summary > Country > Target audience > Market and competitor analyzes > Marketing plan > Production plan > Investment plan

We strive to attract the attention of the world's population to the problem of ecology and to encourage investors to solve this problem

Problem

There is a global waste problem in the world.

So, our business solves the problem of long-term degradable waste. For example:

1) Plastic bags
2) Medical masks
3) Paper and plastic cups

Business idea

Our mission: "We work to give people the opportunity for a healthy and happy future and make the world greener"

We propose the following products on the company's official website:

- Shopper (Small, Medium, Big size)
- Children's T-shirt made of cotton knitwear
- One Size Adult T-shirt made of cotton knitwear
- Cotton Medical Masks with flower seeds
- Reusable Coffee Cup with our logo

Cost-effectiveness

Investment costs = 8154 NZ$
Cost of the capital (r) = 4%
Revenue, NZ$

Current costs = 70% of the revenue
NPV = 32 069 NZ$
PB = 1 year 3 months
IRR = 84%
BEP = 10000 NZ$

NEW ZEALAND is the best country to establish a business

1. 1st place in the rating of Doing Business since 2012
2. Low inflation rate (1.5%)
3. Low Reserve Bank of New Zealand interest rate (0,25%)
4. Business registration is the same for New Zealand citizens and for foreigners
5. New Zealand has a well-developed and well-functioning banking system

TARGET AUDIENCE

People aged from 15 to 65 years → 3.210.153 people

Young people aged 15-30 years	People aged from 31-50 years	People aged from 51-65 years
They know about fashion trends in society and want to protect nature	They make sure that their children live in good environment	They strive to help nature

Team > Executive Summary > Country > Target audience > Market and competitor analyzes > Marketing plan > Production plan > Investment plan

COMPETITOR ANALYSIS

Company	Range	Average price	Place of sale
Ecobags New Zealand	Different types of bags, food packaging	Bags for 8$	Offline and online stores, market places
Back to basics NZ	Hats, face masks, cotton bags, jute bags, bottles and accessories	Bottles for 55$ Bags for 27$ Masks for 10$	Offline and online store
E-community	Eco-bags, face masks, eco-bottles, clothes	Bottles for 15$ Bags for 15$ Masks for 1$	Official website

Team > Executive Summary > Country > Target audience > PESTEL analysis > Marketing plan > Production plan > Investment plan

PESTEL analysis

Political

Tax policy

↗ tax ↘ income

→ subsidies

Economic

Inflation

↗ inflation ↗ prices

→ events

Sociocultural

Life level

↘ life level ↘ production

→ promotional tools

Technological

Innovation level and IT-security

↗ factors ↗ equipment + services

→ high-tech products + save purchase

Environmental

Air quality

↘ air ↗ sanctions

↘ production → reorganization

Legal

Laws

↗ laws → work

MARKETING PLAN – 4P

PRODUCT	PRICE
*Shopper (Small size)	10 NZ$
*Shopper (Medium size)	15 NZ$
*Shopper (Large size)	20 NZ$
*Children's T-shirt	27 NZ$
*Adult T-shirt	40 NZ$
*Medical Masks with seeds	1 NZ$
*Coffee Cups	15 NZ$

PLACE

Official website

PROMOTION

Instagram

Team > Executive Summary > Country > Target audience > Market and competitor analyzes > Marketing plan > Production plan > Investment plan

PRODUCTION PLAN

Our Location:

New Zealand

Our Production Technology:

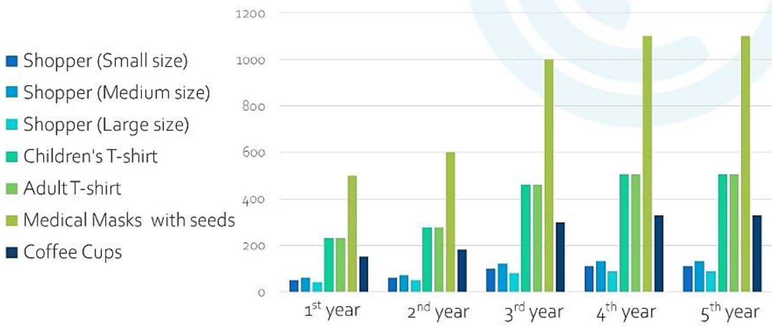
We sew and make our own production. We buy coffee cups from suppliers and paint them with acrylic paints

Characteristics of Derivative Capacities:

- Sewing machine
- Overlock
- Embroidery machine

Team > Executive Summary > Country > Target audience > Market and competitor analyzes > Marketing plan > Production plan > Investment plan

PRODUCTION PLAN



Team > Executive Summary > Country > Target audience > Market and competitor analyzes > Marketing plan > Production plan > Investment plan

TO START A BUSINESS WE NEED 8154 NZ$ (INVESTMENT COSTS)

Potential investors

1. Government
2. Regional Business Partner Network
3. Callaghan Innovation

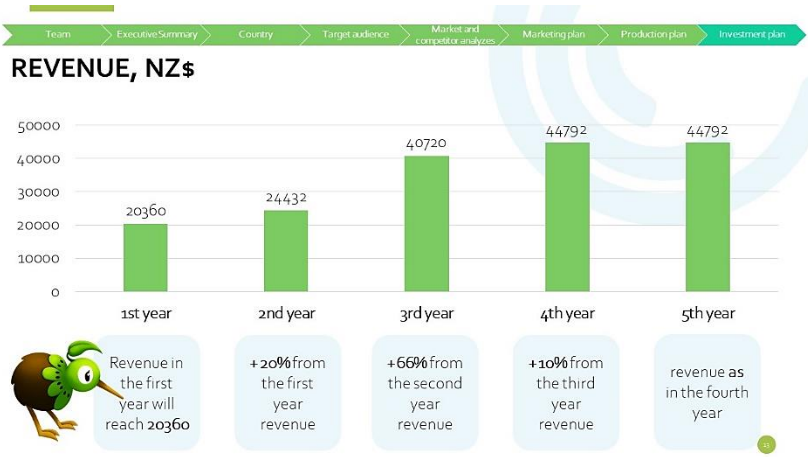
A bank loan

We plan to take out a 4000 NZ$ loan from ANZ Bank, New Zealand's largest bank. The remaining amount is our own funds and the help of investors

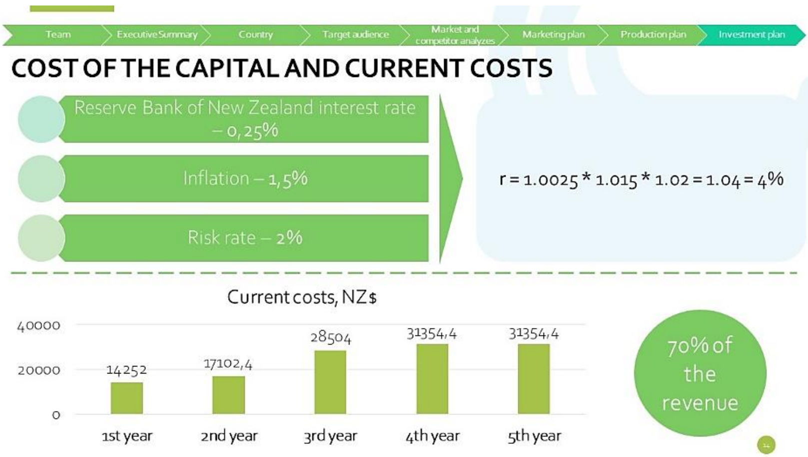
Callaghan Innovation

Regional Business Partner Network

ANZ



Team
Executive Summary
Country
Target audience
Market and competitor analyzes
Marketing plan
Production plan
Investment plan
REVENUE, NZ$
50000
40000
30000
20000
10000
0
20360
24432
40720
44792
44792
1st year
2nd year
3rd year
4th year
5th year
Revenue in the first year will reach 20360
+20% from the first year revenue
+66% from the second year revenue
+10% from the third year revenue
revenue as in the fourth year



Team
Executive Summary
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Marketing plan
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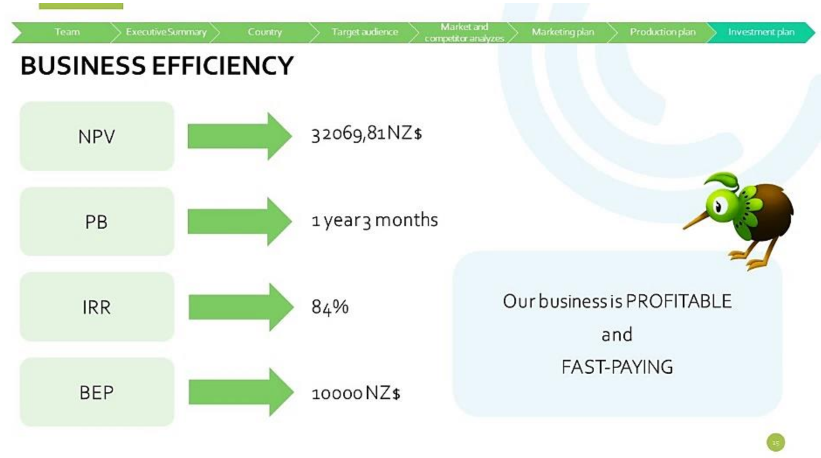
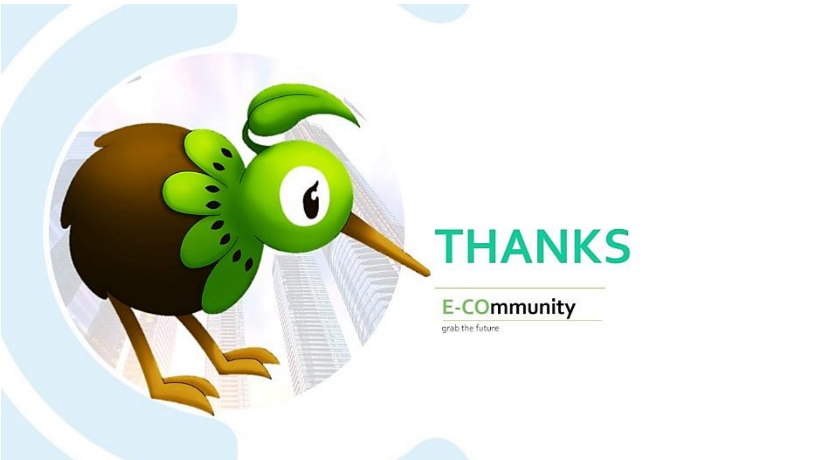
Investment plan
COST OF THE CAPITAL AND CURRENT COSTS
Reserve Bank of New Zealand interest rate – 0,25%
Inflation – 1,5%
Risk rate – 2%
r = 1.0025 * 1.015 * 1.02 = 1.04 = 4%
Current costs, NZ$
40000
20000
0
14252
17102,4
28504
31354,4
31354,4
1st year
2nd year
3rd year
4th year
5th year
70% of the revenue


Team
Executive Summary
Country
Target audience
Market and competitor analyzes
Marketing plan
Production plan
Investment plan
BUSINESS EFFICIENCY
NPV
32069,81NZ$
PB
1 year 3 months
IRR
84%
BEP
10000 NZ$
Our business is PROFITABLE
and
FAST-PAYING


THANKS
E-COmmunity
grab the future

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*Congratulations for sticking to the very
end of this book in order to read because now you know a lot of new
about international entrepreneurship!*

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55 лет

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ЭКОНОМИЧЕСКИЙ УНИВЕРСИТЕТ