

Introducing a Spanish Business in the United States of America

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Introducing a Spanish Business in the United States of America

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By Jorge Beltrán

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This study will focus on the possibilities and challenges that the American market offers to a Spanish business. The current crisis in the Spanish economy is forcing the companies towards new markets, and among all the options (China, South America, India...) the United States is one of the top countries because, despite the economic problems that the US is now facing, it is still the first country in the world, economically and technologically speaking. The main objective of this thesis is to study where, when, why and how a Spanish company can be introduced into the American market, and based on that knowledge, we will create a fictional company that will possess all the qualities that a Spanish company needs to have in order to succeed in this market.

Therefore, the work will be divided in 3 parts. First we are going to start with a brief introduction to understand the reasons why America should be our choice among all the other potential markets such as Asia or South America. We will also review briefly the Spanish influence in the United States and vice-versa.

Second, we will do a study of the American market and culture in a macroeconomic approach, studying different factors, such as political stability, laws, regulations, differences within the country, etc. In contrast with that we will compare it with the Spanish situation. We will also focus on the cultural awareness that a Spanish investor needs to have in order to succeed in a business in the United States.

The third and last chapter will be based on the information gathered in the second chapter. We will create a fictional company that has all the keys and features needed in order to succeed in America. Using this case study as an example, it will allow us to focus on this problem in a microeconomic way, answering the questions where, when and how. We will choose, based on the previous data, which state and which economic sector will be the ones in order to have the best chance to succeed. Once we know where we will invest, we will focus on the strategic side of the problem (entrance strategy, logistics, organization, providers, advertising, Staffing...) and the specific regulations and paperwork that we will have to face in our case.

To conclude, we will sum all the overall knowledge that we have learned and focus on the most important points, in order to create a guideline for a Spanish investor.

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I. Introduction

Cultural Influence

Spanish influence in the United States

As a country based on immigration, the actual United States is a melting pot of different cultures due to its people's different roots. Spanish heritage is, after the British culture heritage, the second most important legacy that remains in the country.

The origin of this heritage comes from two different places; The "Spanish influence" and the "Hispanic influence". The Spanish influence, almost forgotten by some Americans, is the direct and historic influence from Spain's former American colonies (all south-west and south of North America). The indirect influence, via south-American immigrants we will call it the "Hispanic influence"

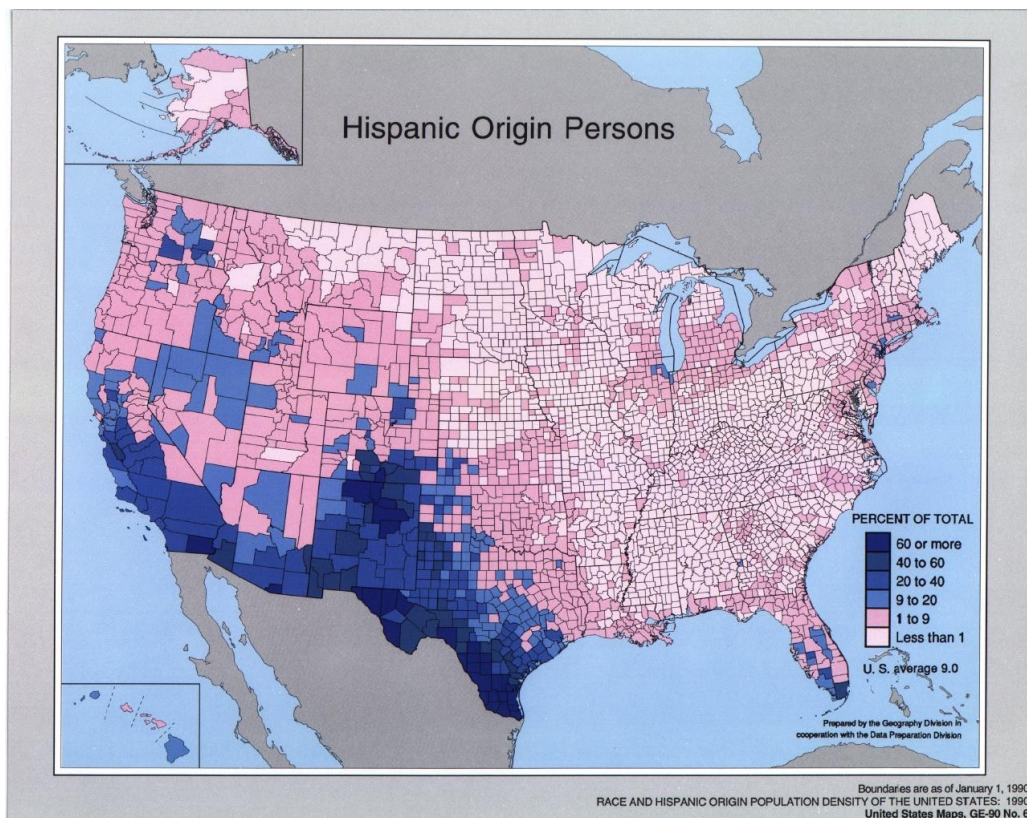
Despite the big and strong presence of the Spanish in the North-American continent in the early centuries of America's conquest the Spanish cultural heritage seems to have vanished and been absorbed by the British culture. Spain had an important role in the colonization of the west and also in the US Independence war, in helping fight the British, but now the only thing present in the American culture seems to be the names of cities and states. This lack of Spanish cultural background, despite the centuries of Spanish military control, is due to one main reason: Spanish immigrants were outnumbered by Northern-European immigrants and therefore culturally absorbed. The Spanish presence in the United States was mostly focused on military and religion, Spain had little intention of populate and settle the land of Spanish presence, as the Spanish empire was wide and large, and they mostly focused on the wealthiest and rich lands of South America. There was no remarkable immigration exodus movement from Spain in the early 20th century as the Irish or Northern-European one. After the Second World War, some Europeans as the Italians immigrated but that didn't happened in Spain

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as it was not “liberated” from the dictatorship that isolated the country from the rest of the world.

But, as the Spanish culture was disappearing slowly along the centuries in the American continent, another Spanish-based culture, the Hispanic culture, rose. This rich and mixed culture between the Spanish and the South-American natives will spread across of the North American continent and will start to settle and have an important place in the United-States society from the second half of the 20th century, mostly from Cuba and Mexico. Nowadays, the Hispanic population is about 15% of the total population and it is the fastest growing ethnic minority in the United States. In some states they are the biggest ethnic group, such as California (44% of Hispanic population) and even the majority of the population (Florida 65% of the city’s total population). The Hispanic population is mostly Mexican (65%), followed by Puerto Ricans (9%) ,Cubans (4%) and Others (22%). This boom of immigration in such a small space of time is not just making the “Americanization” of this ethnic group go slower, but it is even making America get into a “Hispanization” process that will get Americans and Spanish culture, despite indirectness of the cultural influence, get closer to each other.

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American Influence in Spain

After World War II, the United States of America spread its culture all over the democratic countries, especially among the members of NATO and the western European countries, which, destroyed by the war and rebuilt thanks to the Marshall plan. These countries saw the United State as a role model and embraced deeply its culture. Meanwhile, Spain was under a dictatorship that kept Spain in total autarchy for 20 years, until the early 60 when the country started to open to the rest of the world, and the relationships with the United States became friendlier due to shared dislike towards the Soviets and the interest of the United States to prevent Spain from falling into the Soviet side. After the death of Franco in 1975, and especially during the 80s, Spain opened suddenly to the world and received an enormous amount of incoming culture from Capitalist/democratic countries that turned Spain from a poor and autocratic country into an American Friendly and prosperous country in just 10 years. Since the 80s, all the younger generations of Spaniards

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have been exposed to mostly the same American culture, products, T.V. shows, fashion, food, etc..since they were born, that the Americans of the same age. This makes the gap between both countries more and more small, and creates a link that helps make communication and integration easier for both sides.

Why the United States?

This question may seem obvious 20 years ago, when the United States , once the USSR fell apart, had a clear leadership without any discussion and any investment in the US may seem as the most logical and wise movement at the moment. Now things are changing, new countries as China, India, or Brazil are rising, new and lucrative options appear while the United States is struggling in financial and economic problems within its borders. So why should we invest in America instead of going for the new investment options that are appearing all over the globe?

Investment security

The United States is a unique country in the world for investing, as it is a place where you have a good combination of political stability, homogeneous population and strong military force. For example, in Europe, despite the political stability of the region, there are still some active fights within the border of countries caused by nationalisms, politics and religions that may put in danger the investments. This fight of the different parts of the population can cause terrorism (Ireland, Spain, and France), segregation of new countries (Montenegro) and even the rise of extremist politic forces to power, as Nazis (Greece), which is not good for any business. Also, as the torchlight of Capitalism in the world, the chance of getting your business nationalized (the biggest fear of an investor), which seems very likely in south-American countries as Venezuela or Asian countries, is inconceivable in the United States. The American

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financial markets and the Dollar itself, despite the last economic crisis and the break of trust in the markets, it is still the most powerful in the world. But even if things are not going very smoothly in the American Economy, the situation of a State bankruptcy (As happened to the Greek or Argentinean government a few years ago) is unthinkable, even in the worst of the scenarios.

Infrastructure

The US has an infrastructure all along the country that will support the investment. Highways, ports, airports, electrical supply... is everywhere. In countries that are still developing you may lack this quality of infrastructure that could be decisive for your business in order to succeed.

Demography

	Population	GNI per Capita	IDH
USA	308.745.538	\$47.390,00	0,91
CHINA	1.343.239.923	\$4.382,00	0,687
INDIA	1.241.492.000	\$1.032,00	0,547

America has a population around 315 million habitants with a GNI per capita of 47,390 \$. The United States, compared to the China and India, it is a pretty small country with a small population but the inhabitants, even if less, they have more money to spend (more than 40000 \$ compared to China and India) which makes them to be a more attractive market. Also the higher HDI (Human Development Index), it does not just indicate that Americans will be more disposed to consume industrial goods, but also that the possible future employees have a better level of education, happiness and quality of life.

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Interesting market for Spanish Investors

The United States is, compared to the other options, a much more interesting market for Spanish investors because of two main reasons:

- The culture: As we said previously, the link between these two cultures is really high and they share a lot of values, as Democracy, Religion and Education of what we can call the “Western civilization”. There has been a big American influence during the last years in Spain, so in most of the cases, what does succeed in Spain is very likely to succeed in the United States. We can’t say the same thing for an investment in Asia or middle-east for example, where an investment becomes really risky because of the big difference between cultures. (For example, Spanish cuisine would be a great failure in the Indian market as it uses a lot of beef meat). Those barriers won’t exist with the USA and therefore our investment has biggest chances to succeed. As long as cultural and religious barriers don’t exist for importing our product the success will be just a matter of a good mix of marketing and strategy.
- Unexploded market: Spanish “trademark” is a pretty new concept in the world, about 10 or 20 years old (maybe more in Europe). Because of the dictatorship, Spaniards kept for themselves their culture and their products for most of second half of the 20th century, so this makes it a new concept, fresher and desirable, more “exotic” than other countries trademarks that have been over exploded during this last century, especially in the United States. One of the best examples about it may be the Italian cuisine, considered one of the best cuisines in the world, but that, due to the massive immigration of Italians after the World War Two, the

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market of Italian food is saturated. This causes that Italian food is seen in the United States as a medium-low level class of food. And, as you can find an Italian restaurant in every single city of the country, is it much harder to find a Spanish restaurant. That supposes both an opportunity and a challenge for Spanish investors, meaning that if they work hard enough on a good marketing for their products, they have infinite opportunities to succeed.

II. Study of the American market

Cultural awareness

We talked before about the cultural similarities that make Spanish and United States share a lot of their culture, but there is still some cultural differences that a Spanish Businessman should be aware of if he wants to succeed in his relationship with his American partners.

The list of cultural differences can be endless, but we want to focus just on the ones that does matter doing business, especially in the ones that may be loose and unimportant for the Spanish but really important to Americans, because this is where the conflicts appears.

	CULTURAL AWERNESS	
	USA	SPAIN
CONTEXT CULTURE	Low	High
SOCIAL STRUCTURE	Hierarchichal	Horizontal
YOUTH/SENIORITY	Youth	Seniority
CHANGE	New is better	Old is better

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FORMALITY OF CULTURE	Informal	Formal
RESULTS VS RELATIONSHIPS	Results	Relationships
DOING VS BEEING	Doing oriented	Beeing oriented
TIME PERCEPTIONS	Promptess	Flexibleness
RULES	Rigid	Flexible
INDIVIDUAL VS COLLECTIVE	Individual	Collective
POWER DISTANCE	Low	High
APPROACH TO MATTER	Direct	Indirect
PERSONAL SPACE	Large	Short
PLANING	Planners	Improvisers

The ones highlighted in red are those who may lead to interactions with Americans that may create awkward or uncomfortable situations that every Spanish business man needs to be aware of. That is why we are going to study them next.

Youth versus Seniority

The United States is considered a Youth culture. They enhance youthness in all the parts of the society, (even in Politics, where Barack Obama, only 50 years old, has been elected twice) and business is one of them. Opposed to Spain, where seniors are the image of power and younger are relegated into a second plan, (more with a support function or listening), a young businessman in the US gives an image of power and hard work. Therefore, for the public relations, as for the meeting with clients or providers of its company the Spanish businessman should look for a mix of experienced but also young and healthy representative of his company, or try to give him a look more young and informal, that apparently Americans enjoy more. That is what we are going to talk next.

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Formality of Culture

As we said before, the US is an informal business society that doesn't care that much about how things are said, but on how things are done. There are not too much social patterns of behavior compared to other countries; just a simple shake of hands will be enough in the beginning of the meeting. This may not seem a problem for a Spaniard in advance; as too much polite manners are never bad, but the time spend doing this formalities may be perceived as a loss of time by the American businessman who may like to get to business as soon as possible.

Approach to matter

Spaniards tend to set some small talk before every meeting, in order to create a more relaxed ambiance for the further talk, that may make more comfortable the speakers, especially when they are speaking about unpleasant or uncomfortable matters. It is also a matter of protocol, so don't doing it may be seen as a rude thing. This small talk in America may be seeing in America as a non professional way of losing time that is supposed to be spent in talking about serious business matters. So, due to this difference in the time perception, Spanish businessman should be as brief as possible in his speech.

Time perceptions

Time is perceived in different ways in both countries. In Spain time is more flexible, and it is not a big deal to enlarge it in order to get things done. Although, Americans, on the other hand, like to have things done as soon as possible, as time is perceived as a precious thing that needs to be used wisely. In a Spanish-American meeting situation, the Spanish businessman is, on the

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first place, expected to be punctual. Punctuality is also a requirement in Spanish business, but in America it is a very big deal and a late arrival may be considered as an offense and non-professional behavior. And in the second place, as we said before, he is supposed to get to the matter as soon and direct as possible, in order to minimize the time spent to the meeting and leaving more time to do other duties.

Personal space

Another important matter that the Spanish businessman has to respect in this business meeting situation is the control of the personal space between the two actors. In Spain the personal space between people is very short, they talk close to each other and there is even some physical contact as touching the other shoulder or arm while speaking. This is seen as a sign of friendship, trust and confidence in Spain but in the United States it may be seen as crossing the line between business and friendship which may be looked as unprofessional. The Spanish businessman should be aware of this and should try to leave at least one meter between himself and his listener. (He should also be aware of things like shaking the hand too strong)

Results vs relationships

All that we had said before has to do with the ways that businesses are done in each country. In Spain, the relationships that you build during a business are as important as the results that you may get. Spaniards are used to deal with business in a more personal level than Americans. One good example of it will be that a very important part of the budget for the marketing department will be expended on gifts to other CEOs of the client companies. Americans, as a result society, will rather spend this money on give an actual better service to the client, instead of trying to improve its personal relationship with the CEO. So, when dealing with Americans, it will be wiser to don't expend too much

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money on personal gifts or too much time on building a good relationship, as the client will prefer a good business deal, rather than a better personal treatment.

Planning

A big planning mentality is required to success in the United States. Going to meetings unprepared even if you master the matter that is going to be discussed it is felt like very unprofessional. All the parts in the meeting will have done a previous job preparing the meeting, so going without any or with just a few material to work on it will leave the Spanish businessman in a worst position to discuss with others, who may lead to a weakest position in the meeting.

Power Distance

In a more inside perspective within the company, knowing how hierarchies work will be really useful for a Spanish businessman in order to do business with a third company and to manage its own company. The power distance is really low, in the United States, that means that the boss has an “open door” policy that allows every employee to get in touch with him. In Spain, this is a really rare situation, even dealing with other companies, as you are supposed to deal with someone of your own level. Trying to connect with someone with a higher hierarchical status than you, may be seen as disrespectful, unprofessional and a loss of time. As this problem doesn’t exist in the United States, the Spanish Businessman if he feels like he needs to, can avoid speaking with the lowest levels and go further into the communication line just to the person he wants to speaks to. In the case of managing a company with American employees, the Spanish businessman shouldn’t be that cold and distant with lower level employees and more receptive in order to avoid conflicts.

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Where in the United States?

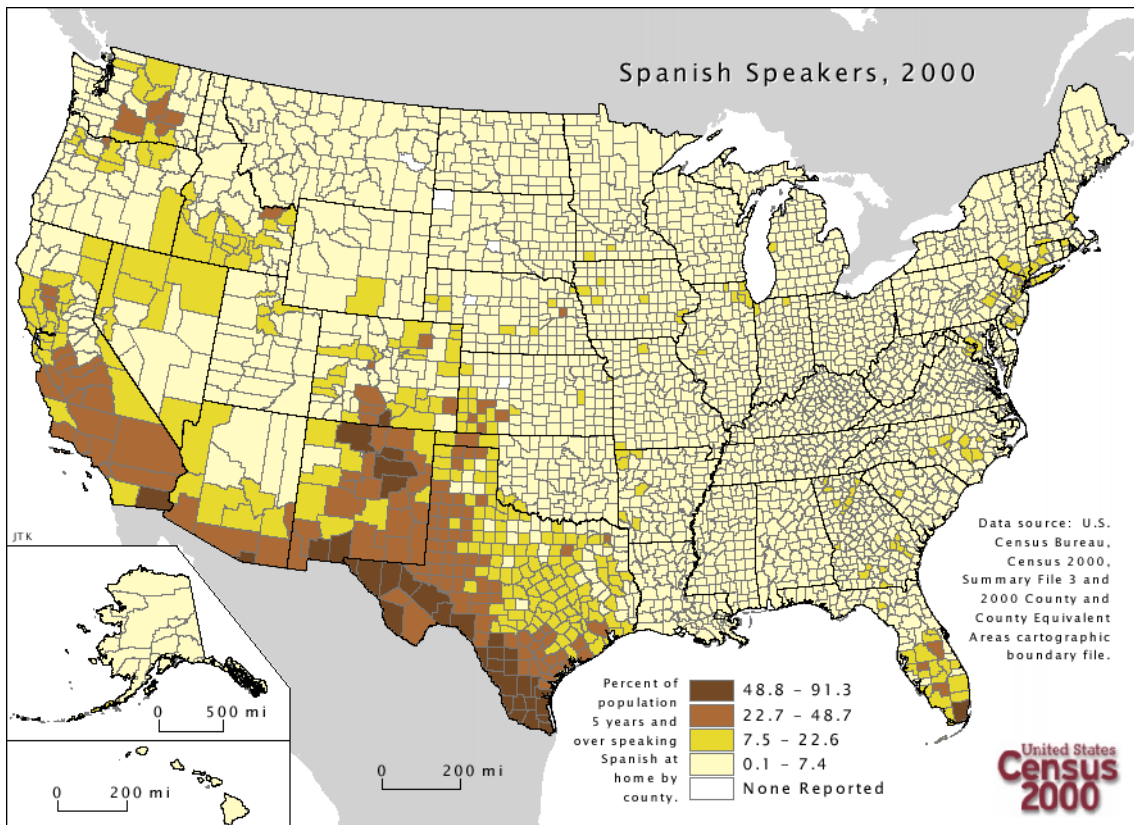
The United States is a huge country with 50 states with several differences between them. The choice of where to establish our business is one of the most important decisions that we have to make and it needs to be discussed deeply in order to make the best choice. The differences between states are not just cultural, (clients from Oklahoma will have, in general, different behaviors and tastes from clients from New York or California), but also legal, as the United States it is a federal country and laws can be really different from one state to another, which will have important variation in minimum wages, taxes, employment laws, etc.

We will select four states as our business possibilities for a deep comparison study based on several criteria. In order to answer the question we will group the American states in function of the Hispanic population and their urban population. Why? Because Hispanic population will feel more close to Spanish products, and the urban population, that we will consider and suppose to be more cosmopolite, open and interested in discovering new tastes, will be more interested in us.

The first group, the Hispanic populated states will be:

-California, Arizona, New Mexico, Texas and Florida.

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In this map we can see clearly where the presence of the Hispanic population is.

For the Second group, the states with high urban population, we will select the following states:

-California, New York, Illinois, New Jersey, Massachusetts, Michigan, Maryland, Delaware, Florida, North Carolina and Georgia

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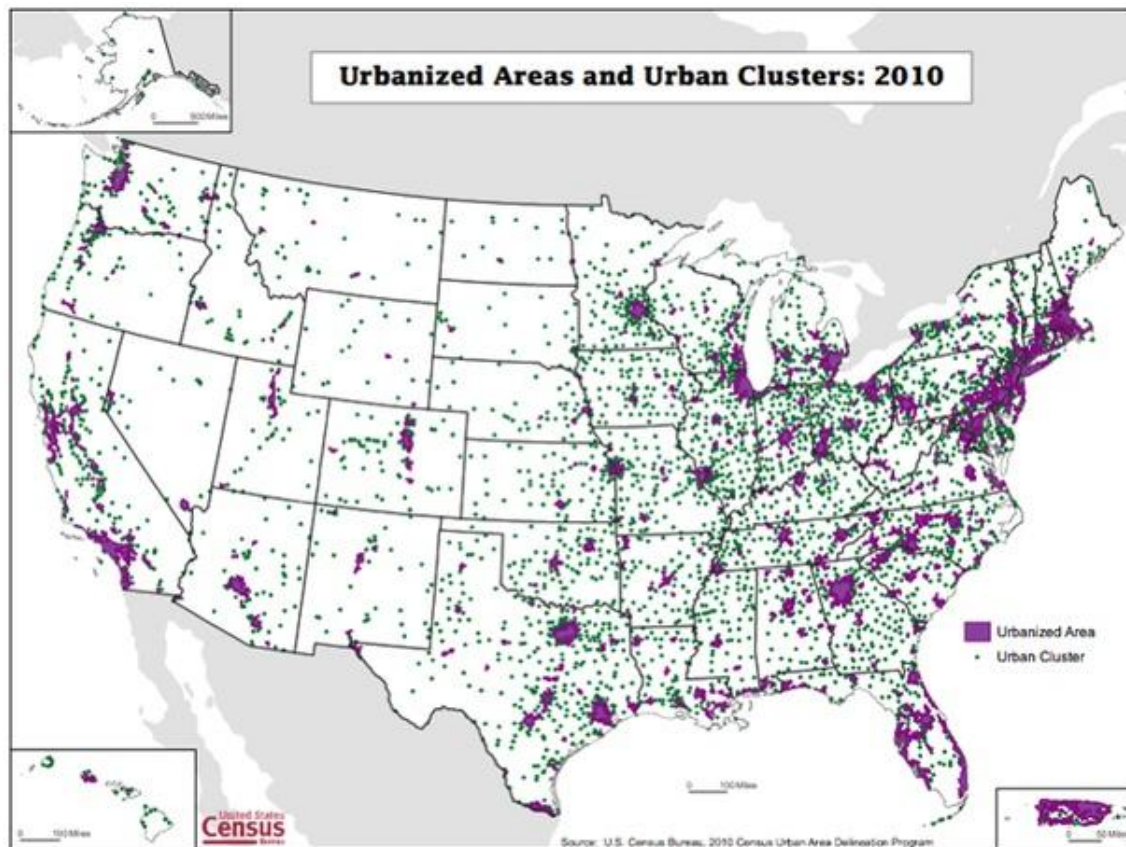


Image 1 Source: <http://cdn.theatlanticcities.com/img/upload/2012/03/26/20120326-census/largest.jpg>

Every single one of the states that we pre-selected would be a good choice for a Spanish business and will surely offer lots of possibilities, but if we want a more deep and accurate analysis we need to select the ones we think are the very best for a Spanish business and discard the others. In order to determine which are the best we will look how big and populated they are, and then select the four more populated, following the American saying "The bigger, the better"

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	STATE	POPULATION
1	California	38,041,430
2	Texas	26,059,203
3	New York	19,570,261
4	Florida	19,317,568
5	Illinois	12,875,255
6	Georgia	9,919,945
7	Michigan	9,883,360
8	North Carolina	9,752,073
9	New Jersey	8,864,590
10	Massachusetts	6,646,144
11	Arizona	6,553,255
12	Maryland	5,884,563
13	New Mexico	2,085,538
14	Delaware	917,092

Therefore, our market targets will be, California, Texas, New York and Florida. Now we can focus on them and study them in a more deep way.

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California

Population: 38,041,430 habitants

Density: 242/sq mi

Capital: Sacramento

Largest City: Los Angeles

Spoken Languages:

- English (60.5%)
- Spanish (25.8%)
- Others (14.7%)

College graduates: 22.9%

Economic data:

Gross State Product: 1.93 trillion \$

Income per capita: 43,104 \$¹

Labor force size: 18,115,600

Sales tax rate: 7.5%

Corporate Tax: 1.5% for S-Corporations

8.84% for C-Corporations

10.84% for Bank and Financial C-Corporation

3.5% for Financial S-Corporation

Minimum Wage Rates: 8 \$ per day²

Other factors:

Distance Madrid-Los Angeles: 9373.13 kms



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Texas

Population: 26,059,203 habitants

Density: 98.1/sq mi

Capital: Austin

Largest City: Houston

Largest Metro Area: Dallas Forth Worth

Spoken Languages:

- English (68.7%)
- Spanish (27%)
- Others (4.3%)

College graduates: 29.6%

Economic data:

Gross State Product: 1.20 trillion \$

Income per capita: 39,493 \$³

Labor force size: 12,317,200

Sales tax rate: From 6.25 to 8,25%

Corporate Tax: None

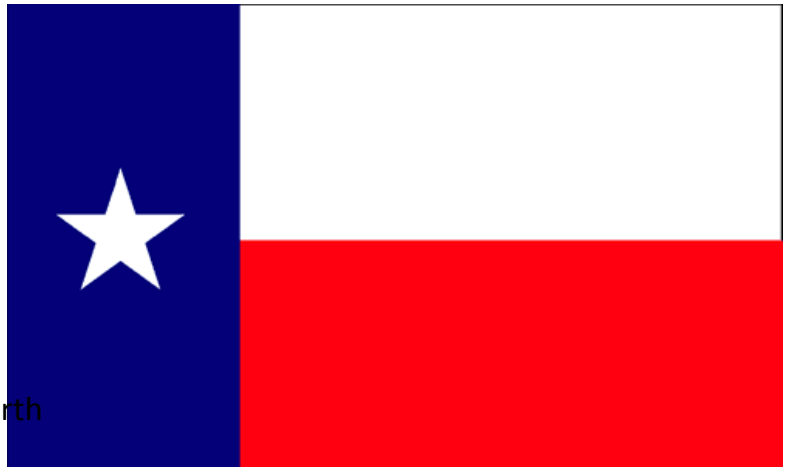
Minimum Wage Rates: 7.5 \$ per day⁴

Other factors:

Distance Madrid-Houston: 8057.94 kms

Economy Strenghts:

- **Oil industry:**



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New York

Population: 19,570,261 habitants

Density: 412/sq mi

Capital: Albany

Largest City: New York

Spoken Languages:

- English (71.8%)
- Spanish (14%)
- Others (14.1%)



Economic data:

Gross State Product: 1.16 trillion \$

Income per capita: 48,821 \$¹

Labor force size: 9,629,500

Sales tax rate: from 4 to 8.875%

Corporate Tax: 0% for S-Corporations (fixed and small amount)

7.1% for C-Corporations

Minimum Wage Rates: 7.25 \$ per day²

Other factors:

Distance Madrid-New York: 5774.39 kms

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Florida

Population: 19,317,568

Density: 353.4/sq mi

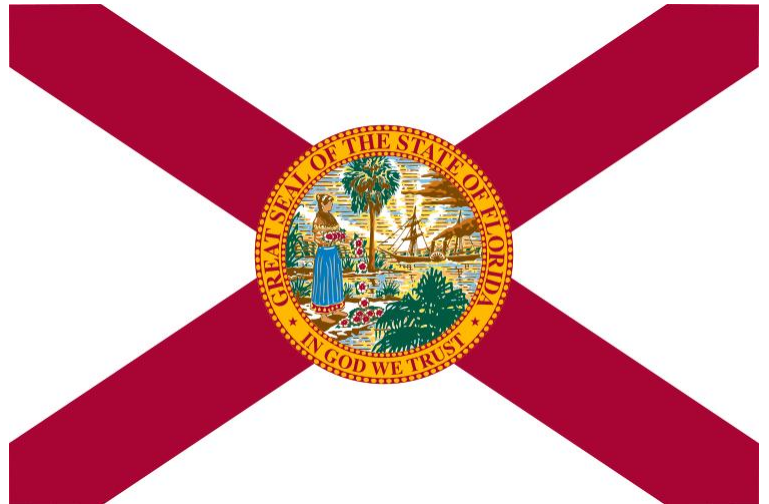
Capital: Tallahassee

Largest City: Jacksonville

Largest Metro area: Miami

Spoken Languages:

- English (74.54%)
- Spanish (18.65%)
- Others (6.81%)



Economic data:

Gross State Product: 0.78 trillion \$

Income per capita: 39,272 \$¹

Labor force size: 9,347,000

Sales tax rate: 6%⁵

Corporate Tax: 0% for S-Corporations

5.5% for C-Corporations

Minimum Wage Rates: 7.67 \$ per day²

Other factors:

Distance Madrid-Miami: 7099.85 kms

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Comparison

As we said before, all the states that we pre-selected will, each one of them, be an excellent choice, but In order to decide which is the best option we will compare their data the most objectively as we can for making the most accurate decision possible. For being able to do it we will use weighting coefficients for the decision making; we will determine how important is for us every feature of each state and then we will compare the consequent numbers from the operation between them. For that we will use an escale from 0 to 3, 0 for the ignored factors, 1 for the unimportant factors and 3 for the really important factors to take into account. For helping to the visual impact we will use an scale of color from orange for less important, to red for really important. As said:

0	Factor Ignored
1	Not important factor
2	Factor to take into account
3	Really important factor

- **Population:** A populated state means more potential clients, but also more potential workforce, that is more people to choose among your employees. It also can be related to a more active and alive state, where more economic activity is going on and where more taxes are recollected, and therefore where more infrastructure is and has to be invested. We will consider the population as a factor to take into account (2)
- **Density:** Density does not just mean more frequency of people in the land and therefore more density of clients around our selling point, but also, as we said before, a more urban and cosmopolitan population. And, as we considered cosmopolite population to be more opened and willing to buy and taste foreign, and specially Spanish products, we will consider that it is a really important factor. (3)
- **Spanish Speakers:** The percentage of Spanish speakers in the population is also a factor to take into account as this part of the

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population will feel more attracted to our products as they feel closer to them. Also the rest, of the population will be more used to the Spanish culture and therefore will be more willing to accept and try our products (2)

- **Gross State Product:** This is a good indicator about how active and wealthy is the economy of the state, but as states are different in size and in the way the economy is based on (The oil in Texas and the tourism of Florida), we can't use it as a reliable factor to take into account in our decision (1)
- **Income per capita:** This indicator is crucial in our decision as it indicates how much money our potential clients will have to spend in our products. That is why it should be considered as a really important factor (3)
- **Labor force size:** The more labor force we find in a state, the more employees will be available to work for us. The bigger the employment offer is, the best chances we have to find the perfect person for the right place. It is a factor to take into account (2)
- **Sales tax rate:** This is an extremely important factor as it will affect the final price of our product or service, and therefore reduce our margins. (3)
- **Corporate tax rate:** This tax will affect our benefits; the more benefits we will have the more we will pay. It is a really important factor in the decision of where to establish our business.(3)
- **Minimum wage rate:** Even if paying less than deserved to your employees is a bad long term strategy, this indicator is useful to know what level of wages we can expect in this particular state, so it will be a really important part of our expenditures and this is why it has to be taken into account as it is really important (3)
- **Geographic proximity:** Geographic proximity will be more or less important depending on which kind of company do we have, but in most of the cases, if we want our Spanish Business to succeed, we will have to import products from Spain in order to make our products the most authentic and good quality products. The more depending we are on Spanish products or raw materials, the closer we should get for facilitate the import of these products to our company. So the far the state is from the west coast, the long and more expensive will be to

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receive our genuine Spanish goods. But, now communications are faster than ever and we can communicate with every place in the world immediately, so even if the distance is a barrier is not such a big deal as it could be 20 years ago. (1)

- **Tourism:** Tourism is something to be taken into account, as our clients won't just be the population that lives there but also the tourist that comes visit the state. Tourist are really interesting customers, as their spending capacity is higher (especially the foreign ones, now that the dollar is going lower and lower) and more impulsive in their spending. Establishing in a touristic state will allow us to face a multinational public and have big incomes in the vocational periods. This is why it is a really important factor (3)

Now, we will compare and sort the data from the highest state statistic to the lowest, what means each state will receive from 1 to 4, in function or where it is situated in the rank. For helping the reader visually we will use a scale of green, from the lighter for the last ranked and the darker for the first one. As said:

First (1)
Second (2)
Third (3)
Fourth (4)

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		California	New York	Florida	Texas
Demographic Factors	Population (persons)	38,041,430 (1)	19,570,261 (3)	19,317,568 (3)	26,059,203 (2)
	Density (sq/mil)	242/sq mi (3)	412/sq mi (1)	353.4/sq mi (2)	98.1/sq mi (4)
	Spanish Speakers (persons)	9,588,622 (1)	2,574,121(4)	3,171,986(3)	6,278,980(2)
Economic Factors	Gross State Product (\$)	1.93 trillion (1)	1.16 trillion (3)	0.78 trillion \$(4)	1.20 trillion \$(2)
	Income per capita (\$)	43,104 \$ (2)	48,821 \$ (1)	39,272 \$ (3)	39,493 \$ (3)
	Labor force size (persons)	18,115,600 (1)	9,629,500 (3)	9,347,000 (3)	12,317,200 (2)
	Sales tax rate	7.5% (3)	6.43%* (2)	6% (1)	7.25%* (3)
	Corporate tax for S-Company	1.5% (4)	0% (1)	0% (1)	0% (1)
	Corporate tax for C-Company	8.4% (4)	7.1% (3)	5.5% (2)	0% (1)
	Minimum wage (\$)	8 \$ (3)	8 \$ (3) ⁶	7.79 \$ (2)	7.5 \$ (1)
Other factors	Geographic proximity(Kms from Spain)	9373.13 (4)	5774.39 (1)	7099.85 (2)	8057.94 (3)
	Tourism	Medium-High (3)	High (2)	Really High (1)	Medium-low (4)

A conclusion that we can withdraw after having a quick look to this table it that:

- **California**, as the most populated state of the USA, its strongest point it's its high with high Spanish speakers population, what at the same time leads us to medium/high density, high gross state product and high labor force size, which are factors to take into account, especially the density, as we set it up as a really important factor. But its high level taxes make it less desirable in an economic point of view. The very long distance from Spain is also a big problem, specially because the maritime connection

⁶ The actual minimum wage for new york is 7,25 \$ but it has been expected to change to 8 at the end of 2013

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between California and Spain is really complicated as they don't share the same ocean.

- For **New York**, we can deduce two very important things from this table: New York is a state with a really high density of population (mostly because of New York city metropolitan area) and with a really rich (compared to the others) population. As said before, these two are key factors in our decision making as they show that New York is populated by more cosmopolitan and rich people than the others that will surely be more likely to buy our foreign products. Another good thing is that it has relatively low taxes and wages, and his geographical proximity: just 5774 kms (it is in a the same parallel as Madrid). The only problem with New York is that the percentage of Spanish speakers is really low, what will make the introduction to the market harder.
- **Florida** is also a great candidate as every single indicator that matters in our decision is in a higher position compared to the others (except the gross state product, which, as we said, is not an important factor to take into account). It is a state with a high density of population (second of the four, mainly due to it's big cities as Jacksonville and the Metropolitan area of Miami) and a big part of this population speaks Spanish. But the most interesting part is that it has a really low sales tax and it has no corporate tax for S-companies and just 5.5% for C-Companies, what makes Florida a really interesting option in an economic point of view. Also the proximity and the share of the Atlantic Ocean makes the importation of Spanish products easier. Florida is the region of the United States that more tourist receives, that makes it a really interesting place to start a Spanish Business, as a lot of National and international tourist will have the chance to taste our products or services. The biggest problem that florida supposes to us, is that the Income per capita is low, what makes Floridians less likely to spend money on our products, what leaves us with less margin of benefits.
- **Texas**, is after California, the second more populated and with also a lot of Spanish speakers, but its density, which is a really important matter for us, it is really low. That is telling us that there will be more rural life and less big cosmopolitan cities, where we are supposed to be successful. Also the income per capita is really low, close to the Floridians, what makes them also less likely to spend money on our products. A big strong

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point for Texas is that they don't have a Corporate tax, what means our benefits won't have to deal with taxes. The distance from Spain it is long, but at least it is connected to the Atlantic Ocean. The tourism in Texas is the lowest in the four states that we are comparing, that will be a considerable loss of potential consumers.

In order to make the most analytic decision possible we are going to use the next formula to establish which on of the states above is the optimal one to start a Spanish Business. The formula will be as follows:

$$R_{fr} = I_f / p_r$$

Where:

- **R** is the final result, the Importance of the factor(f) in function of the ranking (r) of the data. $R \in \{0.25;3\}$
- **I** is the importance we previously gave to the factor (f). $I = \{1,2,3\}$
- **p** is the position or ranking of the data in comparison of the other states. $p = \{1,2,3,4\}$

We have used a division operation between both factors in order to make it logic; the bigger the importance of the factor, the biggest will be the result. And the opposite with the ranking position, the smaller the raking position is (1 is the best, 4 is the worst) the biggest the result will be.

Once the results of this operations are done, we just have to sum all of them and the state with the biggest sum in comparison with others will the best state to choose.

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		California	New York	Florida	Texas
Demographic Factors	Population	2,00	0,67	0,67	1,00
	Density	1,00	3,00	1,50	0,75
	Spanish Speakers	2,00	0,50	0,67	1,00
Economic Factors	Gross State Product	1,00	0,33	0,25	0,50
	Income per capita	1,50	3,00	1,00	1,00
	Labor force size	2,00	0,67	0,67	1,00
	Sales tax rate	1,00	1,50	3,00	1,00
	Corporate tax for S- Company	0,75	3,00	3,00	3,00
	Corporate tax for C-Company	0,75	1,00	1,50	3,00
	Minimum wage	1,00	1,00	1,50	3,00
Other factors	Geographic proximity	0,25	1,00	0,50	0,33
	Tourism	1,00	1,50	3,00	0,75
RESULT		14,25	17,17	17,25	16,33

The state who seems the more interesting according to our data is Florida, followed really close by New York and then by Texas and finally California. We can conclude that both 4 options are really interesting, but specially Florida and New York seem like the perfect choice.

As we have to choose just one, we will choose Florida over New York, not because it has just a slightly positive difference but because even if it has less density of population, Florida is a historic Spanish state, with a lot of tourism and good tax policies that makes it the perfect choice.

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Cities where to establish in Florida:

For being able of deciding which is the optimal city to settle our business in Florida, we will use the same color code as we used for deciding the state. We will take the information of the three biggest cities of Florida and compare them, as did above. The three biggest cities of Florida are Miami, Jacksonville and Orlando.

	Miami	Jacksonville	Orlando
Population (persons)	408568 (2)	827908 (1)	238300 (3)
Metropolitan area population (persons)	5333945 (1)	1360251 (3)	2134411 (2)
Density (persons/sq mi)	2750,98 (1)	1100,1 (3)	2327,3 (2)
Hispanic population (% over the total)	69% (1)	45,1% (2)	25% (3)

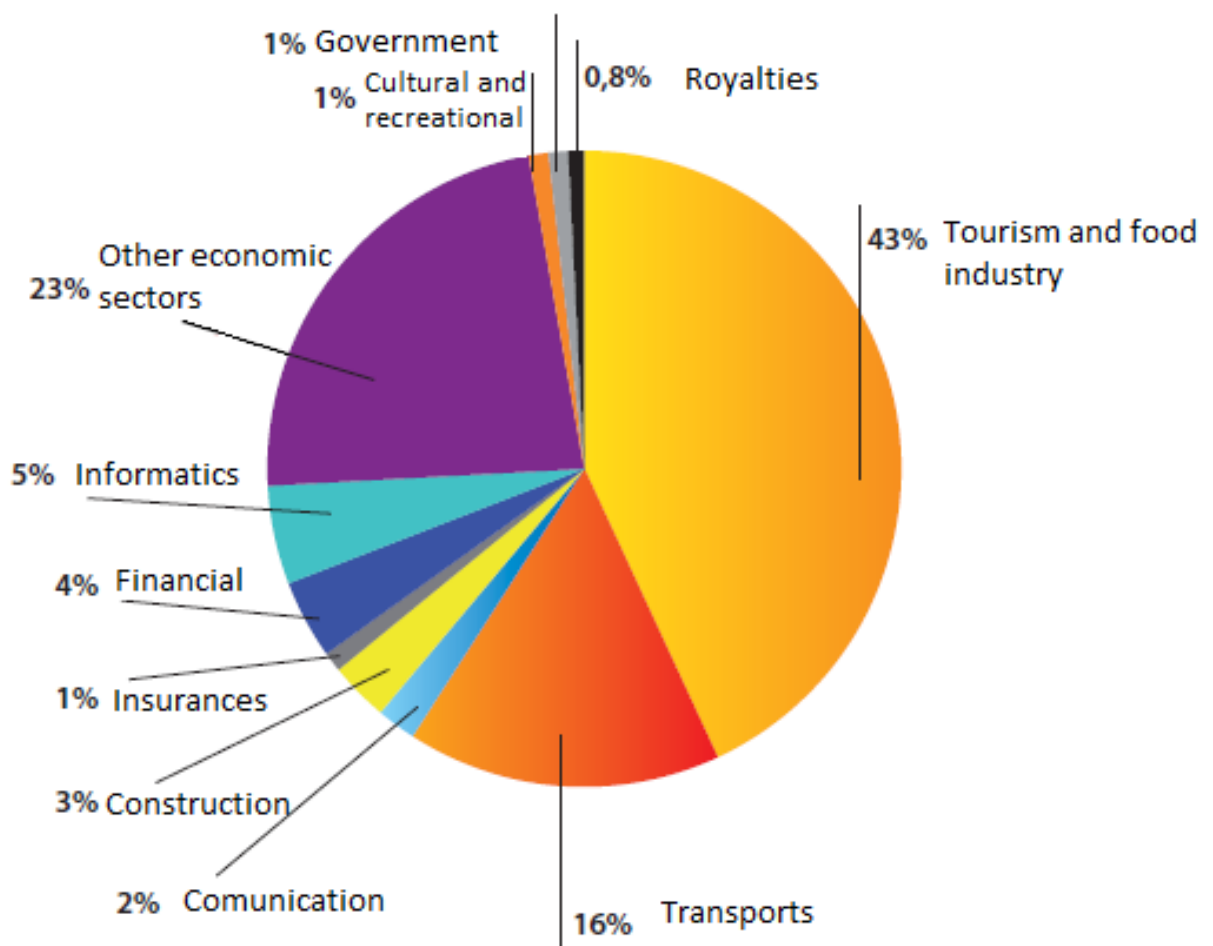
This time the decision of in where to establish is pretty obvious as Miami shows a clear superiority over Jacksonville and Orlando. The only thing where Miami is overcome is at the city population, but that is because the urban area of Jacksonville is much bigger than Miami, which has a huge metropolitan area (5 millions). It has also a really high Hispanic population, almost 70%, which can be compared to Jacksonville or Orlando with just 45% or 25%, respectively, which they don't even meet half of the population. The density is an important factor and Miami is also the most dense city of all with 2750.98 persons per square mile, followed close by Orlando with 2327 persons per square mile.

Also Miami has an important international airport which has regular and daily airplane connections with the most important airports of Spain, and it is considered the door of entrance of the Spanish culture.

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Which economic sector?

The other important decision to make is in which economic sector our company is going to be established. The market we are looking for is a market where a Spanish product or service can grow with advantage among their competitors and where there is data that suggest that this business could work and has worked on the past. For that we are going to look on the precedent data on what products do the Spanish companies export to the rest of the world, that way we will know what products or services will succeed beyond the Spanish borders and which will not.



Spanish exports by sector: (2012) http://www.iefamiliar.com/web/Equity_Story_ES.pdf

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According to the chart, the biggest export, with 43% of the total, is “Tourism and food industry”, followed by transports with a 16%. Informatics (5%), financial products (4%), construction (3%) and communication (3%) are the next more exported products. Insurances, Government and Cultural Recreations represent the 1% each, and the royalties represent the 0.8%. Therefore the economic sector which seems the more successful is the Tourism and food industry, with almost half of the exports. Also, apart from the being the most successful, the tourism and food industry is the more easy to distinguish from country to country; it will depend on the culture and history and will vary in every geographic zone. And that means that in the sector of Spanish food, the Spanish will have an absolute advantage compared to the rest, whereas the rest of the sectors there is no country trademark. The way Spanish transport, informatics, finances, construction business are managed is really similar between the United States and Spain, as there is no significant differences that could make the customer prefer one instead of the other. Is it also a sector where less initial investment is required compared to others like, transport, construction, communications... where the initial expenses in infrastructures are enormous, and could turn our business into a really risky challenge.

The quality and trademark of the food industry in Spain it is also protected by the official denomination of origin of certain products and it is recognized by all the international authorities, this can ensure that your possible clients will recognize your product as a true high quality Spanish product, and will be able to compete with the Spanish imitating products.

But we also need to see where the Americans customers spend their money in order to make the best choice. To be aware of the differences in habits between social classes we will divide the Americans customers in three categories according into their income:

- From 15000 \$ to 19999 \$ (Poor class)
- From 50000 \$ to 69999 \$ (Middle class)
- More than 15000 (Rich class)

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This differentiation is important as we need to figure out which will be our targeted market, which will be more willing to buy our products and which will not. In the following table we will appreciate the differences among them:

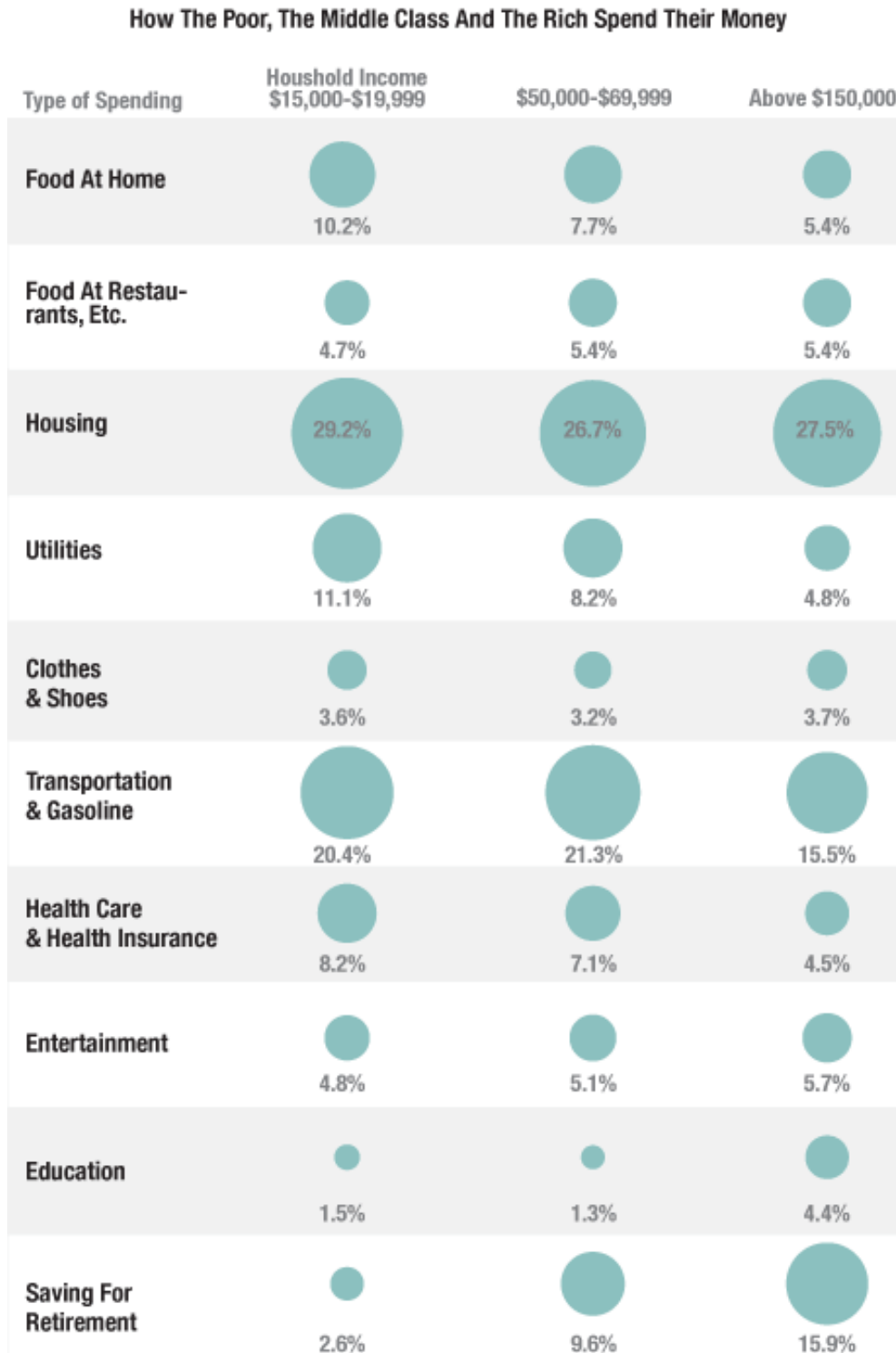


Ilustración 1: (2012) <http://www.npr.org/blogs/money/2012/08/01/157664524/how-the-poor-the-middle-class-and-the-rich-spend-their-money>

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The differences between the 3 classes are significant in some expenses and they stay similar in others. We can appreciate that the lower class expends more percentage of their income in feed at home, utilities, Health care and insurance things that are absolutely necessary and which their price does not vary that much according to their quality (in relative terms). That means that the richer you get you will maintain more or less the same amount of money dedicated to that, and expend more in new things like entertainment, education, things that you can live without them. The money non-spent will be used as savings for retirements, thing that a low class person can't afford as they expend almost everything they earn.

If we focus on what we are interested; in the tourism and food industry, we can see three expenses that may be related to our business.

- **Food at Home:** What we can appreciate about the food spent at home is that it is a basic need and therefore the amount of money expend on it will be constant or really similar as the people get richer. As we can see the percentage in poor people is around 10% and for rich people is 5% (which is half of it)
- **Food at Restaurants and Entertainment:** These are not basic needs; therefore the percentage of money spent in this case increases, the richer you are the more you spend in restaurants. We can see that it represents a 4,7% in poor people (which is not too much) and a 5,4% of rich people (which is a considerable amount)

If we sum all these expenses, we can see that Americans spend from 15% (in rich people) to 20% (in poor people), in entertainment and food. It may not seem too much compared to other countries (Spanish, Greeks and Irish for example spend 15% of their revenues just going into restaurants), but revenues in America have to be expended in things that people from other countries don't need because it is covered by the higher taxes they pay to the government, for example health care, health

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insurance, savings for retirement... So a 15% of the revenue seems good enough to be an attractive market.

Also the lack of competition of Spanish products in the American market allows us to set the prices that we want, but there has to be clients in this market with less price elasticity to buy them. Therefore the idea of investing in a restaurant or an entertainment business seems more attractive than investing just in the selling of food directly to consumers, as the rise of the money spent in food products is not proportional to the rise of their income. This is why our targeted market should be Food at restaurants and our targeted clients should be the middleclass and the rich class, not just because they have less price elasticity but also because they look to spend their money in something more expensive or exotic as the Spanish food can be.

III. The Company: strategies and organization

The company

According to the data we have collected and analyzed until now, we shall conclude that the optimal circumstances for a Spanish business in the United States will be the following:

Optimal State: Florida

Optimal City: Miami

Optimal sector: Food industry

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Optimal business: Restaurant

Now, according to this data we will create a fictional company that includes all these features and we will analyze its strategies and its organization.

The entrance strategy

The choice of the way of entering in the American market is a major challenge that a businessman should face. The different options of entering foreign markets are exporting, licensing or franchising to host-country firms, establishing joint ventures with the host-country (United States). Each of these options has their own advantages or disadvantages, determined by a number of various factors which may be the trade barriers or transport costs.

We already made one of the main decisions, where to introduce our business, now let's decide how to introduce it

First-mover or follower

The timing of entry is one of the important decisions to make. It is important to decide if we want to be a **first-mover** or a **follower**, which means if we want to create our own model of business or follow one of the existing ones in the market. The first mover has the advantage to preview the moves of the rivals and capture the demand by establishing a strong brand name. Another advantage is the ability to have a strong sales volume when the competitors arrive to the market and therefore have an experience in the field before they get there. The third advantage will be the customer loyalty; the earlier business in the market will get the loyalty of the initial customers as it will get the recognition of the original brand. The disadvantages of being a first-mover are basically the pioneer costs, which result as a considerable amount of money, effort and time, expenses in order to reach a learning curve of experiences.

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Pioneer costs include also the possibility of the business failure of the firm, due to its ignorance of the foreign environment.

The advantages of being a follower is, of course, the lack of all these risks and expenses in the experience curve, as we just copy the business model of other companies and we learn from the mistakes that they previously made. The disadvantages of course will be the lack of its own share of the market and the hard and slow entrance to the market.

But, the restaurant industry has a local range for customers, that means that we can copy a business model that doesn't exist in Miami from other city of Florida and introduce it to our targeted city. That way we will get the advantages of the follower, as we can learn from their learning curve as the cultures among the cities of Florida is basically the same, and at the same time being recognized as a first-mover by most of the customer as it will be an unknown business model in this geographic region.

Therefore we will chose as a example to base our business in the restaurant "Columbia".



Columbia is the Florida oldest restaurant and the largest Spanish restaurant chain in the world. Established in 1905 in Ybor City by a Cuban immigrant, and during the 20th century it has been a cultural Spanish flag in the state of Florida. Actually they have 8 restaurants located in Ybor city, Sarasota, St. Augustine, Saint Petesburg, Clearwater beach, Orlando and Tampa.

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Our goal is to understand why this restaurant is so successful among the American (Floridian) public and what the keys for its success are. According to the information we can withdraw from the next information:

- **Menu:** The food offered is a mix between the Spanish and the Cuban cuisine. This is a very clever movement; it means they are loyal to the Spanish heritage of the food which is considered “exotic” and at the same time they meet the demand of the Cuban population of Florida, which is really high. Taking into account that most of the tourists or Americans will not be aware of the difference, the solution is perfect.



- **The interior design:** the architecture of the buildings and the decoration of the dining rooms have a Spanish colonial style. This again pleases the two groups of clients, the ones looking for a Spanish

experience and the ones looking for a Cuban looking restaurant. As the Spanish colonial architecture is really common in the island it works for both of them

- **American service:** On the other hand, the service is based on tips as any other restaurant in America, which will attract the American customer as it will get a better service. As another example of adaptation to the American way, they also have a take away service.

If we could sum up their strategy in one word, it will be adaptation. Columbia restaurant is a Spanish restaurant, adapted to the American and Cuban

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American customers. It is also a business with more a hundred years of expertise, which ensures the success of this kind of business. Finally the lack of “Columbia” restaurants in the city of Miami, ensures that there we will be the first to introduce this business model. Even though, the disadvantage of this is that we will assume a little risk factor, (considering there is a small cultural difference between Miami and the rest of Florida cities) and also a considerable investment in advertising to present the product.

Therefore our timing of entry strategy will be **first-mover** in Miami and **followers** of the Columbia restaurant in Florida, introducing the following features from them, features that have been the key of their success and that are really likely to help us succeed in an American market:

- Spanish cuisine mixed with Cuban cuisine.
- Spanish colonial decoration
- Table service based restaurant
- Tip based service
- Take away service

Scale of entry and strategic commitments

An important issue to consider is the scale of entry. Entering in a market on a **large scale** involves the commitment of a lot of resources. The consequences of entering on a big scale end on the result of strategic commitments. A strategic commitment has a long-term impact and is difficult to reverse. It is a risky investment but on the positive side, it will make it easier for the company to attract customers and distributors. The bigger the scale of entry is the more committed and strong you will look in the market what will increase your chances to succeed. It is also a way of enhancing the success: if you spend a lot of money there is no turning back that means failure it is not an option. This feeling will make stronger the will of the employees of the company to succeed. It is similar as the situation where Hernan Cortés, the Spanish conqueror, when he landed in Mexico, he decided to burn their own ships in order to discard any option of retreat or failure. This strategy is necessary for first-movers as it needs a really big investment in the very beginning.

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The other option, an **small scale entrance** allows a firm to learn about the foreign market while limiting the danger that the company is exposed to. It gives time to collect information, learn from mistakes and realize what are the real chances of having a successful Spanish restaurant in Miami. This option is more likely to be used by a follower as it doesn't need that much investment.

These two options may be conditioned to the decision of how many markets (cities in Florida) we are going to cover. We need to decide if we want to focus on spreading quickly around Florida or if we want to focus in an specific geographic spot. It is an important decision that can be presented into the two extreme situations: **concentration** and **diversification**. Between this both extremities we can, of course, choose an intermediate option. We will define them both and then explain which one will we choose and why.

Concentration:

In this strategy, the company focuses its resources in a reduced number of markets, or even just one. This strategy allows getting a continual sales volume that will grow significantly as all your focus is on this little business. This strategy is good for slow but safe growing business.

- Advantages:
 - Better market knowledge of the chosen markets
 - Possibility to offer a product differentiated and adapted to the local requirements.
 - Reduction of the administrative and logistic costs. It is cheaper and more effective.
 - More money available to be expended in promotion and advertising in each market
 - Better risk control of clients
- Disadvantages:
 - Lack of geographical expansion
 - Less impact on the medias
 - Organization is vulnerable to industry and other external environmental shifts. It is more risky, as you put all your investment in the same zone. In case of economic crisis of the region or even natural catastrophe you lose everything.

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There are four concentration strategies that will depend on the status of the market:

		PRODUCTS	
		Current	New
CUSTOMERS	Current	Product Market Exploration	Product development
	New	Market Development	Product/market development

- **Product-Market Exploration:** This is the attempt to increase the sales of their current products and their current market
- **Product Development:** When a firm creates a new product for use by its current market (customers)
- **Market Development:** When a firm sells its current products in a new market (another geographical area or another segment of the market.)
- **Product-Market Development:** When a company tries to expand in both new markets and products

Our situation is a product-market development. That means that we need to work in a totally new environment, with no experience from before, so we cannot focus on neither customer or product development as we have to work on both.

Diversification:

On the other side, diversification is the strategy of growing in as many markets as possible, even if you lose the chance of getting a significant share of the market in any of them.

- Advantages:
 - You get comparative information from the different markets
 - You are less dependent on the failure of one or a few markets, as you have others to recover with.
 - You can profit from competitive advantages in a short term

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- The entrance effect on customers is bigger and across borders.
- Disadvantages:
 - It is much more expensive to implement
 - Less knowledge of each separated market.
 - Products have to be standardized and may not meet the actual requirements of each geographic zone.
 - Rise of logistic and administrative costs

In our specific case, the right choice will be a **small scale entrance** and a **concentration strategy**. As we already defined we want to focus in a small region (Miami), as the north and center of Florida is already occupied by Columbia restaurants. Also, in the concrete case of the restaurant industry the benefits from opening two or more restaurants at the same time are scarce while opening just one will allow using it as an example of business for the further investments. The concentration strategy it doesn't require that much initial investment and it will help us to focus in acquiring enough experience in the field before thinking about expanding.

Greenfield ventures or acquisition

We have two options for establishing in Miami, to get a fresh start a build it from the beginning (Greenfield ventures) or buy a restaurant that already exists.

Acquisitions:

- Advantages:
 - They are quick to execute.
 - You appropriate the business of one of your competitors. That means that you will have one competitor less to care about.
 - It is less risky and may save some expenses, as it already has its own client market established and the restaurant it

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is already known which will make the advertising less necessary.

- Disadvantages:
 - The price of acquisitions is usually overpriced from the real value of the business
 - It may fail because of the clash between the cultural difference between the acquiring party and the acquired party. The clients may like the old restaurant because of the way it was managed and may not like our way of doing business.

Greenfield ventures:

- Advantages:
 - High customization of the business. We will get the business that we want and how we think it will succeed.
 - We can build a organization culture from the beginning. With acquisitions we feel sometimes obliged to keep some of the business culture of the last owner.
 - Greenfield ventures are less risky than acquisitions in the sense that there is less potential for unpleasant surprises.
- Disadvantages:
 - They are much more slower to establish than acquisitions
 - More risky in the sense of the degree of uncertainty that is present

The choice between making an acquisition or establishing a Greenfield venture is not an easy one. Both have their advantages and disadvantages. According to the experts, the choice will depend on the circumstances and the way we want to do it. There are two scenarios in which we are supposed to act in accordance to the situation.

If what we want is to enter in a market where there are well-established companies and in which there is a high rivalry to establish the lead in the market, acquisition may be the best mode of entrance. In such circumstances, a

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Greenfield venture may be too slow to establish a strong presence before being shut down by this aggressive competitors.

The other scenario will be a market where whether there are no possible competitors to be acquired or the rivalry is really low (almost like an oligopoly). In that case the Greenfield venture is advised, as there is no rush to establish and the conditions are not hostile, which may allow our business to grow in a slow but safe way.

Our case, a Spanish restaurant in Miami, will be closer to the second case, where there are not too many Spanish restaurants and they are usually family owned and not big companies. The market seems big enough for setting a new business from the beginning without being “attacked” from other companies. This is why we should start a Greenfield venture in Miami, which even if it is a slower and harder way of doing it, the conditions seem peaceful enough to make it worth it.

Entry mode

The 3 options we have for entering in the Miami market are turnkey projects, joint ventures and wholly owned investment.

Turnkey project:

The turnkey project is a way of entering in a market, where we order to a local firm specialized in design and construction or to an architect, the construction and design of the new restaurant. They will take care, following some instructions, from the location, to the construction and design of the restaurant.

- **Advantages:**
 - The restaurant will be designed by a local company/architect who knows the market and the tastes of the local customers better than we do

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- The process of designing a successful restaurant can be complex and there are some professionals who can do better work than a businessman
- The design of the place is a really costly and it takes a lot of time. Time that can be spent on focusing on other things as study markets or business plans.
- Disadvantages:
 - Lack of control of the final result. The instructions given can be misunderstood or the firm/architect may take a free interpretation of its vision.
 - Sharing of the know-how. This may lead to the creation of a new competitor.
 - It might be really expensive and in some cases not worth it

Joint venture:

A joint venture is an investment where another investor, usually local, participates in the establishment of the company in the foreign country. The share of the company can be distributed equally, but it is usually the foreign investor, the one which has the biggest share of the company (usually 75-25 %)

- Advantages:
 - The local knowledge of the partner can be really useful for entering into the market and avoiding major mistakes, specially cultural, linguistic and political differences.
 - It helps to create a local net of contacts that otherwise would have to be created from zero.
 - Sharing of risks and investment. Less risks and less initial money needed for the investment.
- Disadvantages:
 - Risk of sharing the know-how with a local businessman/company. It could be a potential competitor in case they decide to use this knowledge to create a separate company.
 - The control of the business is not complete. Many of the decisions will have to be discussed and may lead to unwanted situations or fight for the control of the company.

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Wholly owned investment:

In this case, the investment is taken care by the foreign investors and what will lead us to have a complete control of the company.

- Advantages:
 - No risk of losing control of the company
 - One owner means one manager. There will not be any confusion of what the mission of the project will be. A united leadership is really important if we want our business to succeed.
- Disadvantages:
 - A wholly owned investment is the most costly method of entering a market.
 - The risks are really high
 - Doing business without any local partner may lead to misunderstanding of the local culture and lack of business contacts

According to the information we have summed up, the best way of entering in the Miami market will be doing a Joint venture, with the biggest share. This will allow us to have the good things of a wholly owned investment (if we have the majority, around 75%, we will have almost all the control of the company) and at the same time have a local partner that can avoid us from making major mistakes, it will help us to get a working business net and share the risk with them. The only major risk that we would face it will be sharing the know-how of our company, but as we are starting the company from the beginning there is no such thing, so there is nothing to copy from us.

So the entry strategy, according to the decisions we made above, will be:

<u>ENTRANCE STRATEGY</u>	<u>CHOSEN STRATEGY</u>
First mover or follower	Follower
Scale of entry	Small Scale entrance
Greenfield ventures or acquisitions	Greenfield venture
Entry mode	Joint Venture

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The staffing and language policy

The staffing policy is concerned with the selection of employees. In some scopes, the staffing policy just involves selecting the most skilled person for a position, for others it is a tool to develop and promote a desired corporate culture. By corporate culture we mean the values and norms that define the company. A strong corporate culture can help a firm to implement its strategy. General Electric, for example, it is just concerned about the individual skills that have each employee for performing its task, whether he is American, Spanish, German, Italian... This is the belief that employees are predisposed to change and adapt to the company norms without taking into account their geographical origins.

There are three types of staffing policies in an international investment that should be considered: the polycentric approach, the ethnocentric approach and the geocentric approach. We will review each strategy and relate it to our own situation and then decide which the best for our own case is.

Even if our investment is small scaled, we will consider and distinguish between the headquarters, where all the decisions and managements are done by the corporate managers and the restaurant as the a subsidiary of our company, with its own manager.

The polycentric approach.

The polycentric staffing policy requires host-country nationals to be recruited to become the manager of the restaurant, while parent country nationals occupy key positions at corporate headquarters. This approach follows the theory that local managers will do a better job understanding and accessing to the needs of the customers and the employees. The manager will be an employee from Florida, preferably from the zone of Miami-Dade, and he will be in charge of the daily business matters, while the strategic decisions will be made from the headquarters, where the Spanish owner will make the most important decisions.

- **Advantages:**

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- One of the best points of this is that adopting a polycentric approach is that the business will not suffer from cultural “myopia” due to the differences among both, host and parent culture.
- The position of the branch or restaurant manager has a closest scope and deals more with the general public. In this range it is where most of the cultural clashes will happen, this is why it is important to keep this position with a local employee
- It is also much more cheap, as expatriate managers can be really expensive to maintain.
- **Disadvantages:**
 - If this policy is set, the high management levels within the company are just available for home-country managers. That means that host-country managers are not able to reach this position, which will make them upset about being trapped in the same position without any chances to evolve within the company.
 - A gap can develop between host country managers and parent country managers. Language barriers, national loyalties and the cultural differences may lead to an isolation of the headquarter from the actual business.

The ethnocentric approach

The ethnocentric staffing policy is where the parent-country nationals fill all the key management positions. This policy used to be traditionally the most popular one since the beginning of the globalization. This technique is not that popular anymore in the western companies but you can still see it in Japan where, according to the Japanese Overseas Enterprise Association, “in 1996 only 29 percent of Japanese companies had presidents who were not Japanese. In contrast, 66 percent of the Japanese subsidiaries of foreign companies had Japanese presidents.

- **Advantages:**
 - The ethnocentric policy is the best way of maintaining a unified corporate culture.

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- There is a need of transferring some parent-country manager (Spanish) with experience in the Spanish restaurant market for being able to transmit a real sense of a Spanish restaurant. This experience is worthy it can be just acquired after years of experience and can't be acquired by just reading a textbook.
- **Disadvantages:**
 - An ethnocentric staffing policy limits job development opportunities within the company for host-country national's employees (Floridians). This may lead to lack of motivation, low productivity and resentment, especially if the Spanish managers are pay much more than the rest of employees.
 - These managers will suffer from the cultural myopia that we mentioned above, the inability to understand the cultural differences that require different approaches to marketing and management. Also the adaptation of the expatriates can take a long time, during which they may end doing major mistakes, whether outside the company (clients and providers) or inside the company (own employees). One example of this is that in one of the plants in Illinois of the Japanese branch Mitsubishi Motors, there were some cases of extensive and systematic sexual harassment. The expatriate managers were not able to see that a behavior that can be seen as acceptable in their country is totally unacceptable in foreign countries.

The geocentric approach

A geocentric staffing policy looks for the right man in the right place. They seek the best people for key jobs, regardless the nationality. So the position of the manager could be filled, not just by a Floridian or a Spanish, but also by a German, a Australian or a Chinese. This policy is becoming more and more popular.

- **Advantages:**
 - With this staffing policy you make sure you make the best use of the human resources of the company

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- It makes a multicultural corporate culture, that can withdraw the best of the experience of the different nationalities.
- It gives opportunities to every single employee to rise within the company, which will create a better work environment and will motivate employees to excel in their jobs.
- **Disadvantages:**
 - The costs and effort of hiring a foreign employee are always higher. The United States requires to provide an extensive documentation if they wish to hire a foreign national instead of a local national, and even explain the reasons. This paperwork can be expensive, time consuming and futile.
 - A geocentric policy is very expensive to implement as a lot of money has to be expended in training and relocation costs.

Summary

<u>STAFFING APPROACH</u>	<u>ADVANTAGES</u>	<u>DISADVANTAGES</u>
Polycentric	-No cultural myopia -Cheap	-Limits career mobility -Isolates headquarters -Language difference
Ethnocentric	- Unified culture -Helps transferring core competences	- Produces resentment in host country employees -Cultural myopia
Geocentric	-HR are used more efficiently -Helps building strong culture and informal management networks -Better chances of promotion	-American policies hinder this policy -Really expensive

Based into the data we have summarized, the best choice for selecting a manager for our restaurant in our specific case will be a polycentric policy. It is

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important to have a local manager that can deal with the challenges that the American market can have, as it is very different from the Spanish. Also, we are followers of an American company, so the right choice will be an American manager that can apply this strategy. It is also cheaper to maintain, easier to hire and the chances for him to stay in the company are bigger as he lives in his own country. Actually there are a lot of expatriate failures caused mostly by inability to the manager or the family to adapt to the new country, that would mean a disaster in our investment. The consequences of this failure may lead to premature return to his home country or an early resignation, which will leave the restaurant without a leader in the middle of its development.

The negative part of having an American manager is that the Spanish point of view in the business will be lost. This is why it should mix using a Polycentric approach for the manager and a ethnocentric approach for some key employees like the cooks, who we need them to be Spanish in order to cook real Spanish food. This way we can keep our business with its Spanish roots and managed by locals.

We will totally discard a geocentric approach, as it will not be useful in this case as what we need is either managers from Spain or Florida. Our biggest issue here is to keep equilibrium between the genuine Spanish restaurant and the American model of business. A manager from a third country will be useless in both senses.

Therefore our final strategy for the staffing policies will be:

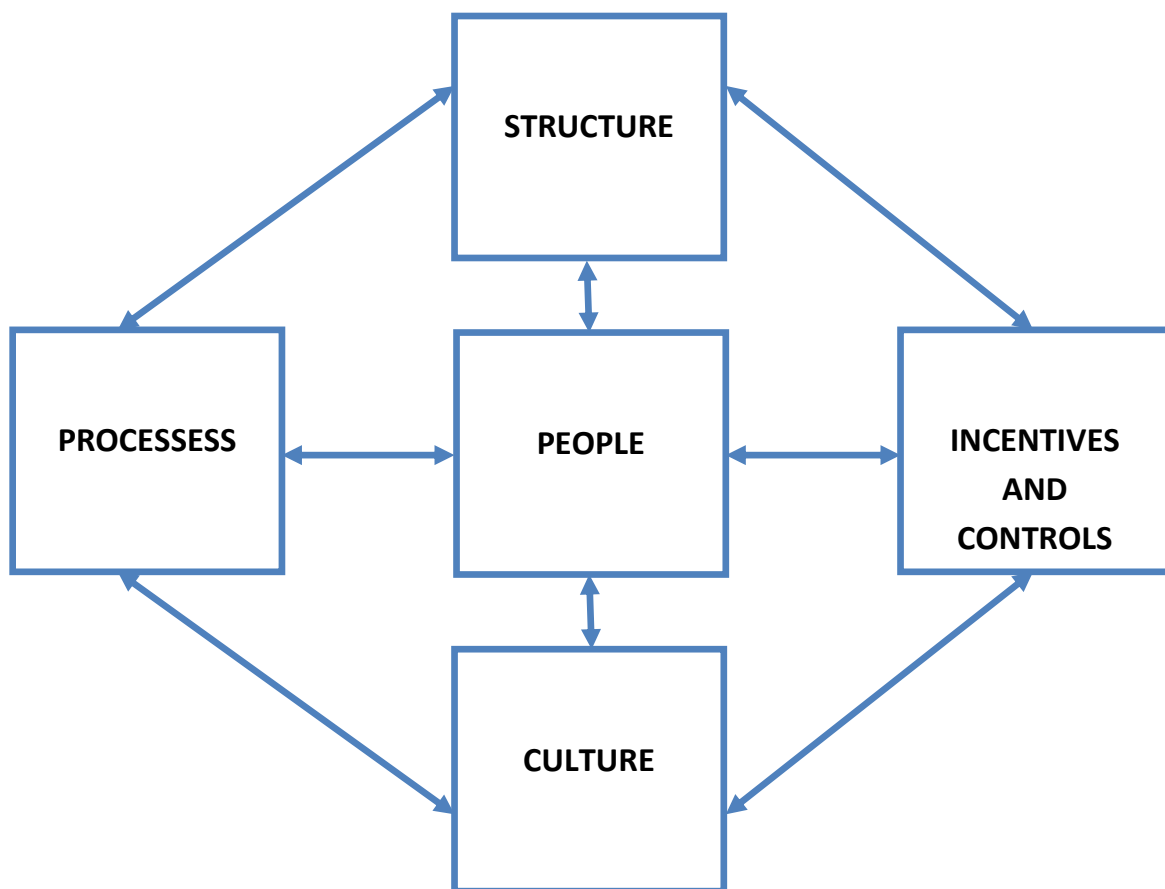
Manager of the restaurant	From Miami (Polycentric policy)
Staff	From Spain (Ethnocentric policy)

The company language chosen will be English, not just because is the unofficial business language of the world, but because the business it is based in the United States.

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International organization

The international organization or organizational architecture refers to the totally of a firm's organization, including both formal and informal organizational structure, control systems and incentives, organizational culture, processes and the most important, people.



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- **The organizational Structure** will refer in a multinational company to three things, in the first place the formal division of the subsidiaries, second the location of the decision-making responsibilities within the structure (where the headquarters are located) and finally the establishment of integrating mechanisms to coordinate the activities of the subsidiaries. As in our case, we just have to deal with one business we will just consider the decision of where to locate our headquarters as the only organizational structure point to debate about.
- **Control systems** are the way we measure the performance of the business (in our case the restaurant, our only business) and how well managers are running those subunits. **Incentives** are the devices used to reward the behaviors that we consider correct according to our company culture. An example of an incentive, will be a manager receiving a bonus in his paycheck for a good sales result.
- **Processes** are the way in which decisions are made and how work is done within the company. Examples of these processes could be the decision of how to allocate the resources. Processes usually are not made by the CEO's but by local managers.
- **Organizational culture** refers to the norms and value systems that the employees of a company share. A company is a society of individuals who come together to perform tasks in order to achieve some goals. They have their own patterns of culture and subculture just like any other kind of society.
- **People** refers not just to the employees themselves but also to the strategies used for recruiting, motivating, compensating and retaining those individuals.

Organizational structure (vertical differentiation)

As we said before organizational structure can be seen from three different scopes, the vertical differentiation which refers to the location of the headquarters and the distribution of the power, horizontal differentiation (division of the subunits) and the integrating mechanisms, which are the mechanisms for coordination the subunits. As we said we just have one subunit so we will just discuss about the vertical differentiation

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The company's vertical differentiation determines where the power and the decision-making is concentrated within the company. We can tell if a company is more centralized than other if we feel that the lower managers have no decision making power and every single decision is concentrated into the headquarters

Arguments in favor of Centralization:

Centralization is the concentration of the decision-making in the highest levels of the company, or the head-quarters. According to the experts there are four arguments used in defense the centralization:

- Centralization facilitates the coordination within the company. If most of the decisions are made in the head-quarters there will be less confusion and less need of feedback.
- It helps to create a solid company culture and help to make sure that the decisions made by low level managers are consistent with the objectives of the organization. When there is no centralization low level managers may take decisions in the field that can vary from the top managers' point of view. Centralization of important decisions minimizes the chance of this inconsistency occurring.
- By concentrating power and authority into one individual or a group of managers, centralization will make easy the detection and resolution of organizational problems
- Centralization avoids the duplication of activities that occurs when some tasks are delegated to the subsidiaries.

Arguments in favor of Decentralization:

Decentralization is the opposite of centralization; it is the situation where most of the decisions are delegated to the subsidiary manager (the restaurant manager) and just the most important strategic decisions are made by the headquarters. There are five main arguments that defend the decentralization policy:

- High top managers of a company under centralization may become overwhelmed by the amount of decisions they have to make.
Decentralization discriminates among the important and not important

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decisions and let the top managers to focus on the important issues. One of the keys of a successful business is to know how to delegate tasks

- Research favors decentralization. The scientific community of behavioural scientist agrees in the fact that people are willing to do a better job when they have more freedom and control over their tasks.
- Decentralization allows more flexibility and every single decision does not need to be asked to the high managers, which make tasks to go quicker and be more effective.
- For certain tasks, low level managers are better prepared to make ground decisions as they are used to this environment and they know how to face the challenges better than the high level executive.
- The autonomy of the low level manager makes him totally responsible of the results of his unit, which may lead him to work harder to get a better result

Strategy and centralization in an international business:

The choice between centralization and f the decentralization it is not an absolute choice. In most of the cases it makes sense to centralize some decision-making and to decentralize others. Frequently, the strategic decisions, financial objectives and legal issues are usually the most commonly centralized into the headquarters. On the other hand, operating decisions regarding production, marketing, R&D, and human resources management may or may not be centralized, depending on the specific case of each company.

In our specific case, the restaurant industry, it will be better to totally centralize the decisions in the headquarters and let the restaurant manager focus on the daily decisions. This way we will have more control over the restaurant, a better company culture and we will avoid unnecessary costs and paperwork. Therefore our organizational strategy will be Centralization.

Control systems and incentives

One of the most important parts of being a manager is to control the subaltern in order to test their performance and make sure that their decisions are according to the company overall strategy and the financial objectives set by the

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headquarters. We are going to review the mechanism that companies have to control and incentivize the good actions and punish the bad action of their employees and apply it to our study case, and realize which the best strategy to apply is.

Types of control systems:

- Personal control: Personal control is the control of employees by personal and direct contact. This type of control is normally used in small firms, where the control of the subunit manager is total. This way they can influence their subordinates the exact way they want. The problem is that this requires a lot of time and it is just possible if the number of subunits and sub managers are not too high, which is not our case.
- Bureaucratic control: This is the control that is made through a set of rules and procedures that directs every activity of the managers and employees. The most important examples of this are the budgeting and capital spending rules. Budgeting is it usually set by the headquarters, but with the possibility of negotiating it with the sub manager. Capital expending rules, are more likely to a set of rules that tells the manager how to expend money in different situation. This gives more freedom to the manager and may improve productivity but it is also more risky.
- Output control: Output controls are involved in setting the goals for the subunits in order to achieve those goals in terms of profitability, growth, market share and quality. If the goals that have not been reached by the managers they will usually meet with him in order to find out what went wrong. If the goals are achieved, the subunit manager will be rewarded. Just like the budgets, goals are going to be set by the headquarters but negotiated with the subunit manager in order to make the goals possible. Usually the top managers will set up some goals that are challenging but realistic.
- Cultural control: This can be used in the case where employees and managers are so immerse into the culture of the company that control is no longer needed as they control themselves. According to the experts, if you can get your employees to believe in your plans and you reward them for their effort, no kind of control will be needed.

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Systems of incentive:

An incentive is the mechanism that we use to reward the behaviors that we believe correct according to the company culture. It is important to adapt the incentive system to the country we are introducing our products. Incentive systems that may work in Spain might not work or even be allowed in other countries. For example, Lincoln Electric, a leader in the manufacture of arc welding equipment, has used an incentive system for its employees based on piecework rates in its American factories (under a piecework system, employees are paid according to the amount they produce). This system is illegal in Europe, but it is legal in the United States, what could turn into an advantage.

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IV. Conclusion

As a conclusion we can say that introducing a Spanish business in the USA it is a major challenge that needs to be planned and studied. The possibilities that the Spanish market offers in America are enormous and if done correctly they can end up in a great success for the investor. It is a young and unexploded market that offers an infinite range of possibilities to a Spanish investor. The data about the history of the relationship between both countries shows that both cultures share commercial and political links and there is a clear bilateral cultural influence that may help to create a positive context for a successful business, but always being aware of the small but important cultural differences and trying to avoid falling into the typical errors of this international business..

The strategic decisions that we have made along this study are based on the information that we gathered are chosen among a lot of other good options. We have answered the questions, where, which sector and how using analytic analysis. Florida and New York are really good geographic zones to establish the business considering factors as the Spanish population or the urbanization of the region. Both together, are the best options but also California and Texas may be considered as serious options. The tourism and food industry is, according to the data, the most successful exportation from Spain and it is also where the Americans spend a big part of their money. This sector is where the Spanish businessman has the strategic advantage compared to the local or foreign ones and it is where he should invest. In overall the strategies are a low profile of investment, with a small scale of entrance, concentrated, Greenfield venture and follower of an already successful business. The organization of the company is recommended to be centralized and the staffing should be ethnocentric.

According to the data that we have gathered we can conclude that the United States is ready to receive Spanish investments as the market it is still very young and the possibilities are enormous. Let's also remind that our case, a study of the introduction of a Spanish food restaurant in Miami, it is just a concrete case to be used as an example, but there are plenty of other possibilities in other sectors and places for a Spanish Investor. This should be used as a guide or as an

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example of how to find a good market and how to proceed in the case of an investment, in order to avoid big mistakes and follow the right path to success

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