PROFIT AND PERIL

Secrets to Global Expansion

Letter From the Editor
Crossing Borders

For executives in the C-suite, there is nothing quite as exciting as embarking on a new international strategy. Once they clear customs, they face a whole new world of adventure and opportunity—and they hope, open doors.

But going international is a big decision, whether this initiative involves an acquisition, launching a new product, or entering a country to expand an already successful company. It is one that is never made lightly because it can involve significant capital, time-consuming management and travel, the challenge of finding the right local team members and more.

Certainly any initiative like this brings new and unforeseen risks to the enterprise. But it's fresh. It's new. It's promising. It can add new revenue streams, create more market share and, one hopes, enhance corporate profits and reputation.

Going across borders can be a real head-scratcher, though. The hardest part is knowing what questions to ask—recognizing what you don't know. Often, you may think you know what needs to be addressed, when in truth, once your team gets on the ground and starts trying to actually conduct business, they realize it really is a whole new ball game.

Everyone has to start with basic assumptions to develop a business plan, but are those assumptions true or false? What are they based on? Somewhere in that nuanced gray area where subtleties about a country's culture and customs, business climate and policies merge, lies the truth.

If every country is different, then how are they different, why, and in which areas of concern to your bottom line?

This special report sheds light on the profits and perils of internationalization. The opportunities are enticing, but the challenges are too great to ignore. These experts offer many insightful comments on what kinds of questions and challenges came up during the adventures they have experienced.

Leslie Haines, Editor-in-Chief
Oil and Gas Investor

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PROFIT AND PERIL

Secrets to Global Expansion

By Denise Patrick, Managing Director, Energy Markets Access

Deciding to do business in another country involves risks; sometimes enormous risks. But it also offers you rewards to match.

If it works, you and your company can become true global players, able to compete with your largest rivals. But, as we all know, there are always opportunity costs to be paid when you gamble on expanding your business into the international arena.

Centuries ago, when global trade began, all you had to rely upon as a leader was your vision, trust in your people and what little information you could glean from other travelers. But these early business leaders triumphed in spite of the odds. Markets were discovered, companies established and goods traded.

This report takes a close look at what companies need to succeed internationally in today's world—and to what degree vision, trust and information still matter. During the past 24 months, our research team has spent hundreds of hours listening to and analyzing stories about internationalization from executives

participating in the energy markets. Their experiences carry important lessons for all of us.

Methodology

Building on qualitative research begun in 2012 ("How to Succeed in the U.S. Marketplace, Lessons Learned from INTSOK Partners in Houston"), Energy Markets Access and PKF Texas, along with our Advisory Board members made up of international experts from BBVA Compass, Pierpont Communications, LooperGoodwin, Masterword Services and the Houston Technology Center, interviewed executives with offices in North and South America, Europe, Asia, Russia, Africa and India, among others. The majority of the sample was drawn from mid-size companies (revenues of $50 million to $500 million USD) serving the oil and gas industry along various points of the value chain. A total of 125 hours of interviews led to the findings in this report.

One half of the group was made up of U.S.-based companies expanding internationally; the other half consisted of companies internationalizing into the U.S. Also included in the interview process were buyers (i.e., international oil companies, national oil companies, independent producers and large service companies) of international goods and services in the industry. While more than half of the group was involved in the upstream sector (both offshore and onshore represented), we also talked to players serving the midstream and downstream sectors.

The qualitative process we followed utilizes open-ended questions to obtain in-depth answers. Closed-ended questions requiring yes or no answers were avoided when possible. We wanted people to share their thoughts on a topic without giving them extensive directions or guidelines to uncover the most authentic and truthful information.

The participants were free to answer as they chose. One might talk about the market opportunity, another about customer service and others about the supply vendors available. Depth is the important factor in this type of research. By conducting a conversational interview, follow-up questions can be asked of each individual to better understand their responses and insights.

To understand the participants' behavior, along with their impressions of their experience of internationalizing, we focused the interview on three crucial areas:

- Motivation: Why did you decide to internationalize?
- Actions Taken: How did you approach the process?
- Direction: What key lessons did you learn along the way?

Sample questions included:

- WHY? How did you first decide to expand your company internationally?
- HOW? What surprised you most about the new market?
- WHAT? In your opinion, what are the top three lessons you could offer other companies?

Initially, we were very interested in identifying the differences in how companies around the world approached international expansion. Like most people, we assumed there would be differences. We assumed, for example, that companies from countries with strong economies would automatically have greater success. It turned out we were wrong. Yes, there were cultural nuances in style and circumstantial

details, but fundamentally everyone told us the same story. Over and over and over again.

And the Story Goes Like This

Deciding to Internationalize: You and your team have to decide if the opportunity is worth the risk. There is a lot to consider. What is your vision? What exactly are the risks involved? And, most importantly, what is your actual battle plan to win customers and generate revenue? You need some answers to these questions before it is possible to decide if the rewards outweigh the costs and if you are up to the challenge.

Establishing a Presence: You quickly realize you are going to need all the help you can get to enter a market already populated with competitive choices, so you start lining up your crew. You'll need people (from both inside and outside the company) to help you adjust your strategy and tactics to the local economy. Taxes, visas, banking, financing and human resources—these are just a few of the on-the-ground realities you will be dealing with.

Strategies That Work: Finally, it all comes down to performance. Did you get the market share you wanted? Were you able to interrupt the status quo with a truly competitive advantage, successfully gaining and keeping local customers? How did this venture pay off for you and your stakeholders?

In the following pages, we will share with you the thought provoking findings from our research. Along with the hard-won lessons from your peers, we've also included pragmatic expert advice from our International Advisory Board to help you develop strategies that work.

Whether you're considering opening a new market or just need ideas to tweak your current strategy, we hope this research will offer you additional perspective and practical answers to help you in your mission.

First, let's look at what our research revealed in three areas:

- Deciding to Internationalize
- Establishing a Presence
- Strategies That Work

Key Lesson

No matter where you go, it's different than where you came from. Always remember to check each assumption from your plan against the reality of the market.

Establishing a Presence

Once the companies were on the ground,

Once the companies were on the ground, the differences in the local business environments became clear. The risks (and the rewards) were much more apparent.

the differences in the local business environments became clear. The risks (and the rewards) were much more apparent. Our interviewees had lots of great stories to tell about their experiences overseas, and their comments clustered around three main topics:

- Business Practices
- Buying Behavior
- Culture and Communication

Business Practices

Every company we spoke with emphasized how important it was to mitigate the risks of internationalizing by making sure you really know how business is conducted in the country you are entering. The hardest part may be knowing what questions to ask and which answers to trust; once that problem is solved, you can weigh the effect of the answers on your bottom line.

"I think that we get so accustomed to doing business in the U.S. that we don't consider whether our business practices may have to change when working in another country. I can't tell you how many times we have to remind ourselves that we aren't in the United States, we are in China."

CONSULTANT, HEADQUARTERS US

"The business model and the opportunities for business are usually scoped out by both our CEO and the regional general manager responsible for the area. Then the decision is made at their level to go ahead and open an office, and then it's handed over to me to get it done. I coordinate all the legal, accounting, tax and incorporation requirements, bank accounts, etc. Then, we choose a form of legal entity status and set up the infrastructure side of things. I would have to say that every country has been different and unique in its own way and that the most important thing is to be culturally sensitive to not only the people, but the local requirements for doing business."

CFO, HEADQUARTERS US

Buyer Behavior

This was the second common thread running throughout our research. Buying behavior in the oil and gas industry has changed just as dramatically as the amazing technological advances we've experienced. Companies entering an economy from outside face buying cycles, vendor relationships and supply chains that are harder than ever to break into. While more than 80 percent of those interviewed had access to recent secondary market research, they had not researched their new market thoroughly. There were obstacles and realities on the ground that needed to be addressed and dealt with in order to win enough business to justify the investment. The main obstacles they faced were global competition, organizational structure, buyer decision making and marketing and sales tactics.

GLOBAL COMPETITION

"There has been a big increase in competition, and as the market matures, customers try to commoditize our products and services. They

want to make us all the same so they can push on pricing. You are now in an aggressive competitive situation. That shift in business attitude and opportunity can be hard to try and communicate back home because they are not on the ground here."

SENIOR VICE PRESIDENT, HEADQUARTERS SCANDINAVIA

"*We have a lot more competitors than we thought and we have to think about how we are going to brand ourselves against these competitors.*"

SENIOR DIRECTOR, HEADQUARTERS UK

"*From the sales side, we are not used to working in an environment where you actually have to market to be able to compete. Back home, we're the big dogs. Customers call us. Here, we're one among many selling into the big engineering companies.*"

DIRECTOR, HEADQUARTERS SCANDINAVIA

ORGANIZATIONAL STRUCTURE

"*What we didn't know was that the way Shell worked in the U.S. was very different from how it worked in Europe.*"

SENIOR MANAGER, HEADQUARTERS EUROPE

"*Understanding someone's way of doing business is very important when you go there to sell. For example, in certain regions they may be less likely to do pilot projects, and that's important because you might spin your wheels when you could have sold to their competitor.*"

DIRECTOR, HEADQUARTERS US

"*Companies like Halliburton and Schlumberger are enormously complex. I think it is worthwhile trying to find somebody in a company who is willing to sit down and draw the chart to tell you, 'Okay, here's what this group does, here's what that group does, and here are the people who can influence the decision.' You need somebody in the field who can help you determine who the real buyers are and what their motivations are, based on the situation they are facing on that project.*"

VICE PRESIDENT, BUSINESS DEVELOPMENT HEADQUARTERS US

HOW ARE BUYERS MAKING THEIR DECISIONS

"*Understanding people in the company and understanding the structure of an oil company and who the key decision makers are and what benefits they are interested in, is crucial. Most of the time, buyers in different markets are driven by different desires. Finding out what matters to them is vital if you want to eventually succeed.*"

CEO, HEADQUARTERS SCANDINAVIA

MARKETING AND SALES TACTICS

"*I think mid-market companies tend to go in and out of the countries too frequently instead of staying on site or in the country for a while. They tend to just fly in and fly out, and they don't return soon enough; they don't follow up on meetings or actions they have agreed to with other people.*"

SENIOR PROJECT MANAGER, HEADQUARTERS US

"*I think a lot of companies who work in foreign countries need to do a better job researching what they need to do to get their foot in the door. Sometimes they might hire local people as agents. I think this can be quite risky in some cases if you give over too much autonomy and control. You can't assume they will care about your business as much as you do.*"

SENIOR MANAGER, HEADQUARTERS US

"*When you go to the Middle East you might spend the first couple of weeks getting to know whom you are going to work with. In the States, we are so used to thinking 'I will sell you X, you will pay me Y and we have a deal!' The process can be much slower in other countries.*"

INTERNATIONAL TRADE ADVISOR, HEADQUARTERS US

"*When I was trying to get into business in India, I didn't have any connections, so I took to the telephone log and started calling the companies I wanted to be in contact with. I explained my situation and, surprisingly, it didn't take long before somebody took an interest and started the ball rolling. That*

Key Lessons:

- Learning how to succeed in another country takes time, and time in every country is measured differently.
- Avoid wasting your set up costs by being aware of local business regulations. Get the answers you need.
- How businesses make buying decisions varies from market to market. Ask questions and adjust your value proposition accordingly.

would never happen over here in the U.S. Here, people are much more guarded with their time."

CEO, HEADQUARTERS EUROPE

Culture and Communication

Another common issue centered on language and cultural differences. Being able to understand the context of a communication with your customer and the different rhythms of the day, or just knowing how to appropriately show your appreciation, can be a deciding factor between success and failure.

"*I've always been very interested in history, so I took time trying to know more about the historical background, what the culture was, how things worked, and that was what actually gave me an advantage. It was easier to establish credibility because they could tell I took time to learn something about their culture. In the Middle East, if you know something about their history and there is genuine interest in your product, then you get a whole new set of doors open to you. That was an important lesson I learned there.*"

SENIOR VICE PRESIDENT, EUROPE

"*I think another key to our success is that we don't have a lot of hard and fast, black and white policies and procedures that have to be followed, other than legal and tax requirements. We put in what is necessary to measure success along the way, and then we work individually with each site to do what's best for them.*"

CFO, HEADQUARTERS US

"*We had to adjust to different holiday schedules, different approaches to time. Americans race after time. They want quick follow up, keep everything moving. We had to learn to make sure we communicated when we were going on holiday and to be very clear about responding quickly to emails, even if it was to say we would answer their question by X date.*"

SENIOR VICE PRESIDENT, HEADQUARTERS SCANDINAVIA

Strategies That Work

Companies who reported themselves as successful displayed several behaviors in common. Each of them were more likely to have made a strong commitment of time and money; were flexible in considering

their approach; built strong networks; and made sure they stayed alert to what was happening on the ground. Every thriving company also credited having the right leader and the right team as key to the success they enjoyed. Winning strategies shared the characteristics of commitment, flexibility in strategy development, staying alert to key indicators of success and having the right team in place.

COMMITMENT

"First of all, if a company is going to look at coming here or going overseas, the first thing that they have to realize is that they need to be prepared to make the commitment to do it, at least a minimum of up to 2 years. They need to have a presence here and the office needs to be manned by people who have the authority to make decisions."

VICE PRESIDENT, HEADQUARTERS SCANDINAVIA

"They were thrilled to see someone come down who spoke Spanish, that was in their time zone, was willing to put local people on the team, etc. It took about a year of work after our first meeting but we just got our first major order in Chile last week. It was a year of hard work. But the customer is paying a premium to have service and support in his time zone, in his language, using his business practices."

CEO, HEADQUARTERS US

FLEXIBILITY IN DEVELOPING STRATEGY

"I think the business plan is the second step. I think the first step is research and preparing a white paper on what you see as the opportunities and maybe a list of key contacts. From there maybe you can expand it as a business plan. You have to look at what you do as a company and where the opportunities are to see if there is a good match. In some cases, you have to decide whether you want to take the lead and pursue opportunities or if you want to be in a supporting role to someone else. You have to look at all the options for entry."

SENIOR DIRECTOR, HEADQUARTERS US

STRONG NETWORK

"The first important thing is to make good contacts through both other American and foreign companies operating in these specific countries, and also with the government sources, such as the embassy and especially the foreign commercial service personnel in these countries."

SENIOR DIRECTOR, HEADQUARTERS US

"Another example: I was in a hotel in Dubai waiting for one of my local guys, and I was listening behind me to this guy and an American pump manufacture talk for about 30 minutes. Finally, I went over to the American and said, 'I don't know much about what the heck you're doing with this guy, but I've been listening for 30 minutes and this guy doesn't know what he's talking about. I'll have one of my guys pick you up in the morning and show you the factory, I'll introduce you to real people here and you can get some business,' and I did just that."

CEO, HEADQUARTERS US

ALERT ON THE GROUND

"From the operation side, we have a standardized report that all the offices have to complete when they make sales calls. In our business, we can tell volumes by how many tanks they've booked. If they aren't booking tanks, then we are calling them and finding out why they haven't, and finding out fast. At the beginning, we are in touch with them every single day; but as we each get more comfortable, then that drops down to once a week. We make a trip to all the offices at least 2-3 times a year."

CFO, HEADQUARTERS US

"Each local general manager, sales manager, is required to prepare a monthly sales report to their manager, and that's submitted to the CEO. He reads through all those reports on

Key Lessons:

- Integrated teams work the best. Round out your team with local talent.
- Choose a leader with entrepreneurial drive and a team focus. Have a strong sponsor from the home office serve as mentor and advisor.
- Reliable, continuous, open communication has to flow in every direction: to and from leadership, to and from the local country.

a regular basis, asks questions, and supports and drives business from his office. It's very much hands-on in that way and he enjoys it. I think that's how a lot of opportunities have been really grabbed and capitalized."

VICE PRESIDENT, HEADQUARTERS US

"From a finance and accounting standpoint, there are regular monthly financial reports, and we've just recently developed a Skype meeting during which my corporate controller is holding anywhere from an hour and a half to two hour monthly meetings. The idea is to spend a small amount of time on the financials and spend the rest of the time on discussing any other issues that have developed with the business, whether it's tax audits or issues with a customer, credit collections, that sort of thing."

CFO, HEADQUARTERS US

"In the old days we relied on hand shakes. Now it's all contracts."

PRESIDENT, HEADQUARTERS US

RIGHT TEAM

"You need someone who understands both cultures—the local culture and the home culture. That's the challenge. You need a leader who can build the bridge between the corporate home office and the people over here."

DIRECTOR, BUSINESS DEVELOPMENT, HEADQUARTERS AUSTRALIA

"Almost exclusively our in-country teams are made up of primarily local people. One of the successes of our company has been that we choose strong, trustworthy and, in most cases, known individuals that we can rely on to start the business, grow it and create additional sales and market share."

CFO, HEADQUARTERS US

"Certainly, above all else, you have to choose someone with integrity and who is open enough to share what issues might be happening. The second is that they have to be able to think as an entrepreneur, yet work within the corporate guidelines. Sometimes the two things don't mix. You can get a real race horse who doesn't want to be told what they can do or you can get someone who was a great manager at home but doesn't have the drive to build something from the ground."

VICE PRESIDENT, HEADQUARTERS US

Concluding Observations

Every time you travel, a new world opens up. Suddenly, vistas expand and horizons extend. The participants in this study brought many rewards back to their companies and economies: new customers, new vendors...new revenue.

Looking back on their experiences, very few of them could have predicted exactly how it would turn out. But, down to a person, they were brave enough to try.

Without a doubt, the leaders who focused on their vision (no matter how blurry in the beginning), developed a strategy to execute that vision, and then kept an eye on how their experiment was working–those were the companies who enjoyed the most success.

Those successful leaders kept asking questions. They continued to build their network. Their curiosity and drive were two of the strongest factors in determining whether or not they adapted successfully to the new global marketplace. ■

"When the opportunity showed itself, we grabbed it."

CEO, HEADQUARTERS US

Energy Markets Access
www.energymarketsaccess.com

Six Questions That Help Ensure International Success

John Hurter, President and CEO, Energy Markets Access

Asking the right questions before you expand internationally can reduce your risks and dramatically increase your likelihood for success.

1 HOW MUCH MARKET RESEARCH HAVE YOU REALLY DONE?

It takes time, resources and money to establish an international company. It makes sense to:

- Know your market: Leverage all available resources for knowledge on local trends, potential barriers and issues as well as the market forecast.
- Understand your customers' businesses: Who are their key decision makers? What is their supply chain strategy and what drivers influence their buying decisions? How much do they need your offering?
- Know your competition: How are similar offerings positioned and perceived by your target clients?

2 DO YOU HAVE A DEFINED VALUE PROPOSITION AND BUSINESS CASE?

Most companies expand their business internationally on the back of a successful product or service from their home market. The successful companies adjust their approach and offering to meet the differences in local market forces and customs. How will you adapt your product to what local customers consider "valuable" and "buyable"?

3 HAVE YOU SURVEYED OR INTERVIEWED LOCAL CUSTOMERS AND EXPERTS?

You can't know what you don't know. Meet key people in your target market who can share their experiences and provide insights. These contacts are also the basis for your local network.

4 DO YOU HAVE A FORMALIZED BUSINESS PLAN WITH A BUDGET AND ACTION PLAN?

Your plan should lay out the goals of your organization, its strategy and the actions needed to reach business objectives within a realistic budget. It is nearly impossible to recognize valuable data, adapt to change, attract talent or win customers without a well-supported, well-communicated and well-implemented business plan.

5 ARE YOU PREPARED TO BUILD A FOREIGN NETWORK?

- Ask for leads on international resources from trusted advisors in your home market.
- Leverage data from government and industry organizations in your target market, focusing on information relevant to your market niche and target customers.
- Seek out local expert advice that may help you differentiate your offering from competitors' offerings.

6 HAVE YOU STUDIED THE LESSONS LEARNED FROM OTHERS EXPANDING INTERNATIONALLY?

Interview your senior managers and peers to tap into in-house knowledge. Discuss your plans with your trusted advisor network in your home market. Read research reports about your target market to identify high-level roadblocks. Interview contacts with proven local market experience. ■

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Planning in the Age of Uncertainty

Which Way Is the Future?

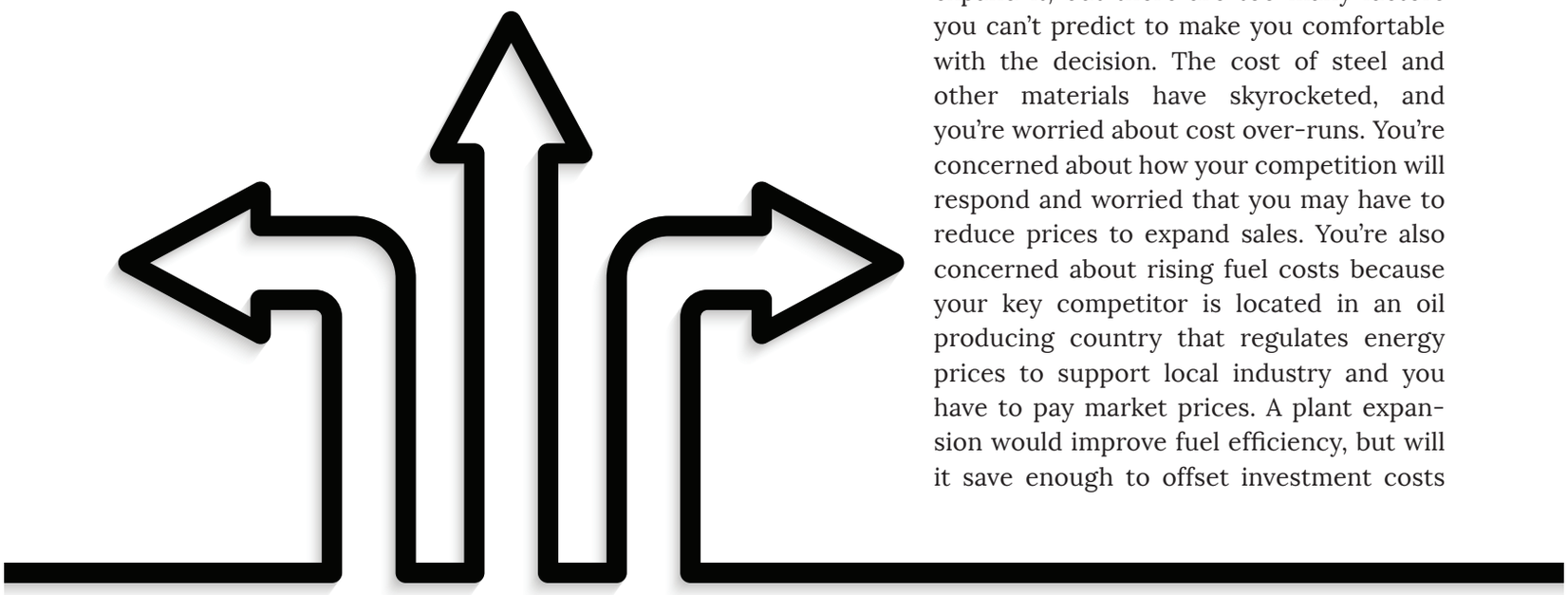
Nick Tillman, Houston Technology Center

Business schools teach that the best measure of the value of a business is the cash that's generated by the business. This is usually defined as the net present value (NPV), or the current value of the cash flow the business will generate in the future. According to the textbooks, selecting between strategic options is easy: you simply pick the one that generates the highest NPV because that's the one that maximizes the value of the business. But here's the problem: we can't know for sure the cash flow the business will generate in the future because we don't know for sure what the future will look like.

That's why it's important to understand risk and uncertainty and to test strategies against alternative views of the future.

A detailed, robust financial model or financial software is a valuable tool for evaluating strategic options and monitoring business performance. A well-constructed model can allow you to isolate key business drivers and use statistical techniques to assess the relative risk of strategic options.

Let's say you have a plant and want to expand it, but there are too many factors you can't predict to make you comfortable with the decision. The cost of steel and other materials have skyrocketed, and you're worried about cost over-runs. You're concerned about how your competition will respond and worried that you may have to reduce prices to expand sales. You're also concerned about rising fuel costs because your key competitor is located in an oil producing country that regulates energy prices to support local industry and you have to pay market prices. A plant expansion would improve fuel efficiency, but will it save enough to offset investment costs



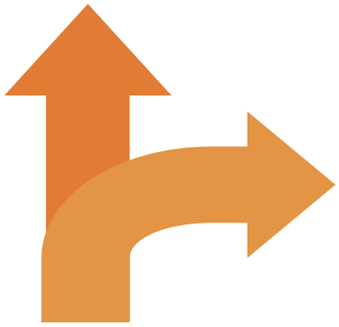
and potentially lower margins? You've had an analysis done based on your best guess, and both the expansion and non-expansion options yield the same NPV.

The chart below is an example of a statistical tool that can help you make the decision.

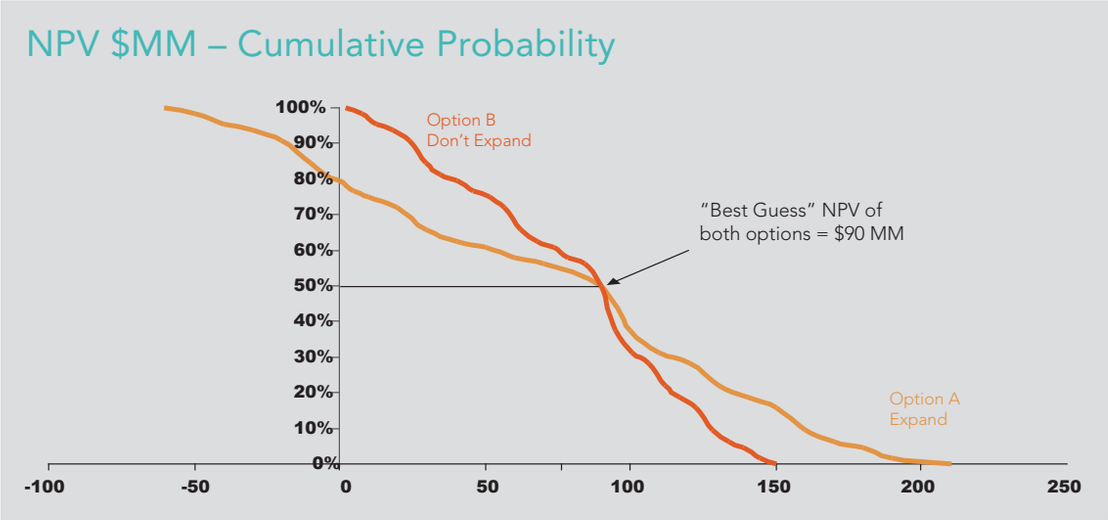
This is a cumulative probability chart that shows NPV calculations for each option based on a range of possible outcomes for major future uncertainties. In this case, the major uncertainties could include investment costs, energy costs and margins. For each uncertainty the project team selects high, low and medium probability values, so that they are 90 percent confident that the actual outcome will fall within the selected range. Instead of making the strategic decision of whether to expand based on the best guess of one value for each key uncertainty, you can make your decision based on a range of possible outcomes that factor in the risk associated with all identified uncertainties. In this case, the red line shows that the Expand option has a 50 percent probability of yielding a better outcome than the Don't Expand option. However, it has a 20 percent chance of yielding a negative NPV, or actually reducing the value of the business. The blue line shows that the Don't Expand option yields a top end NPV about $50 million below the Expand option. But it also has a 50 percent probability of yielding a better outcome than the Expand option. More importantly, it has a zero probability of yielding a negative NPV and destroying value. Which option would you choose? ■

WHICH WAY IS THE FUTURE?

- Stable market
- Stable demand
- Stable pricing
- Stable competition
- Business as usual



- New technology
- New competitors
- Global recession
- Falling demand
- Low margins
- New world



***Houston Technology Center** – www.houstontech.org*

Two Mission-Critical Steps for Entering International Markets

John Hurter, President and CEO, Energy Markets Access

Your company has established and built itself over the years into a profitable and growing business with a strong brand. It is one of the top market shareholders in your home country and is recognized by customers as a strategic supplier. Pulled by a customer request or perhaps the need for continued market share growth, you decide to enter the international marketplace.

According to the U.S. Chamber of Commerce, 95 percent of the world's customers and 80 percent of the world's purchasing power are outside the United States. For certain business owners, this presents a tremendous incentive to expand their businesses abroad. (*Source: https://wellsfargoworks.com/grow/doing-business-overseas*)

What do you need to survive internationally, bring in business faster and identify (and overcome) risks and roadblocks?

Any expanding company requires current, relevant and reliable information so that decisions are made and actions are taken that are appropriate for the marketplace, wherever that marketplace may be. The best source of that information is a trusted team of advisors built up from local contacts.

Asking the Right Questions

Most companies suffer from a lack of experience and local contacts in their target country. They work on information, resources and presumptions that are flawed and incomplete. As a result, they underestimate the adjustments their current business model requires for success in a new country. Even their customers already in the target country may provide flawed information, in part because those

customers themselves do not realize the adjustments needed to become an international company.

Some statistics indicate that more than 50 percent of businesses expanding internationally for the first time fail. The U.S. Bureau of Economic Analysis and World Bank are loaded with data on this topic.

The local knowledge that is mission critical for any expansion into an international market includes:

- The competitive landscape
- The local market potential
- Potential target customers
- People qualified to make decisions for those target customers.

In addition, your company needs information to meet its organizational, business, legal, regulatory and financial obligations in the new country and to fit in with the local culture.

Building a Local Advisor Network

You need local advisors to answer questions like the following:

- Are you aiming for the right market in the country you are expanding into? By interviewing customers in their target international market, one company discovered a use and market for their product that they had never considered.
- Are your current international customers committed to supporting your entry into their marketplace? Another manufacturing company decided to expand into the U.S. market by acquiring a U.S. company; but previously loyal U.S. customers refused to deal with the acquired company. The "not invented here" syndrome can also overturn positive projections.
- Are your goals realistic and consistent? One supplier thought that its success in its home country would be easy to duplicate in another country, without considering the commitment needed from its staff in setting up and supporting an international organization.

A trusted local advisor network consists of individuals who are familiar with and preferably long-time residents of your target international market and your industry. They help with practical problems, such as how to structure contracts and how to get paid, and also help penetrate the marketplace, evaluate the local need for and acceptance of your product, and connect to decision makers.

To develop your local network, begin with referrals from your target international customers and from advisors in your home market. In addition, ask your target international customers what local organizations, industry meetings and conferences they attend and why.

This process takes weeks to complete and may require several visits to the target market, but it will pay off by giving you local advisors you can trust and revealing gaps in your knowledge.

The size of your trusted advisor network matters less than its fit with your company's offering and your culture. The team of advisors should include a strategy consultant, banker, lawyer and accountant. A larger corporation may need a larger local network with more specialized advisors.

To check that your local advisor network is working properly, ask yourself:

- Are you getting answers you can verify and trust?
- Are you getting access to resources that can help your business to grow?
- Are you and your advisors able to have open and transparent conversations? Are the communication easy and chemistry good?
- Would you recommend your advisors to others?

Conclusion

The questions that companies ask to reach a decision about and prepare for entering a new market weigh heavily in determining their international success or failure. Having trusted and reliable information is the cornerstone of the decision-making process and the preparation that follows.

An advisor team built up from local contacts can prevent you from asking the wrong questions, trusting the wrong data, and making the wrong decisions at a great cost of time, money, and manpower. ■

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www.energymarketsaccess.com

Foreign Transactions Require an Investment of Professional and Emotional Capital

Donald R. Looper, Attorney, Looper Goodwine P.C.

Opportunities across the globe exist for higher profit margins in less competitive market areas. Developed and profitable companies (let's call them buyers) possessing the expertise or technology to succeed pursue business development in foreign countries or undeveloped market areas targeting a local company or strategic partner (which we'll call targets). Joint ventures, partnerships or acquisitions (transactions)

in a foreign region typically are initiated either to expand a product market base or to achieve a higher profit margin on operations using the buyer's experience or technology developed in its home region; but, a failure of management to invest the right professional and emotional capital, in an attempt to reduce soft costs, often is the cause for failure to close a transaction or to realize the full potential profits from the transaction.

Professional Capital

Soft costs are the travel costs, legal fees, outside accounting fees and other third party charges to conduct due diligence, structure the acquisition and evaluate risks and assets. Soft costs also include the opportunity cost of losing the use of employees deployed to pursue the transaction. Those soft costs would be characterized as professional capital invested in the transaction.

Compared to establishing business in a developed market, the foreign transaction requires higher soft costs (that is, more professional capital) to get the transaction structured, negotiated and closed. Soft costs far exceeding the costs required in a developed market area are the tradeoff to achieve higher long-term operating margins. Soft costs are lost costs if the deal dies.

Emotional Capital

Emotional capital is the quality of the professional capital invested. For example, deploying an underutilized employee or less-experienced lawyer or engineer means investing less emotional capital. Deploying the most successful, experienced professionals increases costs, but also increases the chances of success. Quality emotional capital is invested when the professionals sent to investigate, negotiate with and develop the relationship with the target devote extra time and quality time to develop relationships. Thus, they learn the potential problems and develop an understanding of what will be required for success. Skimping on emotional capital can cause risks to be overlooked and result in a failure to realize the full the potential of the transaction. The culture in every country, and sometimes parts of a country, are different. The targets, or required contracting parties/vendors, need to trust the buyers. That trust is built by the investment of both professional and emotional capital into the project.

If the buyer of complex operating businesses does not send the right team, they are not going to be successful closing the acquisition; or if they do close it, the deal will not be fully successful after the acquisition. Quality emotional capital requires the buyer to send a team that persuades the target or required contractors that the buyer will be a good partner. The negotiating team does not need to be the team who will be operating the plant. They need to be trustworthy and have the ability to communicate and deliver commitment. The buyers or new partner may have excellent technology or processes, but they need to demonstrate to the target that they are investing the emotional capital to learn why the business operates as it does.

EXAMPLE: ACQUIRING A GERMAN REFINERY

Here's one personal example highlighting the importance of emotional capital: I was leading the legal side of the negotiating team on the acquisition of a refinery in Germany when the target pulled out of the deal while inexperienced employees who were not familiar with the region or customs were

Multiple contracting opportunities and covenants are needed to make the acquisition or new joint venture successful. There are risks, and those risks need to be identified during the negotiating process.

handling the negotiation. Not wanting to give up on the acquisition, the CEO changed personnel and sent a Cypriot executive and me to try again. Over the course of the next several weeks, we gained the trust of the target and even learned about many insensitive comments made by the former negotiating team that angered the target personnel. We spent time with the target personnel, understood their families and history, and thus most importantly, their individual motivations. The CFO did not like the soft costs being incurred. However, the savings in fine tuning the contract language and improved economics resulting from knowing the local contractors and finding the right employees recovered multiples of the soft costs invested. During the six-month period of negotiations, for instance, we learned from a local government lawyer that the target was engaging in practices that negatively affected the relationship with the local government. In working with the local government and local contractors to fix the problem, we gained local support for the acquisition which ultimately resulted in the reduction of government requirements by $20 million. As a buyer, we needed the local government's and neighboring companies' support after the acquisition in order to succeed.

Professional capital requires investment in a lawyer on the negotiating team who blends in with the locals. The time of the lawyer to gain the trust of the opposing party and local contractors will improve the agreed language and discover risks otherwise unknown. In the refinery transaction noted above, we also developed a relationship with a local vendor which resulted in information, uncovered 48 hours before closing, that the target had removed certain inventory items. This produced a $170,000 adjustment to the purchase price 24 hours before the asset closing and cancellation of a vendor contract.

Multiple contracting opportunities and covenants are needed to make the acquisition or new joint venture successful. There are risks, and those risks need to be identified during the negotiating process. Having quality emotional and professional capital involved in the process, with the right characteristics and concern for the target, new joint venture partner or local contracting parties, will open up disclosures that would not otherwise be made to the buyers. ■

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Four Tips for Selecting the Right Bank

Nancy Webb, Senior Vice President–Houston Commercial Banking, BBVA Compass

Foreign companies that are planning direct investments in the U.S. need to find the right banking partner to ensure this process is as seamless as possible, but how should they go about making this critical decision?

There are a number of crucial issues that companies need to consider, from finding an international bank that also has a strong U.S. presence to understanding the specific capabilities that banks need to effectively serve foreign companies operating in the U.S.

For international companies that are about to embark on this process, here's a checklist to help get them started:

Nancy Webb is a Commercial Relationship Manager at BBVA Compass Bank focusing on international and port related companies.

BBVA Compass – *www.bbvacompass.com*

1 DOES THE BANK HAVE A PHYSICAL PRESENCE IN MAJOR GLOBAL MARKETS?

Plenty of banks offer a strong portfolio of commercial banking services within the U.S., but finding a bank with compelling domestic services and infrastructure is only one part of the equation. The right bank will also be able to work with multiple currencies and cultures and operate as effectively in international markets around the world as it does in the U.S.

2 DOES THE BANK OFFER FOREIGN EXCHANGE SERVICES?

Buying and selling abroad in multiple currencies can be complicated and affect the bottom line of international companies, which need to move funds quickly and easily around the world, 24 hours a day. It is particularly important that banks are able to send and receive international payments in foreign currencies in a way that is convenient and efficient.

3 WHAT OTHER SERVICES DOES THE BANK PROVIDE TO MAKE IT EASIER FOR INTERNATIONAL COMPANIES WITH U.S. SUBSIDIARIES TO OPERATE EFFICIENTLY IN OVERSEAS MARKETS?

International companies that do business in a wide variety of countries have many other unique requirements. For example, they may need foreign collateral or guarantees to achieve their financing objectives or require letters of credit to secure new international business.

The right international bank will be able to help commercial clients with a wide array of cross-border services. These might include letters of credit and standby letters of credit for international suppliers and customers, trade finance (including import and export financing), project finance, asset finance and global cash management.

The bank should also boast a global wealth management business that looks beyond national borders to effectively serve the banking, brokerage and insurance needs of international business executives. In addition, it should be able to provide services such as home mortgage loans and credit cards for foreign nationals.

4 DOES THE BANK HAVE EXPERIENCED BANKERS WITH INTERNATIONAL EXPERTISE?

Banks need international experience if they are to offer credible international advice. Many banks have experienced staff in the U.S., but to have a true understanding of the needs of international companies, they must also have plenty of international experience themselves and be able to conduct business in a number of languages. Multilingual international banking teams who have knowledge of banking throughout the world are most able to handle complex cross-border transactions. ■

Understanding The Basics Of Trade Finance

Angel Merino, director of Global Trade Finance USA for BBVA Compass

What is a Letter of Credit?

It's an international payment instrument, and one of the safest that exists. When you are selling goods or making a payment for goods in the U.S., you can use a check or wire transfer. When you are selling overseas or buying from a different country, you can also use a Letter of Credit, which covers risks that don't exist in domestic trade.

Banks issue them on behalf of their clients and pay the seller, which makes it much safer for the seller. It's also safer for the buyer, who only pays if documents are presented to prove that the goods have been exported.

Why are Letters of Credit useful for companies dealing with suppliers or customers overseas?

When you are dealing with a counterparty that you don't know very well or a buyer in an unfamiliar country, Letters of Credit can eliminate those commercial or political risks.

Let's say there's a U.S. company that is exporting to Indonesia. It doesn't know the buyer and isn't familiar with Indonesia, so it wants a Letter of Credit from the buyer's bank to ensure it will be paid. It may know the buyer's bank if it is an international institution, but even if it doesn't, its U.S. bank can add its confirmation and, therefore, will pay no matter what happens in Indonesia once the exporter presents documents showing it has exported the goods.

How long does it take for a bank to issue a Letter of Credit?

New clients or existing clients issuing their first Letter of Credit have to go through the underwriting process that we use to approve all credit lines, but after that it's a very fast,

standardized process.

For existing customers that already have credit lines with us, a Letter of Credit can be issued in a few hours and the corresponding bank will usually receive it within 48 hours.

How does a Standby Letter of Credit differ from a Letter of Credit?

A Standby Letter of Credit is not a payment instrument, but guarantees something on behalf of one of the counterparties to the transaction. Typically, there are two types of Standby Letters of Credit.

Financial guarantees are issued by a bank so a beneficiary bank can provide a loan to a company. Let's say we have a U.S. client with a subsidiary in Germany. The subsidiary needs a working capital loan from a German bank, but the German bank will only make this loan if the parent company's bank in the U.S. issues a financial guarantee. That U.S. bank can issue a Standby Letter of Credit.

There are also technical guarantees. A U.S. company could be exporting equipment to Mexico, and the Mexican company wants to ensure the equipment works when they receive it. The seller's bank could issue to a Standby Letter of Credit ensuring the equipment will function properly.

Standby Letters of Credit tend to be large, one-off agreements, can be very complex and take longer to obtain, but often time is not as critical as it is for regular Letters of Credit.

What is Forfaiting?

This can be defined in different ways, but at BBVA Compass we see this as when a bank purchases any kind of international payment instrument without recourse.

If a U.S. company is selling to an overseas company and that company receives a Promissory Note, Invoice, Bill of Exchange or a Letter of Credit, we can buy that payment instrument. We become the owner of the asset and pay the exporters at sight, discounting our fee for that transaction. Because we are not loaning money to the exporter but actually buying the assets, our obligor becomes the buyer.

What are the benefits of Forfaiting for exporters and importers?

The exporter receives payment without recourse and replaces accounts receivables on their balance sheet with cash. Importers can finance their imports, but sometimes both sides of the transaction can benefit.

How does this differ to financing with an EX-IM Bank Guarantee?

Most developed countries have export credit agencies, which run a number of internationally regulated programs. The U.S. credit export agency is called EX-IM Bank.

Under one program, EX-IM bank provides a 90 percent guarantee to us, so that we can make working capital loans to exporters. Forfaiting, on the other hand, is not a loan, but is available to any importer or exporter. Only U.S. exporters that also produce the majority of those goods in the U.S. can secure a working capital loan with an EX-IM guarantee.

This program is typically aimed at small and medium-sized companies. Banks often don't consider a company's foreign receivables as eligible collateral when making loans, but with an EX-IM Bank guarantee, we can.

What other financial products does EX-IM Bank offer?

EX-IM Bank also offers up to 100 percent guarantees for medium and long-term export credit agency loans. If you have an U.S. company that is exporting a power generator to Turkey, for example, EX-IM Bank will guarantee a loan to the buyer in Turkey. That helps to facilitate U.S. exports.

Very large manufacturers and construction companies often use these longer-term loans, but they can be useful for smaller companies, too. ■

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The Last Remaining Export Tax Incentive – IC DISCs

Frank Landreneau, CPA, Director, International Tax, PKF Texas

To stimulate the export of goods in the U.S., Congress enacted the DISC (Domestic International Sales Corporation) provisions in 1971 to grant special tax benefits to these U.S. companies. Under an IC DISC (Interest Charge-DISC) strategy, the exporter will pay commissions to the IC DISC, which is directly or indirectly owned by the exporter's shareholders or partners. The commissions are deductible to the exporter for U.S. federal income tax purposes, and the IC DISC is not subject to federal income tax. Because the IC DISC is a "qualified domestic corporation" under current tax legislation, the dividend payment of the commission income in the IC DISC is taxed to the exporter's shareholders or partners at a favorable 23.8 percent rate. This means an exporter with a shareholder that is incurring a 39.6 percent individual tax rate will be taxed at 23.8 percent upon distribution of the export earnings shifted to the IC DISC.

The exporter will continue to operate its business in the same manner, with its employees continuing to perform the manufacturing, sales, billing, shipping and collection functions. The fact that there is a commission agreement between the exporter and IC DISC does not have to be disclosed to customers. Further, no documentation provided to customers will need to indicate the

existence of or services deemed provided by the IC DISC.

As required under the U.S. income tax regulations, the exporter (i.e. related supplier) and IC DISC must execute a commission agreement. This agreement outlines the services to be performed or subcontracted by the IC DISC for the sale of export property.

The IC DISC is a separate legal corporation from its shareholders and related exporter. Therefore, to respect the corporate form, the IC DISC should maintain a bank account in its name. Payments between the exporter and IC DISC and the IC DISC and its shareholders or partners should be transacted through the IC DISC bank account.

The IC DISC has several options with respect to the disposition of cash received from the exporter. These options include distributing the funds to its shareholders or partners, loaning the cash to the exporter, using the cash to make investments, or some combination thereof, although there are some restrictions on the use of cash.

An IC DISC is required to prepare financial statements annually and file its U.S. income tax return and, if applicable, state income tax return.

Qualifications of an IC DISC

A corporation must meet the following qualifications to be treated as an IC DISC:

1. It must be a corporation in the U.S., which includes the Commonwealth of Puerto Rico and U.S. possessions;

2. At least 95 percent or more of its foreign trading gross receipts ("FTGR") for the taxable year must be "Qualified export receipts." "Qualified export receipts" are described in more detail below;

3. The adjusted basis of its qualified export assets must be at least 95 percent of all the total assets at the end of the taxable year;

4. The corporation cannot have more than one class of stock and the par or stated value of that stock must be at least $2,500;

5. A timely election to be treated as an IC DISC, consented to by all shareholders, must be in effect for the current taxable year; and

6. An IC DISC cannot be a member of any controlled group of which a foreign sales corporation is a member.

Certain corporations are ineligible to be treated as an IC DISC.

Qualified export receipts include receipts from sales, leases, subleases or rental of export property. Export property generally means non-depletable property manufactured, produced or grown in the U.S. by a person other than an IC DISC. This property is sold, leased or rented for direct consumption or disposition outside the U.S., or to an unrelated person for delivery outside the U.S. within one year and not more than 50 percent of the fair market value of the property can be attributable to articles imported in the U.S. Leased property must satisfy a usage test determined yearly and cannot be for ultimate use by any member of a controlled group of corporations that includes the DISC. Qualified export receipts also include engineering or architectural services for construction projects located outside the U.S. not including services connected with the exploration for oil.

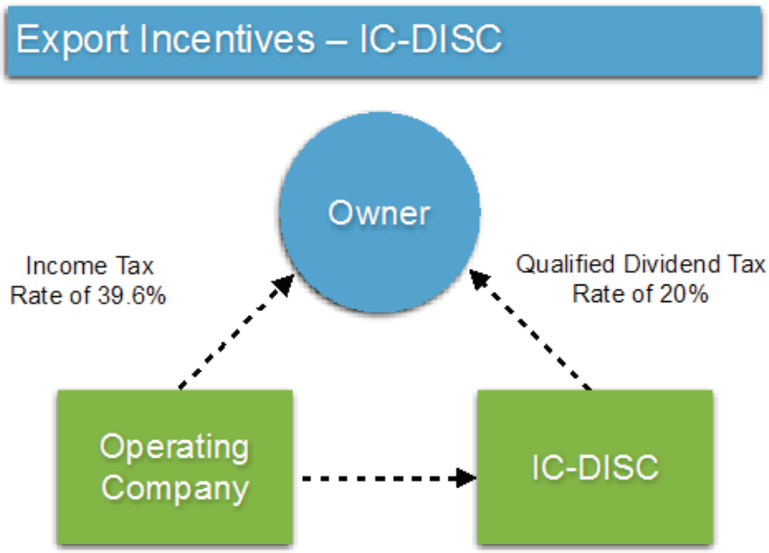
Qualified export assets are imperative in the IC DISC application for the following two reasons. First, at least 95 percent or more of its gross receipts (FTGR) for the taxable year must be "qualified export receipts" and qualified export receipts include the sale of qualified export assets (other than export property). Second, to qualify as an IC DISC, at least 95 percent of the total assets of

the IC DISC at the end of the taxable year must be qualified export assets. In addition to export property and assets used in the furtherance of generating qualified export receipts, qualified export assets include accounts receivables arising out of sales, leases, rentals and exchanges in which the IC DISC is a principal agent.

Computation of IC DISC Commission Income

In the case of the IC DISC, the income from the related export company sales of export property to the IC DISC, or alternatively, where the IC DISC is acting as a commission agent, is based on fixed transfer prices that allow the IC DISC to obtain a share of the combined profit on the manufacture and sale of the goods. The safe harbor methods allow the IC DISC to record its share of income at the greater of:

1 Four percent of the IC DISC's qualified export receipts on reselling the property, plus 10 percent of its export promotion expenses; or



2 Fifty percent of the combined taxable income from export sales of the supplier and the IC DISC, plus 10 percent of its export promotion expenses.

IC DISC Interest Charge

The IC DISC may distribute its income currently or defer distribution. If it chooses the latter, shareholders of an IC DISC must pay interest on the related deferred tax liability generated by the use of the IC DISC attributable to qualified export receipts for the tax year that exceed $10 million. The interest rate used for the charge is the base period Treasury bill rate.

Summary

The IC DISC is currently the only available option to U.S. exporters to obtain export related tax benefits. The IC DISC structure is a tax rate play brought about under the American Taxpayer Relief Act of 2012, whereby qualifying dividends are taxed at the 20 percent rate for taxpayers in the 39.6 percent tax bracket. Additionally, the net investment income tax (NIIT) applies to dividends starting in 2013; therefore, the overall tax rate on qualified dividends for some high-income taxpayers will be 23.8 percent (20 percent + 3.8 percent). The NIIT applies to taxpayers whose modified adjusted gross income exceeds $250,000 for joint returns, $125,000 for separate returns, and $200,000 in all other cases. Due to this rate arbitrage, the IC DISC provides tax benefits far exceeding that achieved when the export vehicle was initially enacted in the 1970s. ■

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Ten Tax Mistakes Made by International Companies Expanding into the United States

Rafael Carsalade, CPA, Director, International Tax, PKF Texas

1. Not providing tax planning for foreign executives traveling to the U.S.
Personal tax costs for a high-level executive moving to the U.S. can be tremendous. Proper planning before traveling or moving to the U.S. can significantly reduce costs from the worldwide taxation of income and inheritance taxes.

2. Creating a Limited Liability Company (LLC) without understanding tax consequences.
LLCs can be taxed as a corporation partnership, or be completely disregarded if wholly-owned by one company. In the two latter cases, the foreign parent company will be considered to have a taxable presence in the U.S. and is required to file U.S. tax returns.

3. Failing to properly account for transactions between the foreign parent company and the U.S. subsidiary.
Loans, sales, capital contributions and transfers of cash between the entities must be treated and properly documented as if between unrelated parties. Otherwise, negative tax consequences can result for the U.S. subsidiary and the foreign parent company.

4. Using the U.S. entity as a holding entity for regional hub.
The U.S. worldwide taxation system causes profits from non-U.S. subsidiaries to be taxed in the U.S. at a high U.S. corporate tax rate, which in some cases can reach an effective rate of around 50 percent.

5. Failing to use transfer pricing as a tax planning tool.
In addition to Internal Revenue Service (IRS) requirements, transfer pricing can serve as a tax planning tool by securing fair tax deductions for services and goods provided by the foreign parent company and reducing the worldwide effective tax rate.

6. Pricing project bids without considering full tax costs.
Federal income taxes are not the only tax costs that impact a project. Income taxes, sales and use taxes and property taxes at both state and local levels can severely impact profit margins on a project if not estimated properly.

7. Neglecting to timely file tax returns when the U.S. subsidiary has losses.
Even if late filing penalties do not apply, the IRS can enforce annual civil penalties on foreign transaction informational reporting of $10,000 per late return.

8. Not filing U.S. tax returns claiming treaty benefits.
To qualify for an exemption or other benefit under a tax treaty, the foreign company must file a U.S. tax return to claim the treaty exemption. Otherwise, taxes may be due under regular tax law on gross receipts without deductions.

9. Assuming tax authority silence is a sign of approval.
Federal and state tax authorities will not inform businesses of filing errors right away. Tax returns can be audited up to six years after filing (indefinitely if fraudulent) and adjustments, penalties and interest can be assessed retroactively.

10. Transferring funds without debt or equity planning.
Transferring funds without proper loan agreements and planning can result in tax authorities treating the entire amount as contributions to capital. Later repatriation of funds can be treated as nondeductible dividends subject to tax withholding as opposed to deductible interest and tax-free return of debt principal. ■

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Leading Cross-Cultural Teams: Tips for Overcoming Miscommunication and Getting Results

Ludmila "Mila" Golovine, Founder, President & CEO of MasterWord Services, Inc.

Regardless of where your employees, clients or offices are located, it is very important to be aware of the challenges and opportunities when communicating across cultures and languages. Does it seem like we are constantly dealing with international colleagues, clients and suppliers? The new normal includes doing business not only internationally but also within a multicultural workplace where we encounter both opportunities and challenges of communicating with teams from all types of diverse backgrounds. The more cultural intelligence we have, the better prepared we can be to effectively lead cross-cultural teams, work internationally and produce the results that we desire.

1. We use more than words to communicate

According to "Psychology Today" magazine*, communication is approximately 55 percent body language, 38 percent tone of voice and only 7 percent actual spoken word. Therefore, since less than 10 percent of our communication is based on the words that we actually use to communicate, it is very important that we observe the other person's ways of communicating. Non-verbal cues are critical and should not be overlooked, however we should also be aware of possible differences based on culture and background. For example, smiling in the United States Anglo American culture is a sign of acknowledgment and an expression of friendliness. In the French culture, smiling at a stranger would be considered odd. In interactions with someone from Russia, he or she will probably remain straight-faced during a business meeting as a sign of respect, and might consider a smile from a stranger to be a sign of foolishness or thoughtlessness. In addition, several Asian cultures might use a smile as an expression of stress. Therefore, observe the context, notice the non-verbal cues, actively listen and gauge the reaction of your counterpart without making a negative assumption based on your own

cultural bias or perception. Keep in mind that in most business settings, you and your counterparts are most likely trying to achieve the same outcome.

Figures are from Psychology Today http://www.psychologytoday.com/blog/beyond-words/201109/is-nonverbal-communication-numbers-game

2. Cultural competency is an essential part of effective communication

Cultural competency can be defined as the ability to interact effectively with people from different cultures and socio-economic backgrounds. Anthropologist Edward Hall stated back in 1959, "Communication is culture, and culture is communication." It is also important to be aware of the fact that in addition to culture we have many levels of differences and diversity. The obvious ones are based on language, country of origin, education, gender, religion and political affiliations. The less obvious ones are based on the ways we perceive our unique situation, or how we were affected by our individual experiences. By recognizing that we react and respond in different ways, we are better able to understand each other and hear the other person's message without being distracted by form or method of delivery. This awareness promotes open exchange of ideas and leads to innovation, better relationships and success. To build those cultural competency skills, it is important to be aware of differences without passing judgment, maintain an open mind, embrace new cultures, avoid generalizations, be adaptable and involve professionals such as translators, interpreters and cultural intelligence consultants.

3. Be flexible with different management styles

The success of a management approach is highly dependent on the team's culture and background. For example, many employees in Asian cultures perform most optimally when managers provide very detailed directions; whereas, in most Western cultures, especially in the United States Anglo American culture, this would be considered micromanagement and perceived negatively. Voicing disagreement with one's position in a group meeting could be taken as positive constructive criticism in an Anglo American culture, while in a Middle Eastern or Asian culture the same situation could be perceived as an act of disrespect or loss of "face" in front of a group. When setting deadlines and project milestones, awareness of different concepts of time is important. Swiss and German cultures adhere to clock and calendar schedules with almost perfect precision; so, starting a meeting three minutes late would result in an uncomfortable situation. Spanish, Italian, Russian and Arab cultures would care more about the relationship than the nuances of punctuality and time; for example, they may treat a deadline as somewhat flexible based on the level of trust among the partners. United States Anglo American culture sees time as equal to money and is consequently pre-occupied with time efficiency and immediate results. Many Asian cultures have a tendency to look at longer term implications rather than immediate results; for example, it is not uncommon to discuss a 100-year strategic plan in Japan. Motivation in the United States Anglo American culture would be based more on an individual's success; however, other cultures, such as Indian, consider success of the entire team to be far more important. The ability to adapt management styles according to each team's culture and background is a key factor in achieving the best results in today's multicultural business environment.

In conclusion, becoming an effective communicator by having awareness, an open mind, desire to learn and understanding others, while being flexible with management styles, will allow you to successfully lead cross-cultural teams, build more meaningful relationships, grow your business and produce desired results. ■

MasterWord Services
www.masterword.com

Crisis Management and Communications for Executives

Terry Hemeyer, Executive Counsel, Pierpont Communications, Adjunct Professor, Rice University Jones Graduate School of Business, Senior lecturer, University of Texas at Austin Moody College of Communication

Terry Hemeyer serves as executive counsel to Pierpont Communications and is on the faculty of both Rice University's MBA program, teaching crisis management, and the University of Texas at Austin teaching PR strategies. He has handled hundreds of crisis situations during his career, including issues for two U.S. presidents, advised major organizations on multiple crisis situations and handled contentious executive departures. Within the energy sector, he managed numerous community relations issues, including a major offshore platform explosion, multiple H2S and pipeline leaks and a fatal tank truck accident. His education includes the Stanford University Graduate Executive Program, an MA from the University of Denver and a BS in education from The Ohio State University.

As technology and communication advances flatten the world, corporate crises continue to stretch beyond the regional and national scope. The days of confronting crises head on, in your own backyard, are gone. These seemingly local, contained crises have become issues that need to be addressed on a larger, global scale.

A crisis will happen to every organization, but no crisis will be the same. Whether it involves a fire on an offshore platform, a company helicopter crash or an oil spill, companies need to be prepared to face every crisis on an international scale. The key to being successful and weathering any crisis is asking the right questions beforehand, doing the right thing in the moment and looking back with a critical eye for lessons learned to apply in the future.

Make a Commitment

To successfully prevent, minimize and control crisis situations, companies should make a commitment to having a current crisis plan and execution process, which involves having strong policies and procedures in place. A company can begin by conducting an organization-wide vulnerabilities assessment by identifying and analyzing vulnerabilities, and reviewing crisis prevention methodologies. Then, it can develop a crisis management plan applicable to all facets of the company. Once a situation arises, the company and its leaders need to commit to quickly and objectively take action.

A crisis plan is the foundation of crisis management, and arguably the most important element in a crisis plan is the vulnerability assessment. Understanding your organization's vulnerabilities and gathering intelligence before the crisis is mandatory. Once you have an awareness of potential areas of concern, you can mitigate them and have a plan in place to address them. In the best case, you can address the issue so thoroughly as to remove it from your vulnerabilities list.

When assessing vulnerabilities, remember your human assets. Employees are both your biggest assets and your weakest links. In many cases, a crisis in your organization will be caused by employees or managers making poor decisions or acting inappropriately. Ensure that this is considered in your list of vulnerabilities, and over-communicate to employees regarding their role in the organization and the company's communication procedures and health and safety rules. The intent is to solicit their support.

Involve All Disciplines

Companies should involve all disciplines and levels within the organization when developing a crisis management plan. Current vulnerability assessments should be acted upon by management, and there should be prompt reporting of and action on potential and actual problem situations.

Ultimately, planning ahead is about much more than a crisis planning document. In many cases, it's all about ensuring that you, as a leader, make sure all relevant

disciplines are involved. What amount of confidence, respect and credibility do you have in each discipline? This is critical to your role when a crisis hits. If you're not sure where they stand, ask yourself, "Are your vulnerability assessments being acted upon by all functions?"

Communicate Effectively

Be truthful and transparent. An untruth repeated often enough can become fact. Have your communications team set up and manage a "truth squad" to instantly correct inaccurate information. Your truth squad is responsible for monitoring all public information on the issue, and flagging and immediately correcting any inaccuracies.

Demand that every decision pass the "60 Minutes" test. What choices would you make if you knew your crisis would be broadcast on 60 Minutes? If you suspect you're not getting the truth or the whole truth from your staff, you have to understand your options. You can involve your general counsel or another member of the executive team that you have a trusted relationship with, or to try and sort out the issue. There is not much middle ground in this scenario.

When it comes to crisis management, the before, during and after are nearly equally important, yet communicators are rarely prepared on all three fronts. Many companies set lofty goals for themselves, but when confronted with a crisis in real-time, they are not prepared for the tactical implementation of a strategic crisis management plan.

Once a crisis situation is active, it is important to prioritize timely and objective communication to all affected stakeholders, publics and media. This communication should be based on the facts, need-to-know information and legal consideration. In a crisis scenario, remember that silence can be golden. You can never take back statements made in haste during a crisis. The number one rule is to get in and get out. The best crisis management is quick and anonymous.

In the best case scenario, your team can draft well-worded statements that never need to be used. But it won't always be that easy. When media, government leaders, community groups, shareholders and the public are all demanding answers, your calm and patient exterior will help put your internal team and the public at ease, gaining their confidence.

Respond Strategically

Ensure that your plan accounts for the rules and regulations specific to the country of crisis origin. Many countries and cultures will differ in how they react to corporate crises, and some will already have organizations prepared to assist in the wake of a crisis, such as the Federal Emergency Management Agency (FEMA) in the United States. Have the contact information for these organizations and key government officials listed in your crisis management plan, so you can alert the appropriate parties once an issue presents itself.

Next, companies should implement real-time online reputation monitoring and analysis, media relations to both traditional and digital outlets, and on-call availability with first responder and on-site support capability. A spokesperson should be identified and trained, employees should participate in table-top exercises and the company should simulate crisis drills.

It can also be beneficial to develop a dark website with mobile capabilities that can be implemented in response to an

emergency. These websites are often used to share important and relevant information pertaining to the crisis when it is ongoing.

Anticipate Change

Play devil's advocate and put yourself in the shoes of the other side. Anticipate what the media and public will perceive and what they might do. Think like them and advise all management and team members accordingly. At the same time, stick to what you know best: your specific discipline. Don't get caught up in other disciplines, like legal, operational or financial counsel. Get advice from your communications team on how your decisions might impact the public perception of your organization.

Know when to use alternative communications strategies beyond traditional and social media. Consider face-to-face discussions, meetings with key publics, Google advertising, select cable, etc. It's also a good idea to seek out the advice of a trusted "third party" during a crisis. They are removed enough from the situation to provide valuable and objective input.

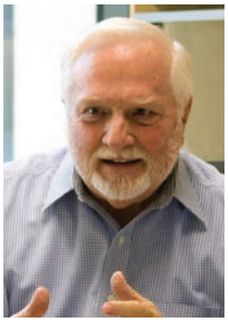
The crisis plan should be a living and changing document. New problem situations will present themselves over time, so the crisis plan should be constantly evolving and subject to regular review. When an employee makes a serious judgment error, equipment malfunctions with grave results or a key executive leaves the company, you'll have the chance to put your plans to the test.

And finally, have the guts to "fail fast"—don't keep going down a wrong road. In the best case scenario, crisis situations are prevented, minimized or fixed before they become a public issue. When reflecting back on an instance of great crisis management, the public should say, "We didn't know they had a problem." In comparison, an instance of good crisis management would elicit a response of "They handled it well."

After the dust has cleared, take a serious look at the plan vs. the actual experience. Use the crisis as an opportunity to update your crisis plan and make any adjustments that are needed, whether it be to the members of the crisis team, response procedures or emergency notification systems. Every crisis is unique and you need to treat it that way. Playbooks, plans and drills are guides, but every crisis takes different twists and turns. ■

Critical Components of a Crisis Management Plan

- Company's crisis philosophy, policies and relative importance communicated by the president or CEO.
- Definition of a crisis and a list of potential crises that your company could face.
- Outline of notification procedures, sequences and assignment or responsibilities.
- Identification of a core team of employees and disciplines to coordinate the crisis response.
- Allocation of core team responsibilities.
- Designated system to track, report and document the crisis and the response.
- Communication policies and assignments for media, employees, shareholders, customers and other third-party audiences.
- Updated list of contacts, including key company people, media, government officials, customers, etc.



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Visas Required for Non-U.S. Persons to Work in USA

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If you're going to hire a foreign national, they will need a visa or work permit in order to comply with your company's federal I-9 obligations. Available visa options are dependent on nationality, professional work experience and education credentials.

The visas most utilized by companies are:

TN Visa:
Treaty-based visa available only to Mexican and Canadian citizens. Requires that a company petition a qualified worker to provide professional services based on a list of designated occupations. TN visas are issued for one year and typically require a bachelor's degree in a specialized category.

H1-B Visa:
Allows businesses to employ foreign workers in specialty occupations. The H1-B visa is classified as a dual intent, meaning that a H1-B holder can apply for and obtain a green card (permanent residency) while holding the visa. Individuals must possess a bachelor's or master's degree directly related to the specialty occupation and be recruited through a sponsoring employer.

L-1A Visa:
Available for intracompany executive and managerial employee transferees who have worked with a foreign business abroad that has created a subsidiary or affiliate company in the U.S. The intracompany employees are then eligible to come and direct the business operations of the U.S. subsidiary or affiliate. The American subsidiary must have bank accounts, physical offices, corporate documents and a detailed business plan describing operations. The L-1A visa is classified as a dual intent, meaning that an L-1A visa holder can apply for and obtain a green card (permanent residency) while holding the visa.

L-1B Visa:
Enables a U.S. employer to transfer a professional employee with specialized knowledge relating to the organization's interests from one of its affiliated foreign offices to one of its offices in the United States. The L-1B visa is classified as a dual intent, meaning that an L-1B visa holder can apply for and obtain a green card (permanent residency) while holding the visa.

E1 Visa:
Treaty-based visa that requires a business to engage in a substantial amount of ongoing international trade with a qualifying country. This visa is also available to qualified employees of the U.S. enterprise. The duration granted for an E1 Visa depends on the nationality of the company and employee.

E2 Visa:
Treaty-based visa that requires a substantial investment in a more than marginal enterprise. While there is no salutatory minimum investment amount, it is recommended for the investment to be of minimum $200,000. This visa is also available to qualified employees of the U.S. enterprise. The duration granted for an E2 visa depends on the nationality of the company and employee.

While the options are varied, the processes are detailed and require timely, appropriate documentation. Companies should also consider whether it is more appropriate to send a prospective employee to a U.S. consulate abroad to apply for a work visa or apply to change the prospective employee's nonimmigrant status with U.S. Citizenship & Immigration Services in the United States. As employment-authorized visas and classifications are granted on a case-by-case basis, it is recommended that companies seek the assistance of an immigration attorney in order to maximize their success in the application process. ■

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Since 1973, **Hart Energy** has delivered market-leading insights to investors, oil and gas producers, refiners, regulators and other energy professionals. Personnel in Houston, Denver, San Diego, New York, Washington, Bogota, London, Brussels, Frankfurt, Singapore, Perth and Brisbane produce award-winning magazines (e.g., Oil and Gas Investor, E&P, Midstream Business and FUEL); online and mobile data; industry events (e.g., the DUG conference series); GIS data sets and mapping solutions; and, through its Stratas Advisors unit, in-depth consulting services across the energy value chain—upstream, midstream, downstream, fuels (conventional, LNG and biofuels) and transportation. Through its Oil and Gas Investor Australia franchise, Hart Energy is the official Global Media Sponsor of the LNG18 conference April 2016 in Perth. For more information, visit hartenergy.com.

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MasterWord Services, Inc. is proud to be ISO 9001:2008 certified as well as ranked as a Top 11 largest language service provider in North America by Common Sense Advisory and a Top 50 global largest language service provider by Common Sense Advisory as well as a Houston Chronicle Top Workplace, a Houston Business Journal Cougar 100, and a WBENC/WBEA Women's Business Enterprise National Council certified women owned business.

MasterWord's mission is to connect people across language and culture.

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Since our inception in 1987, **Pierpont Communications** has become one of Texas' largest independent communications agencies. With four offices across Texas, Pierpont has deep capabilities in communications strategy, media relations, marketing, digital communications and public affairs. Driven by a team of fearless thinkers, everything we do at Pierpont stems from our entrepreneurial spirit and bold creativity. Every day, we come to our client engagements with high expectations to identify the most effective, efficient ways to deliver meaningful, measurable results.