

Assignment: Global Business Challenges

**Current environmental forces and
their impact on the organisation**

Current environmental forces and their impact on the organisation

Executive summary

A Company producing construction products is used as a case to study the current environmental forces and their impact on that organisation. The headquarter of the Company is in Berlin where it was founded at the beginning of the 19th century. The Company primarily manufactures construction products in its nearby factory which are sold mainly in Germany and Central Europe. Substantial business is also generated in the USA/Canada where a subsidiary produces and sells a small portfolio of similar construction products.

One aim of the assessment is to critically assess the *situation of the Company* in terms of the micro- and macro-environmental conditions in which the Company operates. The findings are that in general, the best business opportunities for construction products of the Company exist where a sufficiently large construction market meets a higher standard of living. Following, several strategic analysis tools, that is PESTEL, Porter's 5 Forces, Porter's Diamond, SWOT and TOWS, are used to further evaluate the micro- and macro-economic situation of the Company. Next, past decisions of the Company are discussed to explain the current situation and to show the correctness of the previously made assumptions with regard to the location of the best business opportunities. Finally, four possible future decisions are proposed to revive the internationalisation process of the Company as a corner stone for long-lasting prosperity:

1. **Hiring high-level employees for the digitalisation** of all processes and information
2. **Supporting the cash cow** to make it great again
3. **Localising the production in the USA** (strengthening present facility) **and Australia or Taiwan** (establishing new facility), thereby streamlining setup and portfolio of the Company
4. **Teaming up with a big multinational company** (partnership or merger to increase the range of the portfolio and the chance to succeed nationally and internationally)

Another aim of the assessment is to outline the *challenge of protectionism* deriving from rising protectionist policies. To this end, the context of the current protectionist policies in the world is outlined and the impact on the Company studied. It is concluded that the current deceleration of the global boom rally should be used by the Company as a chance to be successful in figuring out the required capital investments and in hiring new high-level staff. Moreover, localisation of production in the currently walled off USA should be spurred and localisation of production in the Asia-Pacific region should be initiated.

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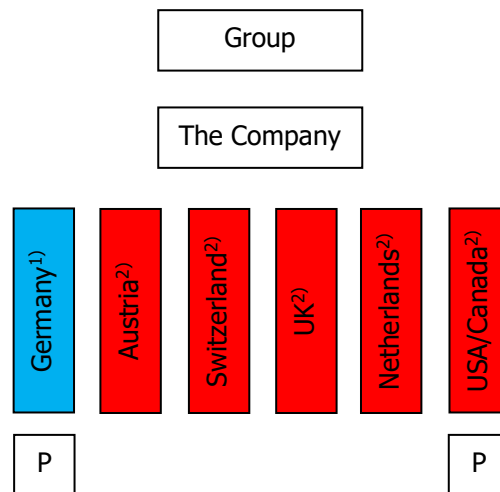
1 Introduction of the Company

The Company has a very interesting history: The founders were international business men whose life story could be the blueprint for a Hollywood film script. They established the German branch of their construction product business in the centre of the capital Berlin at the beginning of the 19th century. Ever since the Company belonged to the realm of small and medium-sized enterprises (SMEs) and manufactured construction products used to connect components to reinforced concrete structures as well as other concrete reinforcement items. The German branch became independent from the international business during World War II.

Today, the headquarter of the Company is still in Berlin and most of the products are manufactured in its nearby factory. Some products are individually customised with regard to design and production. Most products are standardised, however, are typically not stockpiled but produced on demand. The products are sold either to distributors and dealers or directly to the end customers. The products require a substantial amount of explanatory support during design and installation which is covered by sales and field engineers as well as manuals and software. The products of the Company belong to the best in class, however, copycats are hard on the Company's heels.

Efforts were made since about the year 2000 to internationalise the business. The construction markets of Central and East Europe, North America, that is the USA and Canada, as well as India and China were the main targets (refer to Section 2.8). Over time, the focus was concentrated on markets where the remaining international subsidiaries with own personnel are located (Figure 1). Because of the international subsidiaries, about 60% of the turnover is generated abroad – more than 40% in Europe and less than 20% in North America. However, only one third of the products manufactured by the Company in Germany is exported. As will be pointed out in this assessment, a relaunching internationalisation should be put on the agenda again (refer to Section 2.9).

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¹⁾ Core company; ²⁾ Acquired subsidiary (with own portfolio); P: Production facility

Figure 1: Current setup of the Company

The Company is a private company limited by shares and therefore has the duty of public disclosure according to the German commercial code. For this reason, the statement of financial condition as a summary of the financial balances is published in the German statistical business register where it can be acquired freely for every person. The Company belongs to a family owned group of companies. The Company has now about 150 employees in Germany and 150 employees overseas. About one third of the employees have white collar jobs and two thirds blue collar jobs. The Company generates a turnover of more than 70 million EUR in total.

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2 Situation of the Company

In order to evaluate the situation of the Company, the global economy and the construction market are analysed. Following, several analysis tools are used to further pinpoint the environment of the Company. Finally, past decisions are deduced mainly from the published data of the Company and a comprehensive conclusion is drawn to carve out potential future decisions.

2.1 Global economy

The global economy grow is slowing down, yet is expected to have an annual plus of 3.3% in 2019 according to the world economic outlook of the International Monetary Fund (IMF WEO, 2019). The advanced economies, to which most of the key markets of the Company belong to, account for only 1.5% annual growth which stands in stark contrast of the developing economies and emerging markets where around 4.5% annual growth is projected in 2019.

The global outlook beyond 2020 projects a growth plateau where an economic weakness of the advanced economies and some emerging markets will be compensated mainly by the heavyweights China and India. The outlook for Asia is in general rather positive whereas developing economies and emerging markets in other regions, specifically South America, North Africa and the Middle East, may face multiple burdens like structural deficits and financial debts or even turmoil (IMF WEO, 2019). The dismal prospect refers to about 40 developing economies and emerging markets generating almost 10% of the global gross domestic product.

2.2 Construction market

The **current** business of the Company mainly depends on the developments of the construction market in Austria, Switzerland, the UK and the USA. In the USA, the construction boom came to a halt (U.S. Census Bureau CB19-177, 2019), whereas the construction market in Canada is stable (StatCan September 2019, 2019). In average, the European construction business boomed since 2013 but is slowing down in 2019 (Eurostat 194/2019, 2019).

In the following, two key performance indices of the European construction business, where more than 80% of the Company turnover is generated, are analysed in more detail (Eurostat STS CON, 2019): The development of European production in construction and the development of European building permits.

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It is noteworthy that the European countries without the Euro currency performed better (+ 13% since 2013) than those with the Euro currency (+ 8% since 2013) as the volume index of production for the construction business shows (Figure 2). Apart from that, Europe is divided in South and North including East and West Europe: All southern countries were underperformers with regard to the European average whereas the northern countries were outperformers. The East European countries showed an unstable, lately positive development. The most remarkable performance gave Ireland (+ 91% since 2012).

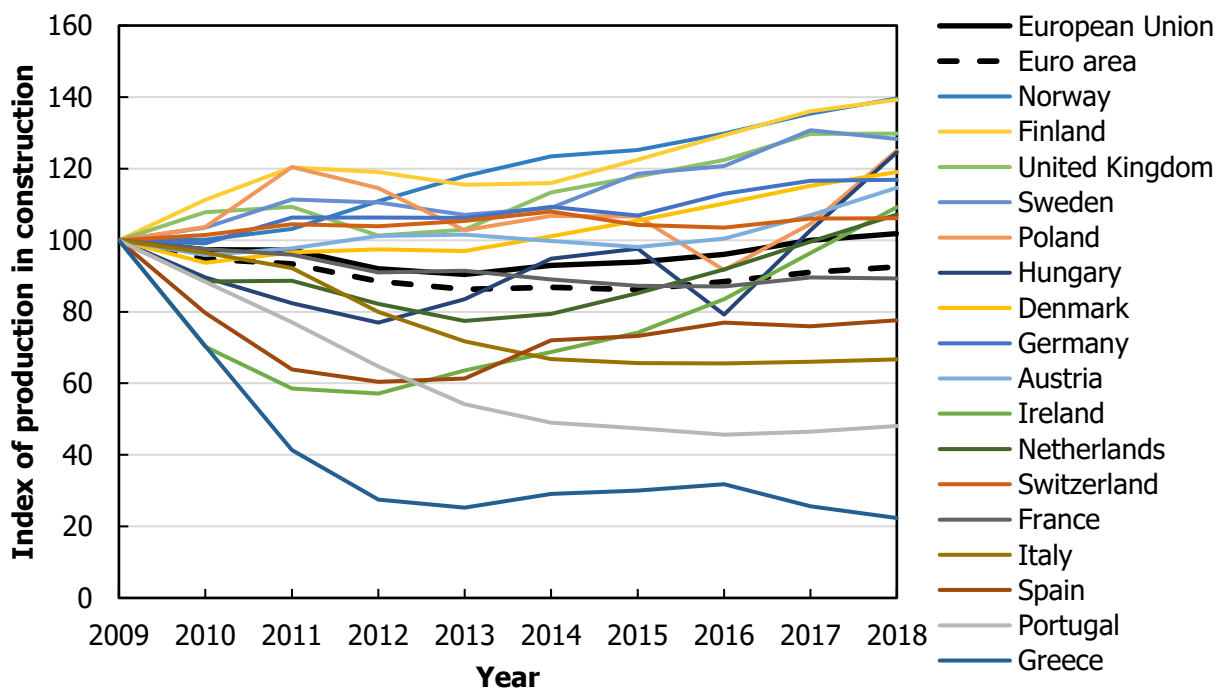


Figure 2: Development of European production in construction (on the basis of Eurostat STS CON, 2019)

The development of building permits is a rough indicator for the performance of the construction market in near future. The data should be interpreted with care since building permits are susceptible to erratic political decisions which may cause fugacious straw fires or can influence statistic evaluation methods. Though the development of building permits is heterogeneously distributed over Europe and is in general quite inconsistent over time (Figure 3), an overall trend can be determined: Following a climb since around 2013, the curves belonging to North Europe level off whereas the curves belonging to South Europe go up rather later than 2013 and continue to rise, however, this will be insufficient for a full compensation taking into account that the economies of South Europe are considerably

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smaller than those of North Europe including East, Central and West Europe (Eurostat STS CON, 2019).

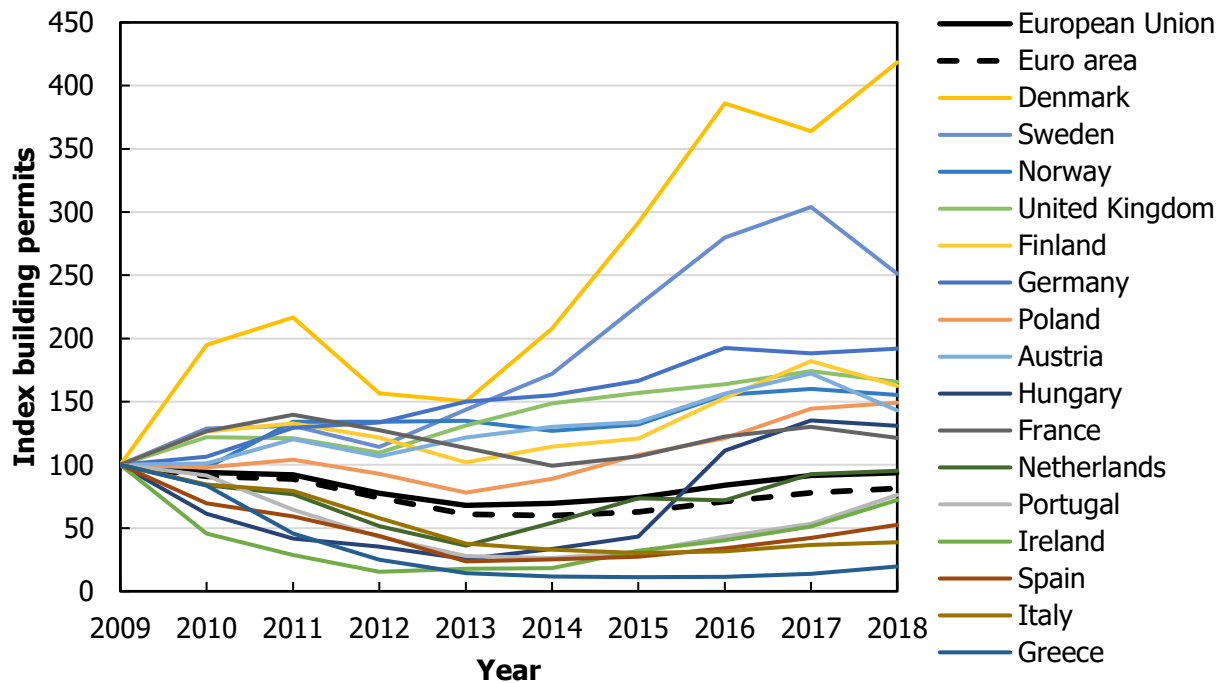


Figure 3: Development of European building permits (on the basis of Eurostat STS CON, 2019)

In sum, European construction business most likely will not prosper considerably in near future. For the time being, **North, East, Central and West Europe** may have better construction business opportunities. The slightly positive development in South Europe should be observed to evaluate whether the upward trend remains stable. The current setup of the Company in Europe appears to be suitable if contacts to local distributors and dealers are established or intensified.

As a basis for possible **future** internationalisation activities of the Company, the potential markets should be determined. The quality of the construction products manufactured by the company are top-notch, however, it does not need rocket science to manufacture imitates with acceptable quality. Moreover, a German brand with a century-old tradition may be a solid selling point in many regions of the world but not a unique selling point since in the construction business value for money counts unemotionally.

For these reasons, I believe that the Company has to find the intersection set of the following two key parameters to identify potential countries as promising markets:

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1. Countries with a large nominal gross domestic product (GDP) by size (Figure 4) with the potential to generate sufficient turnover justifying local activities.
2. Countries with a large gross domestic product (GDP) at purchasing power parity (PPP) per capita (Figure 5) where specifiers are willing to pay a higher price for the best quality.

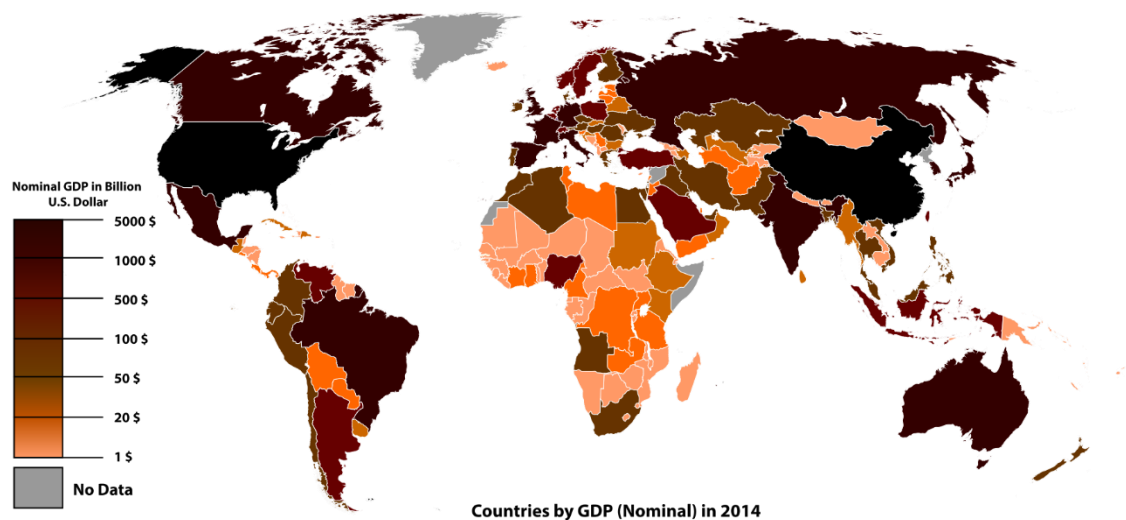


Figure 4: Map of gross domestic product (nominal) by size [USD] (Wikipedia/World Bank, 2014)

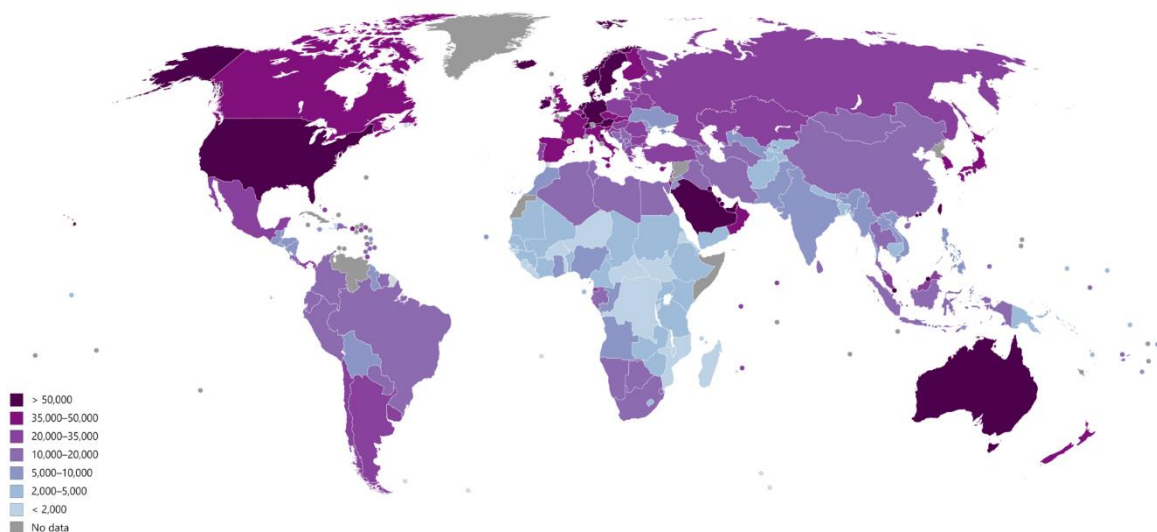


Figure 5: Map of gross domestic product (PPP) per capita [Int\$] (Wikipedia/IMF, 2018)

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Superposing the maps of nominal gross domestic product by size and gross domestic product at purchasing power parity per capita (Figure 4 and Figure 5) draws the attention to the following regions outside Europe and North America where the Company is already localized:

- East Asia
- Southeast Asia
- Australia/New Zealand

South Africa, North Asia, and South America are not taken into account due to the geographical remoteness, political instability, and/or low dwelling density. Promising countries in the Middle East would be the six countries of the Gulf Cooperation Council (GCC), i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. However, the Company gathered already some experience in these countries and found the way how business is made in the local construction industry difficult, partly because of challenging intercultural issues which could be explained by the little match of the cultural dimensions (Hofstede et al., 2010). All other regions do not have a match of large nominal gross domestic product by size and large gross domestic product at purchasing power parity per capita anyway. In conclusion, there is no way to sell the products of the Company in any emerging market (including BRIC) which is not yet industrialised.

The most promising countries in East Asia are South Korea, Taiwan and Japan. Since Japan is well known to be a market difficult to enter, rather **South Korea** and **Taiwan** should be focussed. In Southeast Asia, **Singapore**, **Thailand** and **Malaysia** (medium GDP by size, large GDP per capita) as well as **Indonesia** (large GDP by size, medium GDP per capita) appear to be suitable targets for the internationalisation. The most pronounced intersection of large GDP per capita and large GDP by size have **Australia** and **New Zealand** (ANZ). In addition, these countries have a good match of the cultural dimensions (Hofstede et al., 2010) and basically speak the same language as all relevant documents are readily available in English. For these reasons, also Australia and New Zealand should be the premiere choice for internationalisation. Note that all identified countries are either developed countries or newly industrialised countries (Hayashida, 2007).

2.3 PESTEL

The framework of the macro-environment is analysed in the following by means of a PESTEL analysis, a tool which was modified and amended over the years but rooted in a seminal work in the 1960s (Aguilar, 1967):

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- Political

In Germany, which is the most imported market of the Company, construction products are highly regulated. If not designed according to codes, every construction product must be qualified under the supervision of the construction authority since the 1970s. Meanwhile, the principle of mandatory qualification is well established within Europe, North America, and ANZ. China follows the same path, however, implementation of the regulation is a different story. The regulation is an entry barrier for further competitors, however, the money and time consuming qualifications are a heavy burden also for the existing competitors (Sorgato, 2019).

- Economical

As pointed out in the previous section, the construction boom, which was overall prevalent in the world since about 2013, is fading out and may swing into a downturn – probably because the period of cheap money is about to end (Evans, 2019). A global downturn may re-ignite the worldwide financial crisis. It is hard to predict whether the state banks will print more money to counteract the vicious circle. This would fuel the construction business and thus the need for construction products. The Company should therefore make decisions with paying attention to sustainability and flexibility.

- Social

The last baby boomers working in the construction industry are about to retire. This has an impact on the construction industry already now: First, the adverseness against innovations, which is typical for the construction industry, is reduced due to the influx of digital natives pushing for smarter solutions (Watson, 2019). At the same time, the gap of skilled personnel on the construction site will increase which will lead to more unskilled personnel (Scott, 2019).

- Technological

As a consequence, the simplicity of the construction product installation is gaining importance. Simultaneously, the whole main construction industry but also the construction product industry is becoming more digital in terms of the processes in general as well as with regard to planning and designing. New construction methods, e.g. 3D concrete printing and robotics, will increase productivity in the next few years (ING Economics Department, 2019).

- Environmental

Raw material for reinforced concrete becomes scarce, especially sand and gravel (Beiser, 2019). At the same time, energy and CO2 costs make the production of reinforcing steel and cement more expensive (Rodgers, 2018). This is forcing the construction industry to make structural elements

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more slender and thinner. At the same time, thermal and acoustic insulation for a higher living comfort gains importance. This has an impact also on the steel parts used to connect components to reinforced concrete structures which belong to the core business of the Company.

- Legal

The proof of compliance with all relevant regulations as well as environmental product declaration requirements is more and more rigorously enforced. This requires increased efforts to have all processes under control and well documented to avoid or repel law suits kicked off by authorities and competitors.

2.4 Porter's 5 Forces

The Company is part of the construction product industry which heavily depends on the main construction industry in terms of economic cycles as well as construction methods. Both, the construction product industry and the main construction industry, are technically quite basic and very matured. As a consequence, the construction product industry does not deal with rocket science but the solutions are cost driven which is obvious when carrying out Porter's five forces analysis of the micro-environment (Porter, 1979):

- Threat of new entrants

Since most products of the Company are basically structural steel works and accessory parts which can be produced by many companies with comparatively little investment in machinery, the **threat of new entrants is very high** for the Company. Expiring property rights and spreading know-how exacerbate the situation.

- Threat of substitutes

The products of the Company and its competitors are well established in the industry and live in a balanced co-existence with potential substituting products. Latest developments in the planning of construction projects cause a re-balance of the preferred solution for the benefit of the Company, thus the **threat of substitutes is rather reducing**.

- Bargaining power of customers

Globalisation flooded the market with construction products and digitalisation made the market very transparent. This lead to a **very high bargaining power of customers**.

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- Bargaining power of suppliers

Since the number of suppliers increased considerably more than the demand for construction products, the **bargaining power of suppliers is very low.**

- Competitive rivalry

Quite a number of existing similar competitors together with the cooling-down of the construction industry as pointed out in the section above, results in an **intense competitive rivalry** which may be expected to increase.

In a nut shell, the construction product industry is characterized by a supply that clearly exceeds the demand. By trend, this situation will rather intensify. The Company has to hear the wake-up-call and move forward.

2.5 Porter's diamond

Porter's diamond model (Porter, 1990) allows the strategic analysis of the Company's task environment taking the national framework into account (for this reason, the tool is also known as *The National Diamond*). This is important since today companies do not operate in isolated national economies, where all competitors have identical environments, but act on an international stage, where overseas competitors have different environments.

- Factor conditions

The Company took and takes advantage of high standard of German Engineering which is not worldwide unique, however, enjoys for good reason a high reputation. Other endowments, e.g. availability of resources, capital, and infrastructure, are deemed to be rather average.

- Related and supporting industries

The Company's finished products used to be totally made in Germany and also the suppliers of the semi-finished product used for the manufacture were based in Germany. Today, however, the same quality of raw material can be found also elsewhere.

- Demand conditions

The products of the Company are exclusively made for reinforced concrete elements. The reinforced concrete construction method is more typical in Central Europe than for example in North America and East Asia. No further demand conditions support the Company's location in Germany.

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- Strategy, structure, and rivalry

The worldwide most relevant competitors of the Company are also located in Germany or neighbouring countries. The proximity fuelled the development of better solutions. It can be foreseen, however, that state-of-the-art solutions will come from the Far East in future.

- Government

The German government may be rated as "neutral". It neither favours construction product companies by means of subsidies, nor squeeze out construction product companies due to their lack of high-tech. Other than that, the Company can rely on an incorrupt, stable government.

- Chance

Extraordinary chances did not play a role in the history of the Company and likely will not do so in future.

In conclusion, the Company has its base in Berlin/Germany for some good reasons though these reasons are not that relevant. Overall, the advantage of location almost faded away. In other words, a partly relocation of the company should not be a taboo from the economic perspective.

2.6 SWOT

The SWOT analysis of the Company helps to identify the most important internal positive factors (strengths) and internal negative factors (weaknesses) as well as the most relevant external positive factors (opportunities) and external negative factors (threats):

- Strengths

The Company is the inventor of the most important product of the portfolio and for this reason experienced with its production and surrounding services. The headquarter is based in Berlin which should be an asset when hiring key personnel and should provide good access to German and European construction authorities. The location of the Company in Germany (largest economy in Europe with the 5th largest construction output worldwide) and the location of its most important subsidiary in the USA (2nd largest construction output worldwide) is a plus (UNdata, 2018).

- Weaknesses

Since 10 years the most important product of the Company's portfolio is not anymore the undisputed leading edge in all disciplines, the processes are not fully digitalised and the production is incompletely leaned. As a small company, it is disadvantaged in many ways (Anonymous, 2018), for example with regard to raising capital (critical when interest rates increase), efficiency (little

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economies of scale), purchasing power (literally all costs are higher), talent gap (hard to attract high-level employees) and name recognition (sales is crucial but difficult with unknown brand).

- Opportunities

Building Information Modelling (BIM) is the nucleus of digitalisation in construction project planning which also ties in the manufacturers of construction products (Lecat, 2018). If the Company reacts fast, it may generate a worldwide effective first mover advantage for its portfolio.

Internationalisation may further benefit from a continuation of Euro devaluation if exporting to the USA and other countries which currency is linked to the greenback (Papshev, 2019). The freight rates between some destinations may become lower since fewer capacities are required globally due to the trade war.

- Threats

Europe, and thus the Company, may come under fire of the trade war between the USA and China. Importing semi-finished products from Asia becomes more expensive and exporting of finished products to North America becomes more expensive – in other word, the trade war will hinder the Company to benefit from the comparative advantage of international trade (Mulder, 2018). This will also further dismal the prospects for the European construction economy which prosperity, as pointed out above, came to a halt and only small rates of growth may be expected.

2.7 TOWS

The TOWS analysis of the Company is used to specify the most urgent tasks based on the SWOT presented above. It allows the definition of strategic objects by linking the internal factors (strengths or weaknesses) and the external factors (opportunities or threats):

- Strengths – Opportunities

The benefit of the headquarter location in Berlin should be exploited to **hire high-level employees for pushing the digitalisation** which provides considerable potentials also for SMEs, e.g. with regard to lean production (Hoellthaler et al., 2018), supply chain management (Bailey, 2019), and mass customization (Ham and Lee, 2019). Digitalisation means a perfect material utilisation (demand-to-capacity ratio equals unity). Further knock-on effects are waste avoidance and energy reduction, system continuity and process stability, as well as cash flow and capital lockup improvement.

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- Strengths – Threats

The trade war between the USA and China will cool down the world economy. Excess capacities are the consequence which will make the business with construction products even more competitive (refer to PESTEL analysis). It is therefore of paramount importance that the performance of the most important product of the Company's portfolio is enhanced in order to represent the leading edge again. To this end, the **supporting of the cash cow** must have top priority in the engineering, purchase, sales, and marketing department.

- Weaknesses – Opportunities

The risks of the trade war and exchange rates are the major stumbling block on the path to internationalisation of the Company. Therefore, the subsidiary in the USA should be utilised for an increased **US-American localisation** of the production. In addition, an **Asian localisation** in one of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) member states should be considered – either Australia as the biggest potential market in the Asia-Pacific region or Taiwan as the revived low cost country (Nicita, 2019).

- Weaknesses – Threats

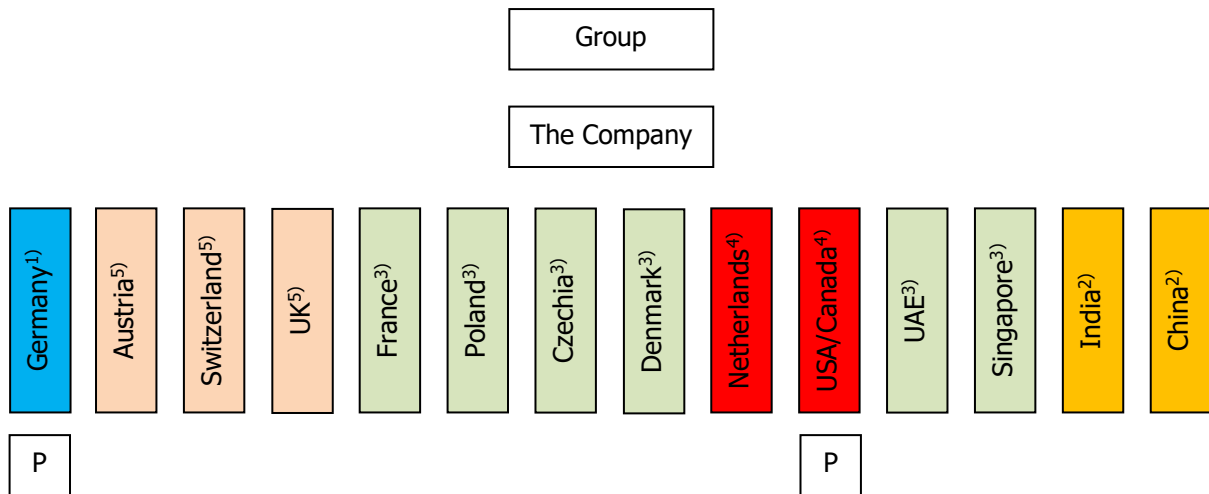
The Company and its portfolio is too small to become a preferred supplier of construction products and to generate any significant economies of scale. Competitors with a comprehensive portfolio of construction products are therefore squeezing the Company out of the business. Sufficient acquisitions to overcome a critical size are difficult to realise, even more in an international dimension. Therefore, an escape from this suboptimal situation could be a **partnership or merger with a multinational** for which the portfolio of the Company is a meaningful completion.

2.8 Past decisions

Because I joined the Company just some years ago and since I do not belong to the board of the Company, only past statements of the financial condition published in the German statistical business register were screened: The foundation of several subsidiaries abroad shows that, beside Central Europe, China and India were in the focus of international business activities at the beginning of this century (Figure 6). Some of the subsidiaries were completely newly founded, partly together with German joint venture partners, other subsidiaries were acquired, partly together with German joint venture partners. 10 years ago, a larger acquisition in North America was made in an attempt to compensate the loss in sales due to a global recession that time in the wake of the financial crisis.

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Overall, it can be stated that the resulting setup was quite heterogenic. The aim was to increase the 25% share of global business in order to become less dependent on the local business.



¹⁾ Core company; ²⁾ Newly founded subsidiary; ³⁾ Newly founded subsidiary as joint venture;

⁴⁾ Acquired subsidiary (with own portfolio); ⁵⁾ Acquired subsidiary (with own portfolio) as joint venture;

P: Production facility

Figure 6: Past setup of the Company

The acquisition in North America was successful and it was planned to utilise the existing business network as a distribution channel also for the core product of the Company. Despite the recovering global economy, sluggish business was reported in particular from China and India over the last decade. The expenses in marketing were increased and business developers were hired to foster international business. In view of the limited success, the commitment in China and India was curtailed step-by-step. Meanwhile, the number of international subsidiaries was substantially reduced and the remaining joint ventures were consolidated (Figure 1). It may be concluded that newly founded subsidiaries as well subsidiaries acquired together with German joint venture partners did not work out. Furthermore, the entire development supports the previously made statement that the Company has the best business chances in countries where a large gross domestic product by size meets a large gross domestic product (PPP) per capita – and vice versa.

Today, about one third of the products manufactured at the Company in Germany are exported. Mainly because of the acquisitions abroad, about 60% of the total turnover of the Company is generated overseas. The total turnover, however, is more and more under pressure due to the increasing number of international competitors. As a countermeasure, the Company should therefore revive its internationalisation activities.

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2.9 Possible future decisions

Based on above analyses, I would and – if I have the opportunity to do so – will propose the following four actions, all of which support either indirect or direct internationalisation:

1. **Hiring high-level employees for the digitalisation** of all processes and information
2. **Supporting the cash cow** to make it great again
3. **Localising the production in the USA** (strengthening present facility) **and Australia or Taiwan** (establishing new facility), thereby streamlining setup and portfolio of the Company
4. **Teaming up with a big multinational company** (partnership or merger to increase the range of the portfolio and the chance to succeed nationally and internationally)

The **hiring high-level employees for the digitalisation** of all processes and information is already under discussion in the Company. Moreover, **supporting the cash cow** to make it great again was just initiated by kicking-off a comprehensive innovation project.

Next to **the USA, localising the production in Australia or Taiwan** should be considered for reasons given in Section 2.7. To this end, enough time and money should be spend to find the best local partner (Farole et al., 2013). Though the market for the products of the Company may be larger in Australia, I would finally favour Taiwan for the following reasons:

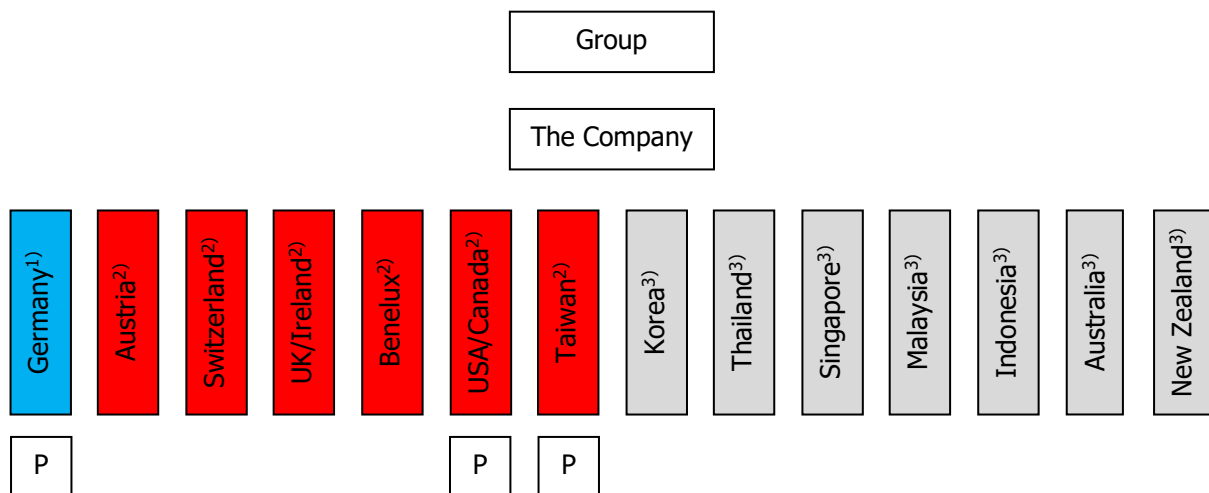
- Overlapping office hours because time shift to Germany is only 6 h
- Half the travelling distance if compared with Australia
- Lower labour costs and at the same time higher availability of trained and motivated staff
- Some semi-finished products for the Company's manufacture are already imported from Taiwan
- A subsidiary in Taiwan could also support sourcing from China
- Taiwanese are westernised yet have a good command of Chinese, the unofficial lingua franca for business in Southeast Asia
- Better situated for the business with other relevant countries in East Asia and Southeast Asia

The latter reason is important since it was concluded in Section 2.2 that for future internationalisation, in addition to Australia and New Zealand, countries in East and Southeast Asia, namely Korea, Thailand, Singapore, Malaysia, and Indonesia should be focussed. Among these countries, Taiwan has the highest global manufacturing competitiveness after Korea (global rank 7, Giffi et al., 2016) and the highest global competitiveness defined as the set of institutions, policies and factors that determine the level of productivity (global rank 12, Schwab, 2019). This underlines that Taiwan would be the right choice.

Apart from Taiwan, all focussed countries in the Asia-Pacific region should be served by distributors and/or dealers. In Europe, as also reasoned in Section 2.2, the Company should rather focus North,

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East, Central and West Europe. For this reason, the subsidiary in the Netherlands should handle also Belgium and Luxemburg and thus be in charge of complete Benelux. Likewise, the subsidiary in the UK should also be responsible of Ireland. It appears unreasonable for the time being to found new subsidiaries in North and East Europe. Experience showed that the headquarter can handle these markets directly. The final outcome would be a clear setup of the Company (Figure 7).



¹⁾ Core company, also handling North and East Europe; ²⁾ Acquired subsidiary; ³⁾ Distributor and/or dealer; P: Production facility

Figure 7: Possible future setup of the Company

If the Company would move forward in this direction, it should focus a clear setup to allow a better managing and controlling (Scally, 2008). This would also enable the introduction of one enterprise resource planning (ERP) software which is absolute essential for the digitalisation of any larger company even if it cannot become an exponential organisation (Ismail et al., 2014). The portfolio of the existing subsidiaries should be streamlined with the portfolio of the Company in Germany to make economies of scale possible, however, local "specialities" should be valued as it is one key for success in the global business (Kansara, 2016).

Teaming up with a big multinational with a matching construction product portfolio is essential to overcome the disadvantages of being a SME. If the Company is reluctant to finance US-American and Asian localisation efforts, it will be difficult to find a suitable company for a global partnership. In this case, a merger with global company would be more realistic. The decision how to become big in an international scale has to be made now as it will severely influence the other above proposed actions.

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3 Challenge of protectionism

Construction products are no consumer products which require a certain income level or attract a specific age cohort. Therefore, the business with construction products is not particularly challenged by the effect of the long-term trend to greater inequality especially in developed economies. Also, the effect of ageing populations and low productivity growth in advanced economies can be only secondary for the Company at most. For this reason, the effect of rising protectionism, highlighted in the World Economic Outlook report as one of the most relevant effect on the global economy (IMF WEO, 2019), is analysed in the following.

3.1 Context

In general, protectionism is the “policy of protecting domestic industries against foreign competition by means of tariffs, subsidies, import quotas, or other restrictions or handicaps placed on the imports of foreign competitors” (Encyclopædia Britannica, 2018). Experience shows that protectionist actions from one side triggers protectionist actions from the other side – a tit-for-tat game which easily becomes a trade war.

Since the 1970s, the trade of the USA became more and more imbalanced, in particular with China after they became member of the World Trade Organization (WTO) in 2001 (Figure 8). Already long before his election campaign, Trump announced that he will reduce the trade deficit by imposing tariffs (Tankersley and Landler, 2018). When Trump became president of the USA, trade imbalance existed especially with Mexico, Japan, Germany, and China (Figure 9). The trade imbalance of the USA with China alone piled up already to more than 400 million USD in 2018.

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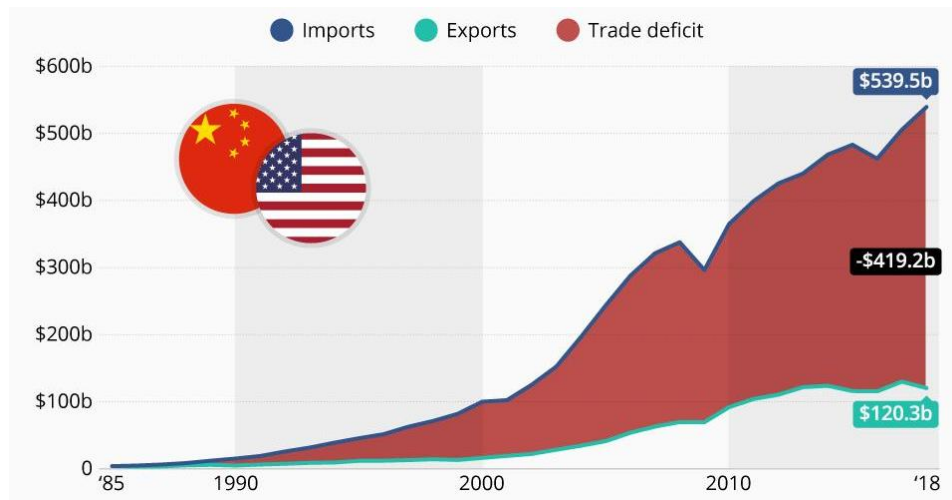


Figure 8: Trade imbalance of the USA with China (Richter, 2019)

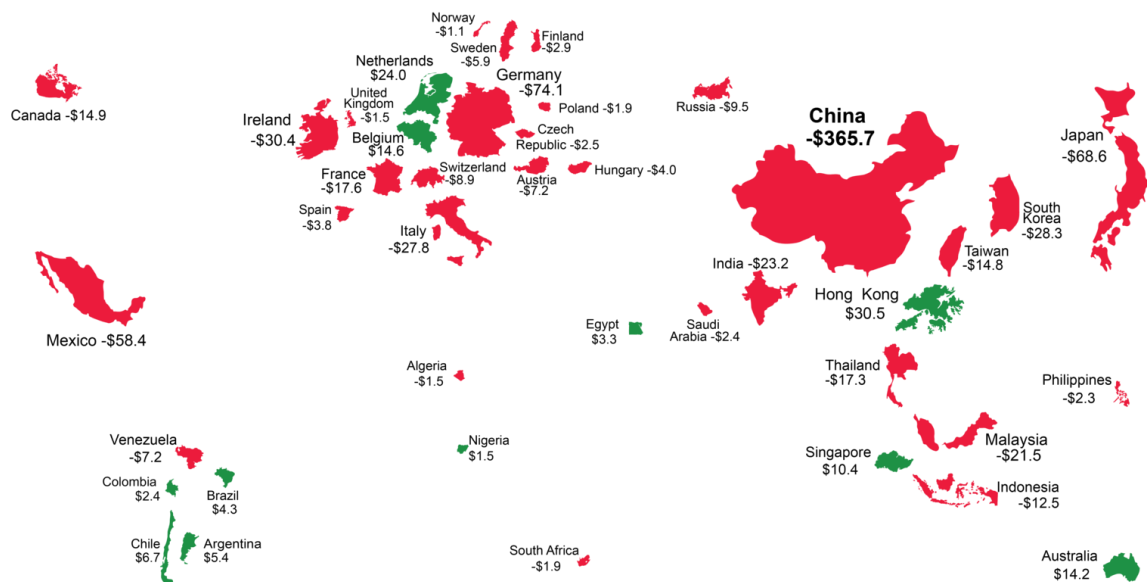


Figure 9: Trade imbalance of countries (in green) with the USA and of the USA with other countries (in red) (Desjardins, 2016)

Protective tariffs were initiated by Trump's USA at the beginning of 2018. After tariffs on solar panels and washing machines, steel tariffs (25%) and aluminium tariffs (10%) on imports from all countries were imposed March 1st (Lynch and Paletta, 2018). China, Canada, and the European Union responded with the implementation of retaliatory tariffs. On the main battle field of the current trade

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war, the USA and China duel. On March 22nd, the USA tariffed thousands of products made in China (Swanson, 2018). Retaliatory tariffs were introduced two weeks later.

The implementation of protective tariffs brings immediately winners and losers (Dwyer, 2018). Trumps hopes that in total, the winners outnumber the losers. According to the economic theories of comparative advantage (Ohlin and Heckscher, 1991; Richardo, 1817), this will not happen since in sum international trade is always advantageous and, vice versa, the hampering of international trade is disadvantageous for all countries involved. The validity of the underlying model describing mathematically the comparative advantage, however, may be questioned due to the simplified assumptions (Schumacher, 2012).

To date, it is not clear whether momentarily the USA is winning or losing all in all since contradictory statements can be found (e.g. Fitzgerald, 2019; Zoller-Rydzek and Felbermayr, 2018), though I have the feeling that there is growing evidence for a downturn, particularly in recent times (e.g. Bartash, 2020). In the long run, certainly, economic growth is reduced not only in the USA and in China but all over the world (Murray, 2019) and a worldwide recession may be triggered if the trade war is continued (Sanders, 2019).

3.2 Impact

The 25% steel tariffs implemented in the USA mostly affects standardised parts and semi-finished products. The finished products manufactured by the Company in Germany are not affected when shipped to the USA. At first sight, therefore, the Company is an onlooker of the rampaging trade war. However, the trade war may have an impact also on any company because of two reasons:

- Delayed capital investments and staff hiring

The global economy is subdued, however, still growing. Nonetheless, already a reduction of growth let companies hesitating to decide on capital investments and staff hiring.

- Modified national and international setup

A global trade war may influence strategic decisions with regard the national and international setup as protectionism favours localised productions.

The current deceleration of the global boom rally should be used by the Company as a chance to be successful in figuring out the required capital investments to get the revival of internationalisation done and in hiring new high-level staff which availability may increase temporarily. Moreover, localisation of production in the currently walled off USA should be spurred by strengthening the

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existing subsidiary there and localisation of production in the Asia-Pacific region should be initiated by founding a new subsidiary in Taiwan.

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