Chapter 9

GLOBAL ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

9-1 Entrepreneurial Enterprises

9-2 The Business Plan and Self-Employment

9-3 Operating an Entrepreneurial Enterprise
For many years, the Mississippi Band of Choctaw Indians faced difficult economic conditions. In the 1960s, 90 percent of this Indian nation lived in poverty. Today, as a result of Chahta Enterprise and other businesses, things are different. Chahta is the first Native-American-owned company to expand into the global economy.

This diversified company is involved in various businesses. Recently Chahta Enterprise opened a production plant in Empalme, Mexico, about 300 miles south of Tucson, Arizona. This facility produces electric-wire harnesses for car switches used by Ford Motor Company. The company has plans to open a second factory in Mexico that will produce car-stereo components.

Company chief executive Phillip Martin is also chief of the Mississippi Band of Choctaw Indians. According to Chief Martin, the North American Free Trade Agreement brought about the company’s move to Mexico in order to take advantage of lower labor costs. While the Choctaws were no longer making the electric-wire harnesses in Mississippi, the former employees were able to obtain work with other businesses on or near the reservation.

Over the past 25 years, the average annual household income on the Choctaw reservation has increased from $2,500 to over $26,000. At the same time, unemployment declined to less than 5 percent from a high of over 50 percent. The community now includes quality schools and daycare facilities and an excellent hospital.

**Think Critically**

1. What social and economic factors influenced the activities of Chahta Enterprise?
2. How did the community benefit from Chief Martin’s business leadership?
3. Conduct an Internet search to obtain additional information about the Mississippi Band of Choctaw Indians.
The world of business is constantly changing. No one knows this better than small business owners in the United States. More than 15 million people in the United States own their own small business. Each day foreign competition increases. A store down the street now acquires items from manufacturers in Asia and Europe. Businesses of every type and size are adapting to the global marketplace.

Nations do not start out highly industrialized with international airports, superhighways, and computer networks. In every country, people get ideas and take action to make products better, faster, and more available. This inventive effort is the basis for economic development and improved quality of life.

**INNOVATION AND THE ENTREPRENEURIAL SPIRIT**

An entrepreneur is a risk taker who operates a business. Every business combines land, labor, and capital to sell a product or service. An entrepreneur is the person who brings together those resources for a company to get started and operate successfully.

Entrepreneurs may be people with a creative vision, such as David Filo and Jerry Wang, who founded Yahoo!, or Lydia Moss Bradley, who made millions in real estate development and went on to found Bradley University. A common trait of entrepreneurs is that they don't listen to people who say
“It can't be done!” These business innovators have an idea they believe in and dedicate their time, money, and effort to its success.

### ECONOMIC AND SOCIAL BENEFITS OF SMALL BUSINESS

Most entrepreneurs start small. Some have started in a basement or garage. Small companies are an important part of every economy. A small business is an independently owned and operated business that does not dominate an industry.

Small businesses are commonly categorized by number of employees. The U.S. Small Business Administration defines a small business as one with fewer than 100 employees. About 95 percent of all businesses in the United States have fewer than 50 employees. Of the 15 million businesses in the European Union, fewer than 10 percent have more than nine employees.

Entrepreneurial efforts provide a nation with three main economic and social benefits.

1. **Small businesses are major creators of new products.** Entrepreneurs are willing to take risks and try ideas that may be rejected by larger companies. Entrepreneurs have invented products such as personal computers, ballpoint pens, video games, and fiberglass snow skis.

2. **Small businesses are the major source of jobs.** In recent years, the 500 largest companies in the United States reduced their work forces by several million people, while small businesses hired over 20 million employees. Business organizations with fewer than 500 employees employ more than half of all U.S. workers and produce half of the country’s GDP.

3. **Small businesses often provide personal service.** In that way, they compete successfully against larger companies to meet the individual needs of customers. A bank, for example, can grant loans to people in its community who may be denied funding by larger financial institutions. Small manufacturing companies can produce custom-made parts for foreign companies, an activity that large businesses might not find profitable.

Entrepreneurial businesses often turn to international business to expand their markets. Exporting is promoted by the U.S. Department of Commerce, Small Business Administration, World Trade Centers, and state departments of economic development. These agencies and organizations help entrepreneurs plan and execute international business activities.

Entrepreneurs may invent ways to adapt products and services to meet the economic, cultural, and legal needs of customers in other countries. The activities of small businesses in Europe and Asia have energized economic development. Thailand started as an agricultural society with a system of landlords and peasants. Chinese influence in the late 1800s helped change the economic emphasis of Thailand. By the 1970s, over 30 major companies were based in the country. Entrepreneurial activities stimulated economic development. Today Thailand is one of the largest and fastest-growing economies in the world.
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COMMON ENTREPRENEURIAL BUSINESS IN EUROPE AND ASIA

Types of entrepreneurial enterprises are as varied as types of large corporations. Entrepreneurial businesses can be grouped into five major categories: extracting companies, manufacturing companies, wholesalers, retailers, and service companies.

Agricultural, Mining, and Extracting Companies
Diamond-mining companies in South Africa, oil companies in Saudi Arabia, and flower growers in California are all examples of extractors. These enterprises grow products or take raw materials from nature. Extracting companies include businesses involved in agriculture, fishing, forestry, and mining.

Manufacturing Companies
Manufacturing involves changing raw materials and parts into usable products. Entrepreneurs in this category
range from computer manufacturers with many employees to basket weavers with just a few workers.

**Wholesalers** Products must get from producers to consumers. If clothing manufactured in Taiwan is not shipped to appropriate selling locations, the garments have little value. A wholesaler is a business that buys from a manufacturer and sells to other businesses. Wholesalers are commonly called **intermediaries** because they are links between producers and sellers of products.

**Retailers** A retailer is a business that sells directly to consumers. In a typical week, you probably go to several stores. You may also buy from mail-order companies or vending machines. These are examples of retailing businesses. Online retailers are retailers that operate over the Internet.

**Service Companies** How often does someone in your household have clothes cleaned, get the car washed, use a telephone, have film developed, or rent a video? These are all examples of services. Consumer services include businesses such as law offices, doctors’ offices, dentists’ offices, hair salons, daycare centers, Internet service providers, repair shops, travel agencies, and music schools.

Service companies also sell business services to other companies. Business services include advertising, information systems, custodial, security, and equipment rental. These companies are commonly called **business-to-business (B2B)** enterprises because they sell to other companies rather than to individual consumers.

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**E-COMMERCE IN ACTION**

**Internet Entrepreneurs**

All you need is a computer, a modem, a phone line, a printer, a scanner, a credit card business account, and the delivery services of Federal Express or UPS. Then what do you have? You have an online business capable of competing with any major organization.

Online, big companies and small companies look alike. Take away the big buildings, fancy offices, and well-dressed employees, and what do you have left? A company image that is judged on the content and services provided by a web site.

When Amazon.com started, it began selling books without any experience in that industry. It started with technology and the idea to provide the latest bestsellers online. Next, the cyber-retailer expanded into music CDs, videos, software, toys, video games, tools, and other home improvement products. More recently, the company started selling clothing, furniture, small household appliances, digital cameras, and home entertainment equipment. Today they have sales that exceed most traditional stores.

The company’s international sales also continue to expand. The largest segment of foreign orders comes from the United Kingdom and Germany, with web sites also for Japan and France. These markets have minimal political risk and populations with a large percentage of Internet access.

**Think Critically**

1. What are the benefits of online businesses for employees and consumers?
2. What actions might be taken for Amazon.com to expand its international operations?
3. Locate a web site for an online business that is probably a small operation but is able to compete against larger companies.
In addition to over 15 million self-employed workers in the United States, there are another two million people who operate part-time businesses while working for someone else. Government agencies and business experts project that in the coming years, entrepreneurs involved in the following types of enterprises have the greatest potential for success.

- Health-care services
- Retailing and food service companies, especially those using the Internet and other technology to interact with customers
- Environmental businesses that recycle and offer environment-friendly goods and services
- Training and education enterprises to help workers adapt to a changing workplace
- Personal services such as childcare, financial planning, entertainment, and recreation
- Commercial services such as marketing, financial consultants, delivery, transportation, and information systems

These business opportunities will be available in both the United States and other countries.

Years ago most people worked from their homes as farmers, weavers, and toolmakers. These home-based businesses are still present in many countries, including the Philippines, Pakistan, Chad, Liberia, Kenya, and Peru.

In major population areas of industrialized countries, however, most work moved to factories, stores, and offices during the industrialization process. However, technology is currently providing the opportunity for many workers to return to their homes to work. Today over 5 million people in the United States and more than 2 million in Canada operate businesses from their homes.

Other types of common home businesses
include real estate brokers, insurance agents, construction contractors, repair shops, hair stylists, pet groomers, childcare providers, accountants, and tax preparers. Also, home-based Internet businesses have expanded to include almost any type of business, such as retailers, auto parts suppliers, online greeting cards, grocery stores, and flower delivery services.

**Telecommuting** In addition to running their own businesses from home, many people also are working for another company by telecommuting. **Telecommuting** involves using a computer and other technology to work at home instead of in a company office or factory. Telecommuting is best suited to jobs that do not require regular in-person contact with others and may be done through computer networks and other telecommunications equipment. This employment arrangement is most common for writers, editors, researchers, economists, accounting clerks, information processing workers, database supervisors, and computer programmers.

Employers who use telecommuting report several benefits.

1. Businesses save money since they do not need as much office space.
2. Companies are able to keep talented employees who may not want to work in a structured environment.
3. Workers save time and energy since they do not travel to a place of employment.

Many home-based entrepreneurs and telecommuters select working at home so they can have more time with their families and save money on childcare.

People planning to work at home must consider the government regulations for these types of businesses. For example, in recent years in Toronto, operating a mail-order company from your home was considered illegal.

The Small Business Association (SBA) is an excellent source of information for anyone who needs help starting and running a small business. Access the Small Business Association’s web site through intlbizxtra.swlearning.com. Click on the link for Chapter 9. Read the article, and then write a few paragraphs outlining the Equal Opportunity Loan program. Explain how the SBA works to increase the participation of women and minorities with this program.

**intlbizxtra.swlearning.com**

What are the advantages of telecommuting to a company?
Chapter 9 GLOBAL ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. entrepreneur
2. small business
3. telecommuting

REVIEW GLOBAL BUSINESS CONCEPTS

4. Why do entrepreneurial businesses frequently turn to international business?
5. What are five common types of entrepreneurial businesses?
6. What kinds of jobs are best suited to telecommuting?

SOLVE GLOBAL BUSINESS PROBLEMS

Determine whether each of the following companies is primarily engaged in extracting, manufacturing, wholesaling, retailing, or providing a service.

7. Company that acquires kitchen appliances and sells them to construction companies.
8. Toy store.
10. Airline.
11. Company that printed this textbook for the publishing company.
12. Person who traps lobsters and sells them to seafood stores and restaurants.

THINK CRITICALLY

13. What actions could a government take to encourage the start up of new businesses?
14. How would differences in cultures affect the operation of a small business in various countries?
15. When you work from home, you need to be especially well disciplined. You also may miss interacting with other people. How could you overcome these disadvantages of working at home?

MAKE CONNECTIONS

16. GEOGRAPHY Describe how a country’s natural resources could encourage entrepreneurial activities
17. LAW What legal restrictions might a person face when starting a new business?
Self-Employment as a Career

When you own your own business, the good news is that you don’t have to listen to a boss anymore—because you are the boss. The bad news is that you can’t call in sick unless someone else can be trusted to keep things going.

Advantages of Self-Employment
The two main advantages of owning a business are independence and pride of ownership. A small business owner makes the company decisions and is at the center of action. Because of political and legal restrictions, however, this same independence may not be available to entrepreneurs in all countries.

As entrepreneurs achieve success, they usually gain a feeling of accomplishment. They gain confidence in their ability to organize resources, make decisions, and manage business activities. Serving customers, employing workers, and contributing to the economic growth of a community or nation can also provide a sense of satisfaction for entrepreneurs.

Disadvantages of Self-Employment
Being an owner-operator of a company also has disadvantages. The drawbacks of self-employment are the time commitment, uncertain income, and possible loss of investment. Every small business owner can tell you about...
the time involved. More than half of all small business owners who sell their companies do so because of boredom or burnout.

As a business owner, income is uncertain. In the first few years of owning a business, it is possible that the owner will not earn enough to get a salary. Business experts recommend that money be set aside for personal living expenses before starting a new business. Even after the business has been operating for awhile, poor economic conditions can reduce sales and profits.

Each year more than 50,000 businesses fail in the United States, with owners and other investors losing millions of dollars. In that same time frame, however, more than 600,000 new businesses start in the United States. After three years, statistics show that three out of four new companies will still be operating. Business failure is commonly caused by limited cash, poor management decisions, and a weak economy.

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**STREET ENTREPRENEURS IN LATIN AMERICA**

In Brazil, *feiras* provide a wide variety of healthy, fresh produce within walking distance of home. *Tianguis* are pushcarts that meet the personal service needs of consumers in Mexico. These local entrepreneurs have an ability to be where the customers are giving these informal retailers a competitive advantage over other types of stores.

Informal businesses and retailers are common in Latin America. These businesses include pushcarts, temporary street stands, and peddlers on foot, as well as unregistered offices, shops, and factories in homes and other locations. In Mexico, the number of street-vendor stalls is estimated at over 450,000. In Peru, an estimated 40 percent of the GDP occurs in the informal market. Throughout Latin America, this informal economy can represent between 40 and 60 percent of business activities.

While street vendors may post prices in writing, these informal retailers commonly “deal” with both regular customers and tourists. These negotiated prices can benefit the needs of low-income community members.

**Think Critically**

1. What economic and social factors cause a person to become a street entrepreneur?
2. What are the benefits and drawbacks of street entrepreneurs for a country?
QUALITIES OF SUCCESSFUL ENTREPRENEURS

What are successful entrepreneurs like? Most entrepreneurs have a desire for adventure. They are risk takers who are willing to give up a secure job in exchange for the chance to own and operate a business. Global entrepreneurs must consider the added risk of potential cultural, social, political, and legal barriers.

Is there some activity you participate in and perform well? Being self-confident is another quality of successful entrepreneurs. Successful entrepreneurs believe in themselves and believe they can get others to get things done. Remember that it may mean getting things done in different ways in foreign markets. People in different cultures have different attitudes and behaviors regarding work and business relationships.

Entrepreneurs spend almost all their time either on the job or thinking about their business. Hard-working people have the potential for being the most successful. Are you someone who is willing to put in extra time and effort for your business?

Someone once said that if you don't know where you are going, you might end up somewhere else and not even know it. A goal-oriented person has a clear direction for the company, stated in the business plan. Goals should be clear and realistic. Goals also should have a time limit for achievement and should be measurable in some numeric way. For example, a business goal may be to have ten new customers in Greece within the next three months.

A new product idea or an old idea presented in a new way can both be paths for entrepreneurial success. Creativity is a key to entrepreneurial success. Think about ways that existing products can be improved, or create a business that can make the lives of busy people a little easier.

Finally, knowing about the world of business is important for success as an entrepreneur. Business knowledge involves having an understanding of economics, organizational structure, decision making, selling, advertising, finance, and technology. Business knowledge for the global entrepreneur should include information about foreign cultures, exchange rates, shipping methods, product labeling, and more.

**CheckPoint**

What are the main characteristics of a successful entrepreneur?
Before you start any business, you should first develop a business plan. This document will guide you through the complex process of establishing, financing, and running a business.

THE BUSINESS PLAN

Every driver planning a trip, every team, and every company needs a plan to achieve its goal. A business plan is a guide used to start and operate a business. Every small business needs a plan to guide it to success. A business plan has two main uses. First, this document may be used to attract new investors or to convince a bank to lend money to the company. Second, the business plan provides a blueprint for company activities.

A business plan includes the seven main sections shown in Figure 9-2. The first three sections—the business description, the organizational structure, and the marketing activities—are all related to setting up a business.

Business Description

The introductory section of a business plan covers three topics. First, the legal name and location of the company is identified. Second, a brief description of the background and experience of the owners and main employees is provided. Third, a description of the company’s product or service, potential customers, and competition is presented.

Organizational Structure

Most businesses are organized as sole proprietorships, partnerships, or corporations. A company’s organizational structure, covered in the second section of the business plan, will be based on its size, number of owners, and method of financing. Companies involved in international trade and exporting would present information about their foreign business partners. This section would include an explanation of any joint ventures, licensing agreements, distributor contracts, and supplier relationships.

Marketing Activities

Two vital activities for every business, communicating with and serving customers, are discussed in the third section of the business plan. Marketing includes the business activities necessary to get goods and services from the producer to the consumer. Marketing activities include product or service planning, risk management, marketing information management, promotion, pricing, financing, distribution, purchasing, and selling.
Many companies organize this phase of their business with a marketing plan. A marketing plan is a document that details the marketing activities of an organization. A marketing plan includes information about customer needs, social factors, competition, target markets, economic trends, the political environment, and the marketing mix. Global marketing for companies involved in exporting and other international business activities will also take into account the geography, history, culture, and trade barriers of other countries.

**GEOGRAPHY:**

**AN UNCERTAIN FUTURE FOR THE WILDLIFE OF INDIA**

Their neighbors include crocodiles, leopards, rhinoceroses, tigers, and musk deer. The people in India share their land with more varieties of wildlife than any other nation. The country has over 400 national parks and sanctuaries to preserve these natural wonders. Despite protected areas, however, many species still face extinction.

Hunting and killing for food, animal skins, horns, and tusks result in vanishing breeds. Cutting down trees for firewood and using natural vegetation to feed livestock also threaten these endangered animals. Many species of wildlife no longer have the habitat necessary for survival. In recent years, the country had 140 animals on its list of endangered species.

As the second most populous nation in the world, India's diminishing resources are already stretched to an extreme. Tree planting and other conservation activities may help. Only time will tell if these efforts will allow for the survival of such animals as the jackal, Asiatic lion, and a tiny bird known as the Himalayan monal.

**Think Critically**

1. Conduct an Internet search for current information about the wildlife of India.
2. How could the extinction of various animal species affect the economic environment of a country?

Many companies organize this phase of their business with a marketing plan. A marketing plan is a document that details the marketing activities of an organization. A marketing plan includes information about customer needs, social factors, competition, target markets, economic trends, the political environment, and the marketing mix. Global marketing for companies involved in exporting and other international business activities will also take into account the geography, history, culture, and trade barriers of other countries.

**CheckPoint**

What are the first three sections of a business plan?
Chapter 9  GLOBAL ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. business plan  
2. marketing  
3. marketing plan

REVIEW GLOBAL BUSINESS CONCEPTS

4. What are the advantages of owning your own business? What are the disadvantages?
5. What are the two main uses of a business plan?
6. What kinds of marketing activities should be included in a marketing plan?

SOLVE GLOBAL BUSINESS PROBLEMS

Answer the following questions. If you answer “yes” to most of the questions, you probably would enjoy being a small business owner.

7. Are you comfortable making decisions even when others might not agree?
8. Do you have leadership ability? Are you respected as a leader?
9. Do you complete tasks without becoming discouraged?
10. Are you able to assess situations from different viewpoints?
11. Can you clearly communicate your ideas both orally and in writing?
12. Are you able to start a project without encouragement from others?
13. Are there situations in which a failure helped you to learn and improve?
14. Are you willing to do tasks that are necessary but unpleasant?

THINK CRITICALLY

15. Describe hobbies and activities that might be useful when preparing to be an entrepreneur.
16. In what ways would an entrepreneur use a business plan?

MAKE CONNECTIONS

17. TECHNOLOGY Use the outline feature of a word processing software package to outline the first three sections of a business plan.
18. STATISTICS Use the *U.S. Statistical Abstract* or a similar publication from the library or an Internet search to explore data about the number of companies, their size, number of employees, form or organization, percentage of small businesses in particular industries, and other statistical data. Create a bar graph or pie chart for one type of data.
The most important part of the business plan may be the financial planning section. Money is needed for many purposes when starting and running a business. Funds are needed to buy advertising, to pay employees, to purchase supplies, and to acquire equipment. A budget is a financial tool that estimates a company’s funds and its plan for spending those funds. One of the most common causes of business failure is lack of money to pay company expenses. Constantly changing exchange rates are an additional problem for small companies involved in international business. The process of financing a business starts with calculating operating costs and determining how to acquire the funds to pay those costs.

ANALYZING COSTS

One of the most difficult tasks when starting a new business is determining how much money will be needed to get started and continue operations. Start-up costs are those expenses that occur when a company is new. Start-up costs include equipment purchases, remodeling costs, legal fees, utility company deposits, and beginning inventory expenses.

Continuing expenses are business operating costs that occur on an on-going basis. Continuing expenses include rent, utilities, insurance, salaries, advertising costs, employee training costs, taxes, and interest on loans.

Variable costs are business expenses that change in proportion to the level of production. For example, the cost of materials and parts to make radios.
depends on the number of radios that are produced. If parts and materials cost $8 per radio, the variable costs for making 100 radios would be $800. The variable costs for making 10 radios would be $80.

**Fixed costs** are expenses that do not change as the level of production changes. For example, rent of $1,000 a month and a manager’s salary of $3,200 a month will be the same whether the company makes 10 or 100 radios.

### BREAKEVEN POINT

A comparison of variable and fixed costs with sales revenue will tell a company the amount of profit or loss. The **breakeven point** is the number of units a business must sell to make a profit of zero. Sales below the breakeven point will result in a loss for a business. Sales above the breakeven point will result in a profit for a business.

Calculating the breakeven point involves two steps. First, you must find the **gross profit** on each item you sell. The gross profit, or gross margin, is the difference between the cost of an item for a business and the price for which the business can sell that item. For example, a company can make a radio for $8 and then sell it for $12. So the gross profit on one radio is $4.

\[
\text{Cost} - \text{Selling price} = \text{Gross profit per unit}
\]

\[
\$12 - \$8 = \$4
\]

Next, you must calculate how many items you must sell to cover all the fixed costs for a business, the breakeven point. To do this, you divide the total fixed costs for a business by the gross profit per unit. In the example above, the manufacturer has fixed costs of $44,000. That company must then sell 11,000 units to cover all its fixed costs.

\[
\text{Total fixed costs} \div \text{Profit per unit} = \text{Breakeven units}
\]

\[
\$44,000 \div \$4 \text{ per unit} = 11,000 \text{ units}
\]

At the breakeven point of 11,000 units, costs are covered but no profit is earned.

### SOURCES OF FUNDS

Where do companies get the money to finance the start-up costs and continuing expenses? This funding can be secured in one of two ways, either through equity or through debt. **Equity funds** are business funds obtained from the owners of the business. Equity is the money the owners of a business have invested from their personal accounts.
Debt funds are business funds obtained by borrowing. The amounts owed by a business are called the debts of the company. Loans from financial institutions also help to finance companies and are debt funds.

**FINANCIAL RECORDS OF SMALL BUSINESSES**

The financial records of a company are like the scoreboard for a sporting event. Financial record keeping helps a business keep track of its financial status, just like a scoreboard helps fans keep track of how the teams on the field are doing. A balance sheet is the document that reports a company's assets (items of value), liabilities (amounts owed to others), and owner's equity (net worth). Assets include cash and anything that could be sold for cash, such as equipment, land, and inventory. The relationship among the items on a balance sheet is

\[
\text{Assets} - \text{Liabilities} = \text{Owner's equity}
\]

For example, if a company has $4 million of assets and $1.5 million in liabilities, the owner's equity is $2.5 million.

\[
$4 \text{ million} - $1.5 \text{ million} = $2.5 \text{ million}
\]

An income statement is a document that summarizes a company's revenue from sales and its expenses over a period of time, usually one year. On the income statement, a business will total all of the revenues it brings in as well as all of its expenses. It will then subtract the expenses from the revenues to find its profit or loss. For example, a company had sales revenue of $670,000 and $430,000 in operating expenses. Its profit would be $240,000.

\[
\text{Sales revenue} - \text{Operating expenses} = \text{Profit}
\]

\[
$670,000 - $430,000 = $240,000
\]

The continuing costs of a business are usually paid for with current cash flows. Cash flow is the inflow and outflow of cash. The major sources of cash inflows are cash sales and money collected from customers that is owed on account. Occasionally, a company will require additional cash inflows due to slow sales or a need to buy expensive equipment. When this happens, the business will need to borrow or get additional investments from owners.

The main cash outflows of a business are for current operating expenses, new equipment, debt payments, and taxes. A cash flow statement reports the current sources and amounts of cash inflows and outflows. Weak cash inflows are a major cause of small business failure.

**Checkpoint**

How does a balance sheet differ from an income statement?
MANAGING THE SMALL BUSINESS

In a large company, a manager is usually responsible for only one area of the business, such as marketing or finance. In a small business, however, the owner may be responsible for several or all areas of management. The five major management areas of every business are shown in Figure 9-4. These areas, along with a description of the business and the organization of the business, are all covered in the business plan.

MAJOR ACTIVITIES OF EVERY BUSINESS

THE PARTS OF A BUSINESS PLAN

1. Business description
2. Organizational structure
3. Marketing activities
4. Financial planning
5. Production activities
6. Human resources activities
7. Information needs

PRODUCTION MANAGEMENT
The factors of production are combined to create goods and services. Every business must produce something to sell. That something may not always be too obvious. For example, what does a school produce? Or what does a retail store produce?

The production department of a company may involve a factory with machinery or an office with computers. In both situations, production takes place. Production methods are influenced by the cultural and economic situation of a nation. A country with few machines will use more manual activities than automated methods.

HUMAN RESOURCES MANAGEMENT
Labor is probably the most important factor of production. Without people, highly automated equipment could not be built, operated, or repaired. Every business owner and manager must recognize this fact. Human resources are

Figure 9-4 Every company has five major management areas.

Figure 9-5 The management areas of a business are all covered in the business plan.
one of the most important components of every organization. Human resources management involves activities needed to obtain, train, and retain qualified employees.

First, a human resources manager must hire needed employees. A description that lists the qualifications for a job is advertised to prospective employees. Hiring involves screening applicants, interviewing candidates, and selecting the most qualified people for available positions.

A second major duty of human resources managers is training employees. Training does not occur only when a person starts a job. It is a continuous process. Technology, the economy, and legal rulings often have an effect on the job skills employees need in order to be productive. Continued training is important for all workers.

The final duty of human resources managers is to maintain employee satisfaction. Workers must be paid adequately so they do not become discouraged or leave the company. Most businesses also provide employee benefits such as paid holidays and vacations, medical insurance, retirement plans, and discounts for company products. Human resources managers also motivate employees with awards, bonuses, and prizes for productivity, customer service, safety, and ideas that save the company money.

Guy Roget worked to improve economic conditions in her community. She helped start a women’s organization. The group’s members contribute to a fund from which they borrow to start small businesses. Guy started her enterprise by selling seasonings on the street and eventually was able to save enough to acquire a tiny grocery store. Other women in the capital city of Niamey are involved in raising cattle, growing vegetables, collecting firewood, making pottery, and weaving brightly patterned traditional fabrics.

Think Critically
1. How do geographic and political factors influence business opportunities?
2. In what ways can community organizations encourage new business enterprises?
Information is something companies have always needed but usually didn’t think about too much. In recent years, computers and other technology have made information easier, faster, and cheaper to obtain. The main areas of information needed by every business include data about finances, production and inventory, marketing, and human resources.

A management information system (MIS) is an organized method of processing and reporting data for business decisions. An MIS involves a plan for all of the following.

1. Identifying a company’s information needs
2. Obtaining the information
3. Organizing the information in a useful manner
4. Distributing reports to those who make decisions
5. Updating data files as needed

Management information systems have created many new career opportunities: computer operators, programmers, systems analysts, database managers, computer service technicians, and information systems managers.

Sooner or later every business must choose one or more designated company languages to facilitate communication among its employees, suppliers, customers, owners, and regulatory agencies. As the business grows domestically and internationally, the language choice becomes more critical.

A very small business in India could use any one of more than 700 local languages. If it operates within one region of India, it might choose one of 15 governmentally recognized regional languages. If it operates throughout India, it might choose one of the official languages of the country, Hindi or English, which are spoken by less than one-third of the population. As the business spreads beyond India, it will probably choose English as the designated company language if it hasn’t already done so. Choosing English will allow international businesses to communicate in many countries around the world since most international businesspersons speak English as either a first or second language.

**Think Critically**

1. Why might choosing an official company language be more challenging for a very small business in rural India than for a very small business in rural United States?
2. Why would a business have two or more official languages?
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. budget
2. variable costs
3. fixed costs
4. breakeven point
5. gross profit
6. equity funds
7. debt funds
8. balance sheet
9. income statement
10. cash flow

REVIEW GLOBAL BUSINESS CONCEPTS

11. How do variable costs differ from fixed costs?
12. What are the three major activities of human resources management?
13. What is a management information system?

SOLVE GLOBAL BUSINESS PROBLEMS

Indicate whether each of the following business activities would be the responsibility of a marketing, finance, production, human resources, or information systems manager.

15. Monitoring information records on salaries and vacation time.
16. Creating a system to provide data for decision making.
17. Recommending advertising activities for the company.
18. Coordinating parts and supplies for the assembly line.
19. Projecting the organization's cash inflows and outflows.

THINK CRITICALLY

20. When expanding into another country, should a business use equity funds or debt funds? Explain your choice.
21. How could the culture of a country affect the duties of a human resources manager?

MAKE CONNECTIONS

22. TECHNOLOGY Find the web site of a major corporation that presents career opportunities in the organization. Find a job that appeals to you, and write a brief description of the job responsibilities.

23. MATHEMATICS Calculate the net income (or loss) of a company with $168,000 of sales revenue and $145,000 of operating expenses.

24. MATHEMATICS Calculate the breakeven point for a product selling for $5 with variable costs per unit of $3. Fixed costs are $38,000.
Entrepreneurs are important in the development of an economy because they create new products and services, create new jobs, and provide personal service. The main types of entrepreneurial businesses are extracting companies, manufacturing companies, wholesalers, retailers, and service companies. Telecommuting involves using a computer and other technology to work at home instead of in a company office or factory.

The advantages of self-employment as a career option are independence and pride of ownership. The disadvantages are the time commitment, uncertain income, and possible loss of investment. The first three sections of a business plan are the business description, organizational structure, and marketing activities.

Financing a small business involves determining variable and fixed costs while obtaining the use of equity and debt funds. The major business activities of a small business manager involve marketing, finance, production, human resources, and information systems.

Read the Global Focus at the beginning of this chapter, and answer the following questions.

1. What factors may influence the continued success of Chahta Enterprise in the future?
2. What actions would you suggest for Chahta Enterprise to expand in the global economy?
REVIEW GLOBAL BUSINESS TERMS
Match the terms listed with the definitions.

1. Business funds obtained by borrowing.
2. Business expenses that change in proportion to the level of production.
3. Business funds obtained from the owners of the business.
4. An independently owned and operated business that does not dominate an industry.
5. The business activities necessary to get goods and services from the producer to the consumer.
6. A financial tool that estimates a company’s funds and its plan for spending those funds.
7. A guide used to start and operate a business.
8. The document that reports a company’s assets, liabilities, and owner’s equity.
9. Expenses that do not change as the level of production changes.
10. A risk taker who operates a business.
11. The production level at which profit is zero.
12. The inflow and outflow of cash in a business.
13. Using a computer and other technology to work at home instead of in a company office or factory.
14. A document that details the marketing activities of an organization.
15. The document that summarizes a company’s revenue from sales and its expenses over a period of time.
16. The difference between the cost of an item for a business and the price for which the business can sell that item.

MAKE GLOBAL BUSINESS DECISIONS

17. What are some problems in the world that might be solved by new products or services created by entrepreneurs?
18. Name some ways small businesses can provide personal service better than larger companies.
19. Why are wholesaling companies important to the business environment of a country?
20. Why do people give up secure jobs and start their own businesses?
21. Explain how a budget helps a business.
22. As a manager, how would you decide if you should let some employees work from their homes?

GLOBAL CONNECTIONS

23. GEOGRAPHY Conduct library research about entrepreneurial activities in other countries. Locate articles and other information about new businesses, the types of products and services they offer, and the problems they encounter. Prepare a short written or oral report about the influence of geographic factors on the success of entrepreneurs in various countries.

24. COMMUNICATIONS Interview the owner of a small local company about the influences of international business on the firm's activities. How has the company's competition changed due to global business? Are any local companies owned or controlled by foreign corporations?

25. VISUAL ART Create a poster or bulletin board display with variable and fixed costs for different types of businesses. Use magazine photos or create drawings to show examples of these two types of business operating expenses.

26. CULTURAL STUDIES Talk to someone who has lived in or worked in another country. Obtain information about the types of small businesses operated by entrepreneurs in that nation. Ask how the accounting procedures and record-keeping activities used in that country differ from those in other countries.

27. SCIENCE Research recent technology to obtain information about a scientific development that could create new opportunities for home-based businesses.

28. MATHEMATICS A company sells shirts for $15. Each shirt has a variable cost of $9. The company has fixed costs of $7,200. What is the breakeven point for this business?

29. CAREER PLANNING Interview the owner of a small business who exports or sells imported products. Ask the entrepreneur about the skills needed to be successful in that type of business. What should a person learn in school to prepare for a career as an entrepreneur?
STARTING YOUR OWN BUSINESS

Develop a plan for starting your international business based on the company you have been using in this continuing project, or create a new idea for your business. Make use of previously collected information, and do additional research. This phase of your business plan should include the following components.

1. **General description of the company**—list the name, location, and major international business activities of the company.

2. **Organizational structure**—(a) explain what type of organization (sole proprietorship, partnership, or corporation) the company uses; and (b) list foreign business partners (joint ventures, licensing agreements, distributor contracts, and supplier relationships).

3. **Marketing activities**—describe the company’s customers, distribution systems, and advertising methods.

4. **Financing activities**—(a) estimate start-up costs, and (b) estimate sources of cash inflows and operating expenses for the company’s global business activities.

5. **Production activities**—explain how the company obtains the products or services it sells.

6. **Human resources activities**—list the main types of jobs in the company and the general qualifications needed for these positions.

7. **Information needs**—describe financial, production and inventory, marketing, and human resources information needed by managers to make appropriate international business decisions.
Organize International Business Activities

When international enterprises begin operations in other countries, decisions related to organizing their business activities are needed. To gain a wider perspective for these decisions, companies frequently use cross-cultural teams.

GOAL
To organize international business activities using information from various regions of the world.

ACTIVITIES
Working in teams, select a geographic region you will represent—Africa, Asia, Europe, Latin America, Middle East, or North America.

1. Obtain information related to the major imports, exports, regional trade agreements, major currencies, and common legal systems in your region. Library materials, web research, and personal interviews are recommended.

2. List major imports and exports of several countries in your region. Explain why these items are commonly bought and sold by people in the region.

3. Identify the major currencies in the region. Research factors that might affect the value of these currencies. If possible, conduct an interview with a person who has visited this region to obtain information about the monetary system and shopping activities. What economic and political factors influence currency values in the region? How do these differ from factors in other regions?

4. Locate examples of laws that affect business activities and international business trade in your region. How do these compare with business regulations in other areas of the world?

5. Small businesses are important for jobs and economic growth in every country. List the common types of businesses of small organizations (less than 10 employees) in your region. What difficulties are commonly faced when starting or operating a small business in your region?

6. Global Business Decision. You and your team are planning to start a new business. What type might have the greatest success in most regions? If your team could only locate the company in one region, which one would you select?

TEAM SKILL
Characteristics of Productive Teams
The measurement of a productive cross-cultural team can be influenced by the history, traditions, and culture of a region. Create a list of characteristics of a productive team. What items on the list differ for different regions?

PRESENT
- Prepare a summary report of your regional information.
- Make a 1-2 minute presentation to report a couple of key findings from your research and your simulated cross-cultural team experience.
Extemporaneous Speaking

Success in the business world depends on strong communication skills and the ability to make decisions within a limited time frame. Extemporaneous speaking provides you with the opportunity to analyze a situation or topic for a short amount of time and then present a speech to actual business leaders who determine the effectiveness of the communication.

Public speaking is enhanced by the confidence gained from experience. International business has numerous issues for possible speech topics. Some examples of international topics include the North American Free Trade Agreement, technology jobs transferring to India from the United States, illegal immigrants working in the United States, and trade barriers.

When participating in extemporaneous speaking, you will improve your chance for success by reading current international events and watching the news. Taking an international topic from the news and outlining the main points to highlight in a speech can help you gain valuable experience.

Tips to prepare for extemporaneous speaking include:

- Watch the news and read newspapers to keep up-to-date on the latest international events.
- Outline news items and strategies to solve different problems.
- Record personal experiences involving customer service and how businesses could handle situations more effectively.
- Network with business leaders who provide practice extemporaneous speeches.
- Enter competitions on the local, district, state, and national levels to increase confidence.
- Dress professionally to feel confident.

PERFORMANCE INDICATORS EVALUATED

- Understand immigration laws in the United States.
- Explain why U.S. companies hire illegal immigrants.
- Discuss the reasons why United States should be concerned about illegal workers.

For more detailed information about performance indicators, go to the BPA web site.

THINK CRITUICALLY

United States has numerous illegal immigrants from Mexico working in construction, landscaping, agriculture, manufacturing, and food processing.

1. What should the U.S. policy be for these illegal immigrants? Why?
2. How will the policy be maintained?
UNIT 3

MANAGING IN A GLOBAL ENVIRONMENT

CHAPTER

10 Management Principles in Action
11 Human Resources Management
12 International Career Planning
13 Organized Labor
In 1962, the press was there to record Peter Fechter as he was shot and killed by East German border guards when he tried to climb the Berlin Wall to freedom. He was one of 191 East Germans who lost their lives trying to escape to the West. But at midnight on November 9, 1989, an extraordinary event happened. The gates opened, thousands of East Germans rushed around and over the Berlin Wall, and the guns remained silent. Border police, who had previously been ordered to shoot anyone who went near the Wall, now lifted small children so they could set foot on the other side. The Wall had stood for 28 years as a symbol of the Cold War that had divided Europe and simultaneously imprisoned eastern Europe under the rule of the Soviet Union. Berliners from both sides were overwhelmed.

East Germans proclaimed the following with glee, “I don’t feel like a prisoner anymore!” “This is the most marvelous moment of my entire life.” “Everything we ever really wanted suddenly came true.” “Knock it down.”

And so they did. Within days, souvenir pieces of the Wall were turning up all over the world.
The Roman Empire

The nearly half century of Soviet dominance over eastern Europe was relatively brief when compared to the Romans, who controlled western and southern Europe for more than five centuries. They were able to subdue their neighbors with superior military forces. The Roman Empire forced people of different cultures to live together. It established local governments that took orders from Rome and created an economy that depended on roads, bridges, and public buildings.

The Roman Emperor Constantine gave Christians freedom of religion in the year A.D. 313. By 392, Christianity had become the official religion of the Roman Empire, and it continued to strengthen its influence in Europe by making alliances between popes and various kings who ruled the continent. On December 25, 800, Charlemagne—a Frankish king who had conquered nearly all the Germanic lands—was attending church services at St. Peter's Cathedral in Rome when Pope Leo III placed a gold crown upon his head. The Pope proclaimed him Charles Augustus, "Emperor of the Romans." Charlemagne pretended to be surprised, but some evidence suggests that he and the Pope had planned this coronation after Charlemagne's armies had rescued the Pope from his enemies.

The newly crowned emperor expanded his empire until it stretched from the Danube River to the Atlantic, from Rome to the Baltic Sea. Those living within the empire who were not already Christians or Jews were forced to accept Christianity. They were also forced to accept all laws made at Charlemagne's capital at Aix-la-Chapelle (present day Aachen, Germany). These were diverse people who lived great distances from one another and spoke many different languages.

The task of controlling the empire was too great for Charlemagne's successors. After his death, the empire began to dissolve as local nobles regained power. This set the stage for a return to the political and economic system known as feudalism, which had preceded Charlemagne's empire.

The Byzantine Empire

At the same time that Charlemagne was building his empire, the Byzantines in southeastern Europe were fighting to control land on both sides of the Mediterranean Sea. The Byzantine Empire was the eastern portion of the Roman Empire, which survived after the western provinces and Italy were lost to the Germans. The empire was centered in Constantinople (present day Istanbul, Turkey), which was built on a point of land above the Bosporus Straits that separates Europe and Asia. Throughout history, Persians, Arabs, Russians, Europeans, and Turks have fought over this strategic location because it links the trade routes between Europe, the Middle East, Asia, and Africa.
Other Attempts to Control Europe
Later attempts to control the European continent were short-lived. Napoleon I, like Charlemagne, wanted to be crowned emperor by the Pope, who at that time was Pius VII. Unlike Charlemagne, however, the French Emperor called the Pope to Paris, where he took the crown from the Pope and crowned himself. By 1812, Napoleon controlled most of Europe. Nevertheless, his dreams were soon destroyed when most of his empire rebelled against him after his disastrous invasion of Russia.

Hitler's attempt to control Europe started World War II. His country house at Obersalzberg offered him a view of the Untersberg, where, legend has it, Charlemagne sleeps and from where he will return in glory. Hitler said it was no accident that his residence sat opposite this great emperor. By 1941, Hitler's armies occupied most of Europe, threatened England, and marched into Russia. Hitler committed the same mistake as Napoleon: He stranded his troops in the harsh Russian winter, and Soviet counter thrusts stopped the German advance.

Conflicts between Ethnic Groups
The many ethnic groups of eastern and southeastern Europe have lived side by side within empires for centuries. Many conflicts have resulted from their nationalistic interests in self-determination. Bulgaria, Greece, Montenegro, and Serbia declared war on Turkey in 1912 to free members of their nationalities from Turkish rule. In 1914, a Serb assassinated the Austrian Archduke Franz Ferdinand in support of Bosnian nationalism. This event helped begin World War I. When they sought greater freedom, the Hungarians (in 1956) and the Czechs (in 1968) were violently crushed by the Soviets, who dominated the region after World War II.

As the might of the Communist systems in the Soviet Union and eastern Europe crumbled in the late 1980s and early 1990s, some nationalist forces peacefully formed new governments. Others, such as those in the former Yugoslavia, began killing each other over historical hatred or current jealousy.

Europe's Contributions to Civilization
Although the history of this continent is heavily marked by wars and political repression, its writers, explorers, philosophers, scientists, and artists have created a world that is known as Western Civilization. The entire planet has been enriched by the likes of Homer and Plato, Chaucer and
Shakespeare, Michelangelo and Renoir, Pasteur and Einstein, and Bach and the Beatles.

Europeans have contributed many things to the world, including self-government; the abolition of slavery; the first microscopes and telescopes; vital antiseptics and vaccines; theories of evolution and psychoanalysis; and initial discoveries in molecular physics, electricity, radioactivity, relativity, and rocketry.

The European Union

While strong nationalistic values continue to separate Europeans, another attempt to unify the region is in progress. The key players this time are not emperors and dictators with swords and tanks. Rather, they are economists armed with arguments about competition from the United States and Japan. The European Union has eliminated trade barriers among the member countries with a European Central Bank and a common European currency. The Treaty of Maastricht provides for a common European citizenship and European passports.

Think Critically

1. Use the Internet and the library to research any nations in existence today that base their authority on a particular religion. Which nations base their authority on a religion? Do they have anything in common?

2. Do you think that a powerful nation should force people of different cultures to live together peacefully as one nation?

3. Europe has many ocean port cities and inland waterways. A number of countries have excellent railroad systems and highways as well. How does this affect trade among nations in Europe? How does it affect different cultures in Europe?

4. What effect do you think the European Union will have on the individual cultures within the member nations?
## Country Profile/Europe

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<th>GDP growth rate</th>
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N/A = Data not available.