



UNIVERSITY OF STELLENBOSCH

Graduate School of Business

Global Business Strategies

Mastering the Global Challenge

Individual Assignment

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Declaration

Hereby I, Alexander Markowski, declare that this work is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously in its entirety or in part been submitted at any university in order to obtain an academic qualification.

Bellville, 2002-11-04

You do not choose to become global. The market chooses for you; it forces your hand.

– Alain Gomez, CEO, Thomson, S.A.

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Introduction

1.1 Setting the scene

Globalisation does not only affect companies all over the world, it hits companies who never intended to go global.

This assignment will focus on a sales department of Siemens in Hamburg, Germany. Since the hierarchy of the company prescribes for the department to do business only in the surrounding of Hamburg, it has been far away from being global. The business partners on the other hand were based in Hamburg, but present all over the world.

Environmental frameworks differ in most of the 230 countries worldwide. Sometimes, the culture and values within one country are not the same all over. Culture, politics as well as the legal environment can change rather quickly sometimes.

1.2 Objectives

This assignment is not a description of a global business strategy of a company. Since many case studies have been written about topics like that, this assignment will rather describe how globalisation affects businesses that are neither global nor prepared for that.

It is not on the company to decide whether to go global or not. Every business has to be prepared to act global by having at least on global strategy in mind. Therefore, issues and problems of the day-to-day business will be discussed in this paper. As a result, recommendations to improve the situation will be made and evaluated.

1.3 Roadmap

After introducing Siemens as a company and ICN especially, the daily business will be discussed. In doing so, global business issues affecting the daily business will be discussed.

This document will focus mainly on the environmental framework of international business transactions. Thereby evaluating these issues in terms of culture, policies and legal environment. It is very likely to stumble over one or the other issue and most of the time it is something so common and easy that nobody spares a thought about that.

Economic issues will be evaluated as well, before practical examples will be utilised in order to achieve a connection to the every day business.

Business government relationships and international business functions will be left out in this document. A conclusion will be drawn at the end of the document and specific recommendations regarding the mentioned issues will be made.

Environment

2.1 Siemens

Siemens is one of the most international organizations on earth. The 484,000 employees in more than 190 countries are linked via a vast network that spans the globe, providing short paths to our customers and partners and ensuring continued international growth. While Europe is the home base, they are expanding very rapidly in the North American market. Siemens also has a strong position in Asia, the world 's fastest-growing economic region.

Siemens was founded in 1847, and went public in 1897. It is a german based company, with sales in 2002 of more than €87 bn and a profit of €2 bn. The company is split into the following business units:

- Information and Communication
- Automation and Control
- Power
- Transportation
- Medical
- Lighting (Osram)
- Infineon
- Financing and Real Estate

2.2 Information and Communication Networks

Information and Communication Networks (ICN) is, like Information and Communication Mobile (ICM) and Siemens Business Services (SBS) as well, part of the Information and Communication (I and C) business unit. The main business lies within the following environments:

End-to-End-Solutions for Speech-, Data- and Mobilradiotransmission: Products, systems, solutions, service and support in order to build and maintenance company- and carrier-networks. Network planning, financial consulting and end-user training is included in the range of services.

Information and Broadband: Solution provider of IP- and data-networks for multiservicenet-works and broadbandtechnik.

Communication on Air: Solution provider for mobile- and radionetwork, connection to land-lines, development of intelligent network solutions.

Wireline Network Communication: Kommunikationssystem Hicom and digital distribution system EWSD: Call distribution for every size of business.

Call Center Solutions: Solution provider of products, solutions and applications for customer specific call centers.

Transport Networks: Transmissionnetworks for national and international information high-ways. network management solutions.

If you think that the word “solution” is used very often within ICN, you might be quiet right. Since 2001 the word “solution” is the flavour of the season.

2.3 Account Management

Account management is a Siemens strategy to satisfy the needs of larger customers. Large customers need more intensive care for increasingly complex solutions. Therefore, a team is built around a Account Manager. This multifunctional team consists of sales personell, engineers, accountants, communication consultants as well as project- and order managers.

The Structure is shown in figure 2.1. Since Siemens has established a matrix organisation, the account manager is not the superior for the team.

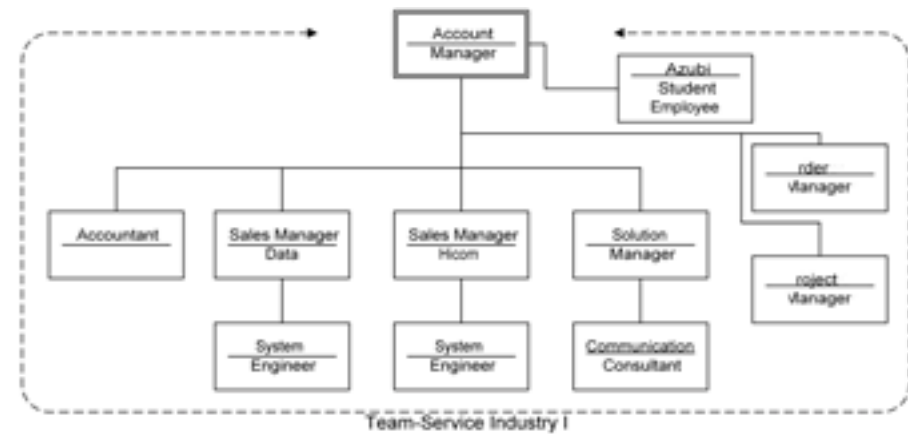


Figure 2.1: The account management team

Going into detail and listing job-descriptions of the various team members does not make sense at this point. It shall just be mentioned, that the account management structure is aligned to the customers structure, i.e. when the account manager speaks to the IT manager, the sales manager will speak to the person that is responsible for the specific topic.

2.4 Customers

Since every account management team is keeping only large customers, they will deal with approximately 10 customers.

The team that serves as an example in this text, is focussed on 10 customers in the area of Hamburg, Germany. The customers are mainly in the service-industry, a brief description of every customer follows.

Otto Versand GmbH & Co: Whoever hears the word Otto thinks first of the Otto Versand.

As a matter of fact, Otto is the world's mail-order-business leader. All together, however, Otto's business consists of four supporting pillars - next to universal mail-order, are specialty mail-order, wholesaling (e.g. cash and carry markets), and over-the-counter retail (retail trading/shops). These four pillars are increasingly being complemented by e-commerce (internet-retail) and after-sales service companies (e.g.

Hermes Delivery Service). In 2001 they produced a total revenue of €23 bn with a total staff of 79,137 in 60 countries.

Kühne & Nagel Germany: The particular strength of the Kühne & Nagel logistics group derives from a network of company-owned bases in 90 countries, the availability of all transport modes, highly efficient IT infrastructures, and a perfectly interlocking range of services. From its days as an innovative big-league forwarder with just-in-time concepts, Kühne & Nagel has developed into a global specialist in supply chain management solutions with a staff of 17,500 people worldwide. Turnover in 2001 exceeded €4bn

Still GmbH: Still's main business is sales and service of forklift trucks and warehouse equipment in over 150 locations around the world. Sales in 2000 were €1 bn with a total staff of 5000 employees. They are a subsidiary of the Linde AG Group.

HHLA: Founded in 1885, HHLA (Hamburger Hafen und Lagerhaus AG) is the largest single company in the marine transport business in Germany. The company has always been the leading operator in the Port of Hamburg. This is not solely a matter of the size of its terminals and its cargo handling facilities. The group also holds an undisputed lead as an employer offering about 3,300 jobs in the group, and for technical and operational innovations. In 2001 the group revenue was €490 m.

Hamburger Elektrizitätswerke AG: HEW is the former state owned energy, heating and gas supplier for Hamburg. With a revenue of €4 bn and only 4,125 employees, HEW is a major player in the German energy market.

Hamburg-Süd: The Shipping Group Hamburg Sued (Hamburg-Südamerikanische-Dampfschiffahrtsgesellschaft) is a member of the Oetker Group of Companies, with headquarters in Bielefeld, Germany. The Oetker Group itself comprises about 200 firms with an unusually broad diversification. In addition to the core business of foodstuffs, the activities of the Oetker Group range from breweries to sparkling wine producers, from merchant banks to an insurance company and from top European hotels to shipping. Hamburg-Süd plays an important role within the Oetker Group. Currently, Hamburg-Süd employs

3000 people (ashore and at sea), makes a turnover of €2 bn. They currently utilise around 100 vessels from which they own 19.

Dumrath & Fassnacht: Researching, structuring and informing are the core businesses of Dumrath and Fassnacht. They are - amongst other things - responsible for the Hamburg yellow pages and several phone books. The services are mainly based in and around Hamburg.

Jahreszeiten Verlag GmbH: Jahreszeiten Verlag is the Ganske Verlag Group base for the publishing group's range of magazines and handles the advertising and distribution for all of them. With its 10 glossy magazines, the company is one of the largest German publishers of popular magazines. Its strengths are magazines targeted at women, with the flagship FÜR SIE as well as PETRA and VITAL; practical homemaking with ZUHAUSE WOHNEN and SELBER MACHEN; and leading style magazines such as DER FEINSCHMECKER, MERIAN, COUNTRY and ARCHITEKTUR & WOHNEN. In addition to these products, the company puts out many special publications in the form of periodicals, special editions, books and electronic media.

Fielmann AG: The name Fielmann stands for fashionable glasses at a fair price. Fielmann is the market leader in Germany and Europe's largest optician. Thirteen million people wear glasses from Fielmann. One in three pairs of glasses sold in Germany comes from Fielmann. The company has deep roots in the optical industry and operates at all levels: as a producer, an agent and as an optician. The revenue in 2001 was €620 m

Schneider Versand GmbH: Schneider started in 1965 with a catalogue for company gifts. Meanwhile, they are a customer-orientated trade-company. Their main focus is still in the company free-gifts trade. With over 2800 products and 4 main catalogues, Schneider is the leading company in this business within Germany.

2.5 Suppliers

Siemens itself offers a broad range of own products and services. While the core business Siemens ICN was the Hicom product line (communication systems) in earlier years, the focus shifted to Computer Telephony Integration (CTI), meaning utilisation of data networks for voice calls. This new product line is called Hipath. Apart from Hicom and Hipath, the product range became smaller due to outsourcing of business units or shifts in the demand of the customers.

From time to time the sales personnel is forced to get products from external suppliers. Fujitsu-Siemens Computer (FSC) is a hardware vendor in the IT business. Since only 50 % of the company belong to Siemens, it is not really in-house any more, and the relationship is regarded as being more external. The core advantage of being a close supplier to Siemens' main business is therefore gone and FSC has to compete with other suppliers in the market.

Many Customers also demand products that have established themselves as market leader, like Compaq, Sun Microsystems, Cisco and 3com to mention only a few of them. Most of these companies are not only supplier to Siemens, but also competitors in some cases. This poses not a big threat itself, since they are mainly focussed on the product side, and not on the solution side. Siemens has generally speaking good relations to every supplier of related products, in order to offer the customer the best "solution".

Environmental Framework

3.1 Culture

The cultural aspect of doing business seems to be the most important and interesting, but sometimes the most neglected ones. In general, cultural issues become more, not less important. Most of the countries and ethnic groups tend to separate in order to prevent following the American way.

Most people doing business internationally agree that cultural difference exists but disagree on what they are. Culture consists of specific learned norms based on attitudes, values, and beliefs, which exist in almost every nation.

Since people belong to national, ethnic, professional and organisational cultures, it is a rather elusive field of study. A nation might be a useful, but not perfect, cultural preference for international business, since a nation shares essential attributes such as values, language and race.

Cultural formations are set in an early stage of every person's life, since transmitted in most cases from parent to child. Changes in the cultural value system take only place by choice or imposition (cultural imperialism) or by contact with others.

In addition to national boundaries and geographical obstacles, language is a factor that greatly affects cultural stability. When people from different areas speak the same language, culture spreads easier. A common language within countries serves the purpose of a unifying force.

3.2 Politics

Aggregating, or bringing together, different points of view that are articulated by politicians, individuals, businesses or special interest groups, establishes political policies.

Modern societies are pluralistic politically, meaning different political ideologies¹ coexist, because of no generally accepted ideology. This might be due to differences in language, ethnic background or religion and affects the political system.

A government represents a politic system. The two extremes in this regard are democracy and totalitarianism, or democratic and non-democratic governments. This makes a political system more or less stable, leading to political risk, an important factor for businesses. Governments also tend to influence the company. A minimum interference is given in an individualistic ideology; a dictatorship in economy is the result of a communitarian ideology.

3.3 Legal

Legal systems are closely related to the political system. Countries in transition from a totalitarian to a democratic system, often struggle to develop a legal system in consistency with the market economy. Political systems can be divided into three kinds:

Common Law: A common law system is based on tradition, precedent, custom and usage, and interpretation by the courts. (Example: United States and United Kingdom)

Civil Law: A civil law system, also called codified legal system, is based on a detailed set of laws organized into a legal code. Rules for conducting business transactions are part of the law. (Example: France, Japan, Germany and over 70 other countries)

Theocratic Law: A theocratic law is based on religious precepts, such as Islamic law.

What impacts have laws in the international business? National law affects all domestic business activities within that country as well as cross-border activities. International treaties and conventions, like tariffs, may have impact on some cross-border transactions.

¹Political ideology is a body of constructs (complex ideas), theories, and aims that constitute a socio-political program

3.4 Economy

Understanding economic environments of foreign countries and markets may be crucial in order to predict the future performance of the company. Countries can be classified by GDP, major region, or economic system, just to mention a few criteria. While the GDP is most commonly used to divide countries into high, middle and low income countries, a division by region can be useful to compare similar economic conditions. The economic system merely states who owns the resources that are engaged into economic activity.

Looking at factors affecting the activities of a company, like economic growth, inflation and deficits and surplus might not prevent wrong investments or losses due to changes in the economy, but it makes companies more aware of the economic situation in a foreign country.

3.5 Practical Examples

Since the account management team had to deal exclusively with German customers, little problems should be expected from Cultural, Political, Legal Economic environments outside the country.

Selling Personal Computer (PC) to the Still GmbH for example looks like a rather easy task, since nowadays every discount store is capable of doing that. Still orders computers for specific countries within Europe. Almost every country in Europe has its own language, and therefore the PC needs to be customized. There are different keyboard layouts for every language, to fulfil the need of the writer to type special characters (e.g. œ Œ æ Æ å Å ø Ø ĺ Ł ó ò ô õ ö ő ő ç). The Software (e.g. Operating System and Office Applications) needs to be in the local language as well. As part of their multicountry strategy, Microsoft localizes many of its software products to reflect local languages.

Sounds easier than it is. Even if the order was forwarded correctly to the supplier, there can be a problem with the web-based ordering system or an incorrect delivery e.g. Danish instead of Norwegian or Swedish keyboards. This is not exactly helpful in pleasing the customer.

The complaints about this issue are directly forwarded from the local office within the country to the account management team in order to save time and solve the problem directly. Since most of the team members are either not properly trained in the English language or

not forced to use it very often, a new problem evolves. The communication with the customer is then limited to a small number of team members, usually not the person who is in charge of the process. The language limitation is not only valid for incoming customer calls, it poses also a problem with calls that have to be made to and received from foreign countries.

Not only normal complaints have to be handled. If a part breaks down, a spare has to be delivered. This is normally not a problem, since the guarantee covers this issue. In operating outside the borders of the country, one will be surprised how limited guarantees can get. Not all guarantees cover parts that are utilised outside the country.

Since every customer demands exceptional service when it comes to delivery and installation, this has to be handled and managed by the account management team as well. By handling international shipments, the national customs automatically becomes enemy number one. Especially the United States Custom demands very detailed information, different tariffs for different kinds of parts and a number of extra forms (for example an insurance in case of not paying the customs fee of \$ 800). It is somehow very funny to insure the non-payment of \$ 800 while shipping a multi-server system worth more than €1 m. The biggest problem is the fact, that these activities are not done very regularly, since the whole department is more than domestically orientated. Every operation requires therefore extensive research inside and sometimes outside the company.

In dealing with the United States for example, time differences can become a very annoying issue. Getting calls from the German representative on location at 2 am while he is just about to have his morning coffee in the States is quite disturbing. Trying to reach someone abroad can be even more difficult due to different time-zones, lunch times and business hours. By the time you finally get someone on the other end of the line, a lot of effort has been wasted in the process.

While the period up to 2000 was described as an IT boom, things changed in 2001. Spending on IT was cut all over the world, while other businesses were not affected at all. This is a very good example for a world economic problem affecting only one industry. Even if predicting the problem was almost impossible, the impact was a big one.

Conclusion

By taking into account that there are around 230 countries on the five continents, one has to be prepared for international business relationships.

By looking at the examples, several problems and issues can be identified.

Keyboards: have been delivered in the wrong language, forcing unnecessary logistic efforts since the customer demands a specific keyboard (most of the time in the national language). This is a problem often noticed with additional features or special customisation for specific countries and regions.

Software: was not in the right language, i.e. the product was not customized properly.

Language: itself is not only a problem when it comes to software and hardware issues, it is also a barrier in communicating with people abroad, since they tend to speak English instead of German.

Time differences: are present all over the world. Managing them is somehow more difficult.

Customs: are a issue on their own. More and more countries start to establish trade fees and taxation for certain products. This is disliked by the WTO, but common practice. It makes trade a little bit harder.

Economy: is a very elusive field of study. Since most companies are not really able to influence national or global economies, this is something to monitor instead of acting on it.

Guaranties: are a very sensitive issue. Since cost pressure is high, quality is going down, causing defects that are not covered in most standard guaranties.

The problems can be linked to specific root causes. The first root cause is the supplier; most of the time, he is responsible for customisation of software and hardware delivered. The engineers and sales managers should also check the conditions regarding guaranties. With a reliable supplier, the correct customisation and delivery can be given as granted. The second root cause seems to be the employees itself. Problems arise mainly in situations with foreign languages like English and in time differences between the different countries. The third and last root cause can be identifies as utilisation of internal resources. The larger an organisation gets, the more difficult it becomes to find the person responsible for special fields. Especially with operations that are not done regularly, a lot of time is wasted in solving the problem.

Issues in regards to economics and customs can be identified as well, but apart from being aware of these issues and knowing about their influence, no action can be taken to change these impacts on the business.

Recommendations

The international business language is English at the moment. Therefore, every employee has to be trained properly in this skill. Especially in Germany, having only a single language, practice in speaking English is of rather short supply. By encouraging the employees to participate in weekly English courses and giving him time to do so, the language problem can be solved in the long run. This is also in the interest of the employee, since it upgrades his skills for future jobs to come.

Choosing a supplier becomes more and more critical, since bad performance in this field reflects badly on the Company itself. The performance of suppliers should be monitored and evaluated frequently, and the best option should be chosen. If the customer demands a certain supplier, he should made be aware of the shortcomings of this deal. The sales conditions, especially guaranties, have to be very clear in order to do business without future surprises. Otherwise, the risk of incurring unexpected expenses rises. At the end, we have to find the best solution for the customer, since he relies on us as his supplier of products and services.

Time differences are not really easy to handle, especially when the normal business conducted takes part in local regions mainly. By giving employees more freedom in choosing their working hours, provision for this can be made.

Since some of the tasks needed in international operations are not done regularly, it takes up some time and resources. By utilising the capabilities that Siemens has internally, these issues can be solved in a more professional and faster manner. The biggest problem in a large organisation like Siemens is to find the right person or information. This is not only a problem in international operations but in domestic day-to-day business as well. Utilising Information Technology to a greater extent could solve this problem in the long run. But since some employees struggle to use standard office software, the problem will only shift, instead of being solved.

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