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SCHOOL OF MANAGEMENT STUDIES

UNIT – I - INTERNATIONAL BUSINESS MANAGEMENT- SBA1602

Unit 1

International Business – Definition – Internationalizing Business – Advantages – Factors Causing Globalization of Business – International Business Environment – Country Attractiveness – Political, Economic and Cultural Environment – Protection Vs Liberalization of Global Business Environment.

INTERNATIONAL BUSINESS MANAGEMENT

1.1 Framework

1.1.1 Definition:

International business may be defined simply as business transactions that take place across national borders. Nearly all business enterprises, large and small, are inspired to carry on business across the globe. This may include, purchase of raw materials, from foreign suppliers, assembling products from components made in several countries or selling products or services to customers in other nations.
International Business

Other definitions:

1) IB field is concerned with the issues facing international companies and governments in dealing with all types of cross border transactions.
2) IB involves all business transactions that involve two or more countries.
3) IB consists of transactions that are devised and carried out across borders to satisfy the objectives of individuals and organizations.
4) IB consists of those activities private and public enterprises that involve the movement across national boundaries of goods and services, resources, knowledge or skills.

1.1.2 Multinational Enterprise:

A MNE has a worldwide approach to foreign markets and production and an integrated global philosophy encompassing both domestic and international markets.

1.1.3 International Management

It is defined as a process of accomplishing the global objectives of a firm by

(1) Effectively coordinating the procurement, allocation, and utilization of the human, financial, intellectual, and physical resources of the firm within and across national boundaries.
.
(2) Effectively charting the path toward the desired organizational goals by navigating the firm through a global environment that is not only dynamic but often very hostile to the firm's very survival International Trade: When a firm exports goods or services to consumers in another country. Foreign Direct Investment: When a firm invests resources in business

1.1.4 The Globalization of the World:

- Globalization of Economy
- Globalization of markets
- Globalization of production
- Decline of barriers to trade (WTO)
- Increased technological capabilities
- 60,000 international firms with 500,000 foreign affiliates that generate $11 trillion in sales in 1998

Globalization

- Trade and investment barriers are disappearing.
- Perceived distances are shrinking due to advances in transportation and telecommunications.
- Material culture is beginning to look similar.
- National economies merging into an interdependent global economic system.

Globalization: Pros & Cons

- Pros
  - ✓ Increased revenue opportunity through global sales.
  - ✓ Reduced costs by
- Cons
  - ✓ Different nations = different problems.
  - ✓ Similarities between nations may be superficial.
  - ✓ Global planning may be easy, but global execution is not.

1.1.5 Definition of Globalization:

The worldwide movement toward economic, financial, trade, and communications integration. Globalization implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers. However, it does not include unhindered movement of labor and, as suggested by some economists, may hurt smaller or fragile economies if applied indiscriminately.

1.1.6 What is "Globalization"?

"The shift toward a more integrated and interdependent world economy." Markets Production

Globalization of Markets:

"Merging of historically distinct and separate national markets into one huge global marketplace."

Facilitated by offering standardized products:

- Citicorp
- Coca-Cola
- Sony PlayStation

- McDonalds
- Does not have to be a big company to participate:
- Over 200,00 U.S. companies with less than 100 employees had foreign sales in 2000.

The Largest Global Markets:
- Consumer Goods
- Industrial Goods and Materials
- Commodities such as aluminum, oil and wheat.
- Industrial products such as microprocessors, aircraft.
- Financial assets such as U.S. Treasury bills and
- Eurobonds.
- Industrial Goods and Materials
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Globalization of production
- Refers to sourcing of goods and services
- from locations around the world to take
- advantage of
    - Differences in cost or quality of the factors of
- production
- Labor
- Land
- Capital

Globalization of Production
- "The sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (labor,energy, land and capital)."
- Companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering - increasing their competitiveness.

1.2 INTERNATIONALIZATION OF BUSINESS:

1.2.1 Meaning of International Business:

International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more nations. Usually private companies undertake such transactions for profit; organizations undertake them for profit for political reasons. A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than a country.

An MNE is often called multinational corporation (MNC) or transnational company (TCN). Well known MNCs include fast food companies such as McDonald's and Yum Brands, vehicle manufacturers such as General Motors, Ford Motor Company and Toyota, consumer electronics companies like Samsung, LG and Sony, and energy companies such as Exxon Mobil, Shell and BP. Most of the largest corporations operate in multiple national markets.

The conduct of international operations depends on companies' objectives and the means with which they carry them out. The operations affect and are affected by the physical and societal factors and the competitive environment.

Internationalization of Business has benefited TCS, Asian paints, Wipro, Infosys. It may be understood as those business transactions that involve the crossing of national boundaries'. They include;

1. Product presence in different markets of the world.
2. Production bases across the globe.
3. Human resource to contain high diversity
4. Investment in international services like banking, advertising, tourism, retailing, and construction
5. Transactions involving intellectual properties such as copyrights, patents, trademarks and process technology

1.2.2 Why study international business?

1. 1. Increasingly, companies are sourcing their human resource requirement globally, Sony corporation.
2. 2. Most of the products we consume everyday are supplied to us by global businesses. We are sure of quality if the products bear such names as Nike, Toyota, Colgate, Gap T-shirt, and the like. To know these brands is to understand international business
3. 3. Managing an international business is major complex than running a domestic business. Global business involves production of goods in facilities located in different countries with resources, human and physical sourced from all parts of the globe and marketing goods and services to users across the globe.
4. 4. The major impact of international business in this area has been impetus on governments to open up their borders to international trade and investment, standardize their systems and procedures, and adopt internationally acceptable values and attitudes.
5. 5. International business executives play a powerful role in determining the relative competitiveness of various countries in the global arena.

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Advantages of international business:

- **Product Flexibility**

  If you have products that don’t sell well in your local or regional market, you may find greater demand abroad. You don’t have to dump unsold inventory at deep discounts. You can search for new markets where your products can sell for even higher prices than they did in your local market. In fact, you may find new products to sell abroad that you don’t offer where you are based. You can offer a much wider range of products when you market globally.

- **Less Competition**

  Company may have come to view competition as a local phenomenon. You can find international markets that have less competition and move quickly to capture market share. This can be particularly advantageous when you have access to high-quality versions of products that are superior to versions in other countries. Though your local competition may have access to the same quality as you have, you will have little competition if you find an international market that has been buying an inferior product.

- **Protection from National Trends and Events**

  When you market to several countries, you are not as vulnerable to events in any one country. For example, if you sell soft drinks with high sugar content, you could discover that your home country frowns upon drinks that offer extra calories. You may be able to sell the same product in another country that has a much different attitude toward these drinks. In addition, a natural disaster in any one market can disrupt business, but you can compensate by focusing your sales efforts in another part of the world.

- **Learning New Methods**

  When you do business in another country, you learn new ways of doing things. You can apply this new knowledge to other markets. For example, according to the Cite Sales website, Unilever discovered a market for laundry detergent that would function in Europe’s high-mineral-content or "hard" water. This product can now be marketed to parts of the U.S. that have similar water problems.

The economic benefits that greater openness to international trade bring are:

- Faster growth: economies that have in the past been open to foreign direct investments have developed at a much quicker pace than those economies closed to such investment e.g. communist Russia
- Cheaper imports: this is down to the simple fact that if we reduce the barriers imposed on imports (e.g. tariffs, quota, etc) then the imports will fall in price
- New technologies: by having an open economy we can bring in new technology as it happens rather than trying to develop it internally
- Spur of foreign competition:
  foreign competition will encourage domestic producers to increase efficiency. Carbaugh (1998) states that global competitiveness is a bit like golf, you get better by playing against people who are better than you.
- Increase consumer income: multination will bring up average wage levels because if the multinationals were not there the domestic companies would pay less
- Increased investment opportunities: with globalization of companies can move capital to whatever country offers the most attractive investment opportunity. This prevents capital being trapped in domestic economies earning poor returns.

1.3 FACTORS CAUSING GLOBALIZATION:

Meaning:

Globalization of the economy means reduction of import duties, removal of Non-Tariff Barriers on trade such as Exchange control, import licensing etc., allowing FDI and FPI, allowing companies to raise capital abroad and grow beyond national boundaries and encourage exports. Both Foreign Trade and Foreign investment volume have grown rapidly over the last few years.

The IMF defines globalizations as "the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology."Saturday, December 08, 2012 Dr. S. Jain 18

Trade Liberalization and Globalization:

- First, When Tariffs are lowered and QRs are removed, relative prices change and resources are reallocated to production activities that may raise output. However, increased import of manufactured products will have adverse impact on domestic production.
- Second, larger long run benefits due to the free flow of technology and new production structures.
- Exports and Imports - most dynamic factors in the process of economic growth after 1995.

1.3.1 VIEWS ON GLOBALIZATION:

- Those stress the Virtues of Import Substitution and limited openness ie, View against Free Trade and Globalization
- Those emphasize the importance of Free Trade. Arguments
    a) Achieve International Competitiveness
    b) Reduce the price level
    c) More choice for consumers

Globalization in different ways:

Concept of Multinationals MNCs now account for over 33% of world output, and 66% of world trade Capitalist Approach Privatization + Deregulation + Globalization = Turbo-capitalism = Prosperity Homogeneity Price, Product, Quality, Interest Rates Etc. Spread and connectedness of production, communication and technologies Branding Brands like Coca Cola, Nike, Sony, LG, Intel, Microsoft etc

Globalization:

Lowered the cost of Transportation Reduced the cost of Communication Revolution in Information and Communication Technologies Change in political systems Collapse of Soviet Union Fall of Berlin Wall China's Economic Reforms Saturday, December 08, 2012 Dr. S. Jain 24

Stages of Globalization:

Ohmae identify five different stages in the development of a firm into a global corporation.

- The first stage is the arm's length service activity of essentially domestic company which moves into new markets overseas by linking up with local dealers and distributors.
- In stage two, the company takes over these activities on its own.
- In the next stage, the domestic based company begins to carry out its own manufacturing, marketing and sales in the key foreign markets.
- In stage four, the company moves to a full insider position in these markets, supported by a complete business system including R & D and engineering.
- In the fifth stage, the company moves toward a genuinely global mode of operation.

Essential Conditions for Globalization • Business Freedom• Facilities• Government Support• Resources• Competitiveness• Orientation-Saturday, December 08, 2012 Dr. S. Jain 26

1.3.2 Problems in Globalization:

- Global competition and imports keep a lid on prices, so inflation is less likely to derail economic growth.
- An open economy spurs innovation with fresh ideas from abroad.
- Export jobs often pay more than other jobs.
- Unfettered capital flows give the US access to foreign investment and keep interest rates low.
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- Millions of Americans have lost jobs due to imports or production shifts abroad. Most find new jobs that pay less
- Millions of others fear losing their jobs, especially at those companies operating under competitive pressure.
- Workers face pay cut demands from employers, which often threaten to export jobs.
- Service and white collar jobs are increasingly vulnerable to operations moving offshore
- U S employees can lose their comparative advantage when companies build advanced factories in low-wage countries, making them as productive as those at home.

Globalization of Indian Business:

- India's economic integration with the rest of the world was very limited because of the restrictive economic policies followed until 1991. Indian firms confined themselves, by and large, to the home market. Foreign investment by Indian firms was very insignificant.
- With the new economic policy ushered in 1991, there has, however, been a change. Globalization has in fact become a buzz-word with Indian firms now, and many are expanding their overseas business by different strategies.

Factors Favoring Globalization:

- Human Resources
- Wide Base• Growing Entrepreneurship
- Growing Domestic Market• Niche Markets
- Expanding Markets
- Trans-nationalization of World Economy
- NRIs

- Economic Liberalization• Competition

1.3.3 FACTORS CAUSING GLOBALIZATION OF BUSINESS:

More and more companies are seeking to internalize or globalize their economics for a number of reasons.

1. Developing markets have huge markets
2. Many MNC's are locating their subsidiaries in low wage countries to take advantage of low cost production.
3. Changing demographics also adds to increasing globalization
4. Regional trading blocs are adding to the pace of globalization. WTO, EU, NAFTA, MERCOSUR and FTAA are major alliances among countries. Trading blocs seek to promote international business by removing trade and investment barriers.
5. Declining trade and investment barriers have vastly contributed to globalization.
6. The most powerful instrument that triggered globalization is technology.

7. The **Boston consulting group** (2005) has identified five currents of globalization.

   These currents are;

   a) Growth of rapidly developing economics (RDE's)
   b) Continuing cost and capital advantages of RDE's
   c) Development of talent and capabilities in RDE's
   d) Migration of customers to RDE's
   e) Emergence of RDE based global competitors.

8. There is money in international business and no organizations would wish to miss the opportunity.
9. Resource seeking is another motive for firms going international.
10.Globalization is triggered world bodies and institutions. WTO is the international organizations that regulates and promotes business across nations. The main purposes of WTO are a) help free trade b) help negotiate further opening of markets c) settle trade disputes between members.

1.3.4 Ripple effects of globalization:

1. Globalization and management
2. Globalization and jobs
3. Globalization and wages
4. Globalization and child labor
5. Globalization and women
6. Globalization and developing countries
7. Inequalities

1.3.5 Disadvantages of globalization:

- The negative drivers of globalization included culture which is a major hold back of globalization. An example of how culture can negatively affect globalization can be seen in the French film industry. The French are very protective of this part of their culture and provide huge grants to help its development. As well as government barriers market barriers and cultural barriers still exist.

- A negative aspect to a countries development is war e.g. tourism in Israel fell by 40% due to the latest violence. Corporate strategy can also be a negative driver of globalization as corporation may try to locate in one particular area.

- Another negative driver of globalization is "local focus" or "localization" as it is termed in Richard Douthwaite's book "Short Circuit". Douthwaite (1996) believes that globalization can and should be reversed.

- He also believes that localization is the way to do this. He defines localization as "not meaning everything being produced locally but it means a better a balance between local, regional, national and international markets and thus brings less control to multinational corporations".

- Another step to reverse globalization would be for governments to club together to curb the power of multinational by negotiating new trade and treaties that would remove the subsidies powering globalization and give local production a chance.

- Douthwaite also states that the global economy is itself nothing less than a system of structural exploitation that creates hidden slaves on the other side of the world and also that the North should allow the South to produce for it and not just for us (North). So it can be seen that Douthwaite is very opposed to globalization especially that part of it exploited by multinational corporations.

- Further arguments put forward against globalization by Mr. Lawton include that it actually destroys jobs in wealthy advanced countries. This is due to the lower costs of wages in developing countries. Multinationals will move to areas of lower wage levels at the drop of a hat e.g. Fruit of the Loom. Also this ability to relocate has meant that wage levels of unskilled workers in developed countries have actually fallen relatively speaking. This is down to the fact that one now needs skill and knowledge in developed economies to survive.
  Causes the flow of ideas, services, and capital around the world
    - Offers consumers new choices and greater variety
    - Allows the mobility of labor, capital and technology
    - Provides employment opportunities
    - Reallocates resources and shifts activities to a global level

TERMINOLOGIES IN INTERNATIONAL BUSINESS:

Concept of International Business & International Trade:

Exports of goods and services by a firm to a foreign-based buyer (importer)

International Marketing:

It focuses on the firm-level marketing practices across the border, including market identification and targeting, entry mode selection, and marketing mix and strategic decisions to compete in international markets.

International Investments:

Cross-border transfer of resources to carry out business activities.

International Management:

Application of management concepts and techniques in a cross-country environment and adaptation to different social- cultural, economic, legal, political and technological environments.

International Business:

All those business activities which involves cross border transactions of goods, services, and resources between two or more nations

Global Business:

Conduct of business activities in several countries using a highly co-ordinate and single strategy across the world.

REASONS FOR INTERNATIONAL BUSINESS EXPANSION:

- Market-Seeking Motives
- Marketing opportunities due to life cycles
- Uniqueness of product or service
- Economic Motives - Profitability
- Achieving economies of scale
- Spreading R&D costs
- Strategic Motives
- Growth
- Risk spread

TYPES OF INTERNATIONAL BUSINESS:

Export-import trade, foreign direct investment, Licensing, Franchising, Management contracts

International Business vs. Domestic Business:

International business can differ from domestic business for a number of reasons, including the following: – The countries involved may use different currencies, forcing at least one party to convert its currency into another. – The legal systems of the countries may differ, forcing one or more parties to adjust their practices to comply with local law. – The cultures of the countries may differ, forcing each party to adjust its behavior to meet the expectations of the other. – The availability of resources differs by country; the way products are produced and the types of products that are produced vary among countries.

Liberalization:

In general, Liberalization refers to relaxation(s) of government restrictions, usually in areas of social or economic policy. In some contexts this process or concept is often, but not always, referred to as deregulation. Most often, the term is used to refer to economic liberalization, especially trade liberalization or capital market liberalization. Although economic liberalization is often associated with privatization, the two can be quite separate processes. The economic liberalization in India refers to ongoing economic reforms in India that started on 24 July 1991.Saturday, December 08, 2012 Dr. S. Jain 10

Privatization:

Privatization means transfer of ownership and/or management of an enterprise from the public sector to the private sector. It also means the withdrawal of the State from an industry or sector, partially or fully. Another dimension of privatization is opening up of an industry that has been reserved for the public sector to the private sector. Saturday, December 08, 2012 Dr. S. Jain 11

Ways of Privatization:

There are different ways of achieving privatization.• One of the important ways of privatization is divestiture, or privatization of ownership, through the sale of equity.• Another way of privatization is contracting.

Another option for the government is to withdraw from the provision of certain goods and services leaving them wholly or partly to the private sector.• Privatization may also take the form of privatization of management, using leases and management contracts

The important ways of privatization are the following:

1. Divestiture
2. Denationalization
3. Contracting4. Franchising
5. Government withdrawing
6. Privatization of management
7. Liquidation

Benefits of Privatization:

Privatization benefits the society in several ways. Some of them are

1. Reduces the fiscal burden
2. Enables the government to mop up funds
3. Result in better management of the enterprises
4. Encourage entrepreneurship

Managing Business in the Globalization Era Global strategies adopted by business enterprises may include:

- Global conception of markets
- Multi-regional integration strategy

- Changes in external organization of multinational firms
- Changes in internal organization

1.4 COUNTRY ATTRACTIVENESS:

It is a multidisciplinary concept at the crossroads of development economics, financial economics, comparative law and political science: it aims at tracking and contrasting the relative appeal of different territories and jurisdictions competing for "scarce" investment inflows, by scoring them quantitatively and qualitatively across ad hoc series of variables such as GDP growth, tax rates, capital repatriation.

There are multiple factors determining host country attractiveness in the eyes of large foreign direct institutional investors, notably pension funds and sovereign wealth funds. Research conducted by the World Pensions Council (WPC) suggests that perceived legal/political stability over time and medium-term economic growth dynamics constitute the two main determinants

Some development economists believe that a sizeable part of Western Europe has now fallen behind the most dynamic amongst Asia's emerging nations, notably because the latter adopted policies more propitious to long-term investments: "Successful countries such as Singapore, Indonesia and South Korea still remember the harsh adjustment mechanisms imposed abruptly upon them by the IMF and World Bank during the 1997-1998 'Asian Crisis' […] What they have achieved in the past 10 years is all the more remarkable: they have quietly abandoned the "Washington consensus" [the dominant Neoclassical perspective] by investing massively in infrastructure projects. This pragmatic approach proved to be very successful."

1. Guide to analyze country's attractiveness Unit One
2. Managerial Implications
3. Two broad implications for IB
    - Political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business
    - The political, economic, and legal environment of a country clearly influences the attractiveness of that country as a market and/or investment site
4. Attractiveness Return
    - 1. A country attractiveness assessment is based on two dimensions
    - Market and industry opportunities
    - Country risks (many organizations publish country assessment results based on various economic/political/social factors)
5. Country attractiveness analysis

Market opportunities

- Market opportunities assessment measures the potential demand in the country for a firm's products or services based on:
- Market size
- Growth
- Quality of demand.

Industry opportunities

- Industry opportunities assessment determines profitability potential of a company's presence in a country given the following factors:
- Quality of industry competitive structure (Porter's five-force Industry Analysis Framework)

- Resource availability (Porter's diamond framework)

6. Framework for country market and industry attractiveness assessment MARKET - How important is the demand in this country? + Growth? + Size? + Customer quality

- Resources
- Skilled personnel?
- Raw materials?
- Components?
- Labor?
- Technology?
- Innovation?
- Quality of infrastructure supporting services
- Location

7. Country attractiveness analysis

- Political risks

  Political risks are probable disruptions owing to internal or external events or regulations resulting from political action of governments or societal crisis and unrest.
- Economic risks

  Economic risks expose business performance to the extent that the economic business drivers can vary and therefore put profitability at stake.
- Competitive risks

  Competitive risks are related to non-economic distortion of the competitive context owing to cartels and networks as well as corrupt practices. The competitive battlefield is not even and investors who base their competitive advantage on product quality and economics are at disadvantage.
- Operational risks.

  Operational risks are those that directly affect the bottom line, either because government regulations and bureaucracies add costly taxation or constraints to foreign investors or because the infrastructure is not reliable.

8. Framework for country risk analysis

Political risks operational risks competitive risks economic risks

- Shareholders exposure
- Assets destruction (war, riots)
- Assets spoliation (expropriation)
- Assets immobility (transfer, freeze)
- Operational Exposure
- Market disruption
- Labor unrest
- Racketing
- Supply shortages
- Employees Exposure
- Kidnapping
- Gangsterism
- Harassment
- Variability
- Inflation

- Cost of inputs
- Exchange rates
- Business logics
- Corruption
- Cartels
- Networks

Infrastructure - Power, Telecommunication, Transport - Supplier Country Risk Analysis

  - Regulations
  - Nationalistic preferences
  - Constraints on local capital, local content, local employment

1.5 International business environment

The environment of international business is regarded as the sum total of all the external forces working upon the firm as it goes about its affairs in foreign and domestic markets. The environment can be classified in terms of domestic, foreign, and international spheres of impact.

1. The domestic environment – is familiar to managers and consists of those uncontrollable external forces that affect the firm in its home market.

2. The foreign environment - can be taken as those factors which operate in those other countries within which the MNC operates.

3. **The international environment -** is conceived as the interaction between domestic and foreign factors and indeed they cover a wide spectrum of forces

The forces:

- Political environment
- Legal environment
- Cultural environment
- Technological environment
- Economic environment.

1.5.1 Political environment

It refers to the influence of the system of government and judiciary in a nation on international business. The type and structure of government prevailing in a country decides, promotes, fosters, encourages, shelters, directs, and controls the business of that country.

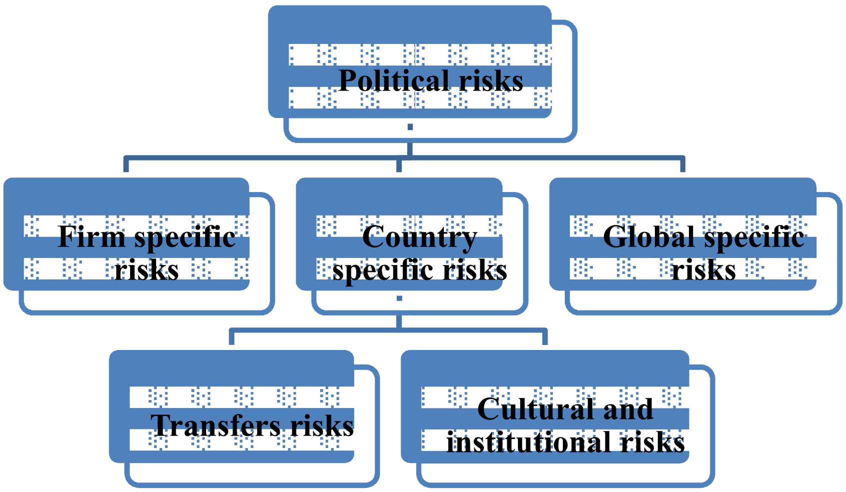
A political system is stable, honest, efficient, and dynamic and which ensures political participation to the people and assures personal security to the citizens, is a primary factor for economic development.

Democracy: refers to a political arrangement in which the supreme power is vested in the people. Democracies maintain stable business environments primarily through laws protecting individual property rights. Ex: India.

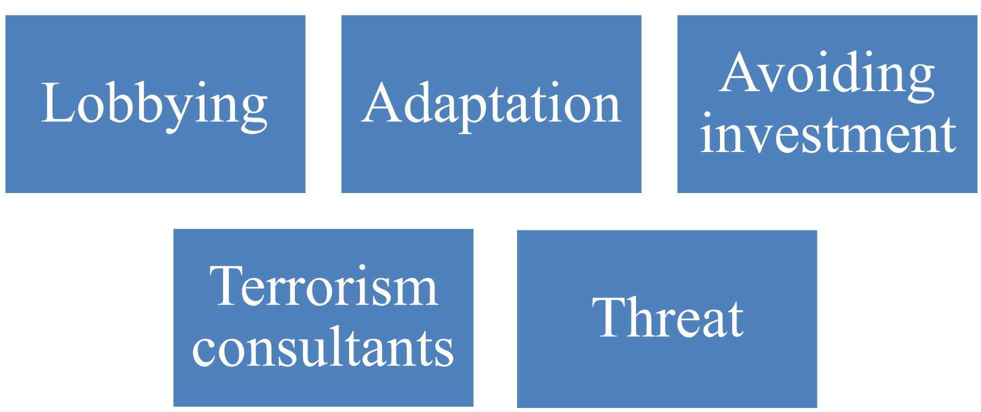
Merits of democracy:

1. Need for supportive values
2. Function of free speech

Classification of political risks



Managing political risks



Legal environment

The legal system refers to the rules and laws that regulate behavior of individuals and organization

Systems of law:
There are four basic legal systems prevailing around the world.

1. **Islamic law:** derived from the interpretation of the Quran and practiced in countries where Muslims are in majority. Ex: Saudi Arabia, Pakistan, Iran.
2. **Common law:** derived from English law, is prevalent in countries, which were under British influence. Ex: US, Canada, England, Australia.
3. **Civil law or code law:** derived from Roman law, practiced in Germany, Japan, France, and non - Marxist and non - Islamic countries. Ex: Germany, France, Japan.
4. **Marxist legal system:** This has takers in communist countries. Ex: China, Vietnam, North Korea and Cuba.

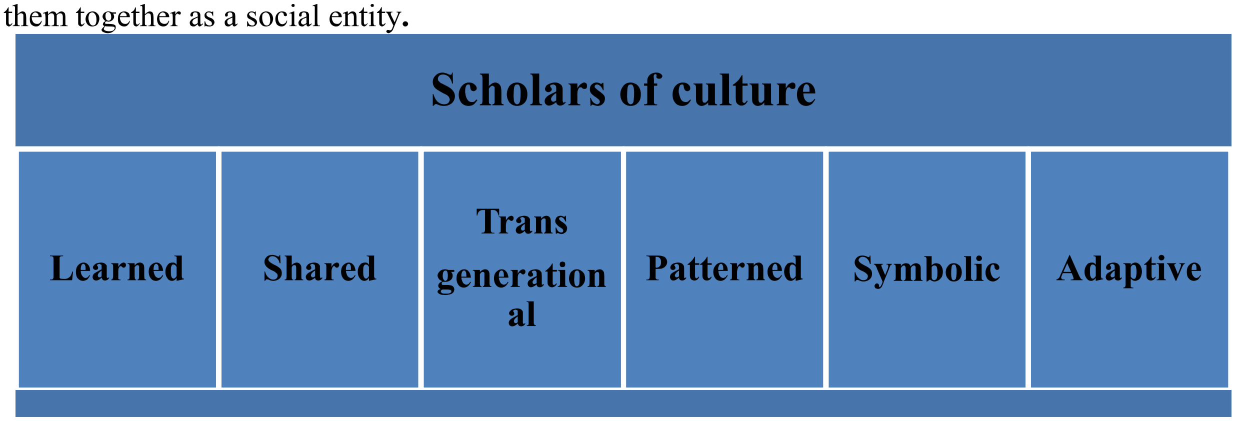
Industrial disputes resolution: Legal disputes can arise in three situations: between governments, between a firm and a government, and between two firms.

Conciliation: also known as mediation, this is a nonbonding agreement between parties to resolve disputes by asking a third party to mediate.

Arbitration: is the preferred method for resolving international commercial disputes. The usual arbitration procedure is for the parties involved to select a disinterested and informed party or parties as referee to determine the merits of the case and make a judgment that both parties agree to honor.

Litigation: a wise course of action would be to seek a settlement other than by suing.

Cultural environment:
According to Elbert W Steward and James A Glynn "Culture consists the thought and behavioral patterns that members of a society learn through language and other forms of symbolic interaction – their customs, habits, beliefs and values, the common viewpoints that bind them together as a social entity**.**



Levels of culture:

1. National culture:
It is dominant culture within the political boundaries of a country.

2. Business culture:

It also provides the guides for everyday business interactions.

3. Occupational and organizational cultures:

It's sister term is corporate culture refers to the philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes and norms that knit an organization together and are shared by its employees

4. Mechanistic and organic cultures:

It exhibits the values of bureaucracy and feudalism.

5. Authoritarian and participative cultures:

Power is concentrated on the leader and obedience to orders and disciplines are stressed. Participative cultures tend to emerge where most organizational members are professionals or see themselves as equals.

6. Dominant and sub-cultures:

Dominant culture, normally referred to as the organizational culture reflects core values that are shared by the majority of the employees. By contrast, sub-cultures are found in departments, divisions and geographical areas and reflect the common problems or experiences of employees who reside in these areas.

7. Strong, Weak and Unhealthy cultures:

A **Strong culture** will have a significant influence on employee behavior manifesting in reduced turnover, lower absenteeism, increased cohesiveness, and positive attitudes.

A **Weak culture** is characterized by the presence of several sub-cultures, sharing of few values and behavioral norms by employees and existence of few sacred traditions.

One **Unhealthy culture** is a politicized internal environment that allows influential manager to operate autonomous "fiefdoms" and resist needed change.

Elements of culture

1. Language
2. Customs and manners
3. Attitudes
4. Aesthetics
5. Religion
6. Education
7. Supernatural beliefs

Implications for international business

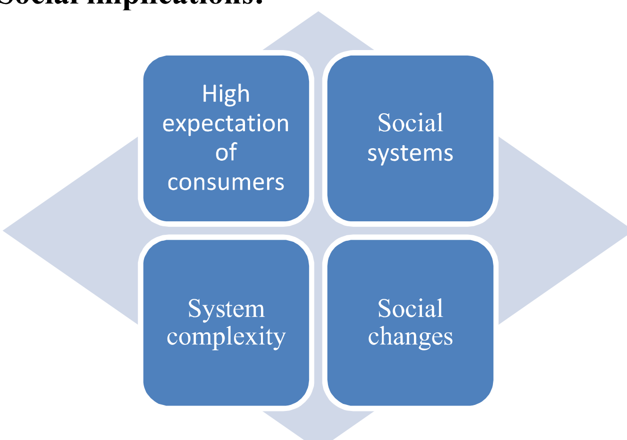
Multiculturalism:

Managing multiculturalism is essential for every international firm.

1. Spread cross-cultural literacy
2. Compatibility between strategy and culture
3. Culture and competitive advantage
4. Managing diversity.

IMPACT OF TECHNOLOGY:

Social implications:



Economic implications:

- Increased productivity
- Need to spend on R&D
- Jobs become intellectual
- Problems of techno-structure
- Increased regulation and stiff opposition
- Rise and decline of products and organizations
- Boundaries redefined
- Training of scientists and engineers.

Plant level changes:

- Organization structure
- Resistance to change
- Fear of risk
- E-commerce
- Patenting
- Transportation
- Markets
- Technology transfers
- Production
- Others

Operational sequences for technology transfer

- Arrangements for sales & licensing
- Provision of know-how & technical expertise
- Provision of detailed engineering designs & installation
- Purchases and leases of technology elements
- Technical cooperation agreements

1.4.2 ECONOMIC ENVIRONMENT:

It can help international managers, to predict how trends and events might affect performance of foreign business.

I) Classification on the basis of income:

1. **Developing countries:** share a set of common and well – defined goals. Ex: India, China.
2. **Developed countries:** Those are highly industrialized, highly efficient. Ex: Canada, Japan, Australia, US.

II) Countries classified by economic system:

1. **Market economy:** production of goods and services is not planned by individuals
2. **Command economy:** decisions relating to all economic activities – what to produce, how to produce.
3. **Mixed economy:** it includes both. Ex: India.

III) Classification of countries by region:

1. East Asia and Pacific
2. Europe and central Asia
3. Latin America and the Caribbean
4. Middle east and North Africa
5. South Asia
6. Sub-Saharan Africa
7. High income countries

IV) Economic scenario:

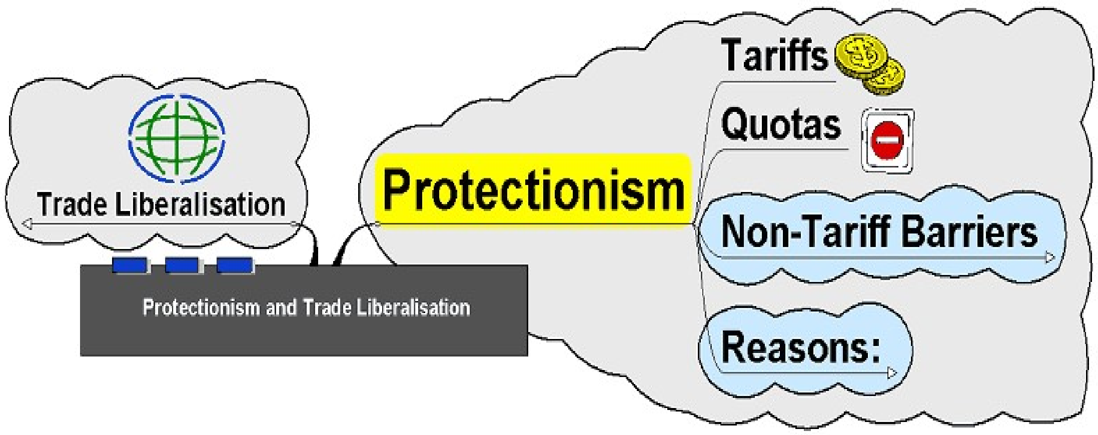
1. Rates of growth
2. Inflation
3. Savings and investment
4. Fiscal stability
5. Balance of payments
6. Financial system

V) Economic policies:

1. Industrial policy
2. Monetary policy
3. Fiscal policy
4. Trade policy

1.5 Protectionism and Trade Liberalisation

Protectionism:



Protectionism means by which trade between countries is restricted in some way – normally through measures to reduce the number of imports coming into a country
Main means are:

- **Tariffs -** A tax on a good coming into a country. increases the price of the good and makes it less competitive
- **Quotas -** Physical restriction on the number of goods coming into a country.
- **Non-Tariff Barriers -** Any methods not covered by a tariff, most usually:
  - Rules
  - Regulations
  - Voluntary Export Restraints (VERs)
  - Legislation
  - Exacting Standards or Specifications

Trade Liberalisation

The removal of or reduction in the trade practices that thwart free flow of goods and services from one nation to another. It includes dismantling of tariff (such as duties, surcharges, and export subsidies) as well as nontariff barriers (such as licensing regulations, quotas, and arbitrary standards).

In economy and trade

Privatization, also spelled as privatization, may have several meanings. Primarily, it is the process of transferring ownership of a business, enterprise, agency, public service or public property from the public sector (a government) to the private sector, either to a business that operates for a profit or to a nonprofit organization. It may also mean government outsourcing of services or functions to private firms, e.g. revenue collection, law enforcement, and prison management

Privatization has also been used to describe two unrelated transactions. The first is the buying of all outstanding shares of a publicly traded company by a single entity, making the company privately owned. This is often described as private equity. The second is a demutualization of a mutual organization or cooperative to form a joint-stock company..

Although economic liberalization is often associated with privatization, the two are distinct concepts. For example, the European Union has liberalized gas and electricity markets, instituting a competitive system, but some leading European energy companies such as France's EDF and Sweden's Vattenfall remain partially or completely in government ownership.

Liberalized and privatized public services may be dominated by just a few big companies particularly in sectors with high capital costs, or high water, gas, or electricity costs. In some cases they may remain legal monopolies, at least for some segments of the market (like small consumers).

Liberalization is one of three focal points (the others being privatization and stabilization) of the Washington Consensus's trinity strategy for economies in transition.

There is also a concept of hybrid liberalization as, for instance, in Ghana where cocoa crop can be sold to a variety of competing private companies, but there is a minimum price for which it can be sold and all exports are controlled by the state

Part A

Define International business?

Compare domestic business and International business?

What questions would you ask during Internationalizing of business?

What are the approaches of International business?

How would you improve the International business?

Why components of international business are important?

Define Globalization

Can you explain the stages in globalization?

Can you list out the factors affecting International Business environment?

Why do you think political environment is essential?

How could you determine the economic environment?

Define cultural environment

What is meant by models of culture?

How could you show your understanding country attractiveness?

Part B

'Global companies plan or venture not only on national markets, but also venture globally and view themselves as a global company" Discuss the process of globalization.

Analyze the Trend of International Business Environment in India.

Cultureis dynamic. Businesses have to adjust. Comment with examples and in context with the various models of Corporate Cultures seen around the world.

Part C

Explain the economic conditions and prevailing economic policies for the global linkage of international businesses

Illustrate the salient features of 'liberalization' in the present global business scenario

Examine the steps needed to upgrade domestic business into international business

TEXT / REFERENCE BOOKS

1. Charles W.I. Hill and Arun Kumar Jain, International Business, 6th edition, Tata Mc Graw Hill, New Delhi, 2010.
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3. Michael R. Czinkota, Ilkka A. Ronkainen and Michael H. Moffet, International Business, 7th Edition, Cengage Learning, New Delhi, 2010.
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SCHOOL OF MANAGEMENT STUDIES

UNIT – II - INTERNATIONAL BUSINESS MANAGEMENT- SBA1602

Unit II

Promotion of global business – the role of GATT/WTO – multilateral trade negotiation and agreements – VIII & IX, round discussions and agreements – Challenges for global business – global trade and investment – theories of international trade and theories of international investment – Need for global competitiveness – Regional trade block – Types – Advantages and disadvantages – RTBs across the globe – brief history.

Globalization:

Deepening relationships and broadening interdependence among people from different countries.

International business:

All business transactions, private and governmental, that involves two or more countries

Two reasons for studying globalization and international business:

- The growth of globalization creates both opportunities and threats for individuals, companies, and countries.
- The conduct of international business is distinct from that of domestic business because companies must operate in diverse foreign environments and must engage in specialized types of transactions, such as exporting and importing and currency conversion

Why Countries Need International Business

Three primary reasons include:

(1) Availability

Natural advantage: the ability to produce due to readily available resources such as minerals and agricultural products

Acquired advantage: based on research and development

- Most new products originate and find their largest markets in the wealthier countries such as the United States, Germany, Japan, France, the United Kingdom, and Italy
- The fastest growth area in world trade has been in services, which has grown from less than 4% to more than 20% of world trade between 1980 and 1999
- Manufacturing now accounts for less than 20% of the economies of the wealthier countries

(1) Cost

- The production of various goods and services requires different combinations of inputs
- The cost of these inputs varies from one country to another for a variety of complex reasons

(2) Comparative advantage

- When an individual, firm, or country uses its resources to specialize in the production of those goods and services that are most productive and profitable, it is producing according to comparative advantage
- Comparative advantage implies specialization.

The Growth of Globalization

Company's abilities to exchange goods and services internationally, shift production to other countries, and learn from abroad about more efficient means of operating have been growing because of

(1) Technological developments,
(2) Rising incomes,
(3) Liberalization of cross-border movements, and
(4) More cooperative arrangements among countries

These four factors interplay and affect each other

Foreign direct investment (FDI): investment that results in the foreign control of a domestic enterprise

- **Technological developments:**
  - Developments in communications and transportation are at the forefront of technologies that push globalization
- **Rising incomes:**
  - Global discretionary income has risen to the point that there is now widespread demand for products that would have been considered luxuries in the past
  - As incomes grow, so does tax revenue
  - Much of the revenue goes to programs and projects that enhance the potential of international business
- **Liberalization of cross-border movements:**
  - Every country restricts the movement across its borders of goods and services as well as the resources to produce them
  - Governments today impose fewer restrictions on cross-border movements than they did a decade or two ago for three main reasons:
  - Idea of open economies
    - Greater efficiency by competing against foreign companies

- Other countries will follow their example

- **Cooperation among countries:**

  - Countries cooperate in many ways through international organizations, treaties, and consultations
  - Countries cooperate to:
    - Gain reciprocal advantages
    - Attack problems that cannot be solved alone
    - Deal with concerns lying outside anyone's territory

Advantages and Challenges of Globalization

- As the largest economy in the world, the United States has a profound impact on other countries
- Countries face challenges as they try to maximize positive effects from globalization while minimizing negative ones

  - These are usually trade-offs, such as low consumer prices versus minimal employment disruption
  - The possible trade-offs from globalization are almost unlimited

Advantages and Challenges of Globalization

- **Productivity:** the amount of output relative to the amount of input

  (1) Globalization allows the benefits of productivity developments in one nation to move more quickly to other nations
  (2) A downside to this transfer is that individuals and companies must adjust to compete

- **Consumers**
  (1) Consumers benefit from globalization through their ability to choose from a greater variety of products and services and to buy from cheaper production locations
  (2) A potential problem is the consumers' weaker control over supplies from foreign countries

- **Employment**

  (1) Globalization allows the benefits of productivity developments in one nation to move more quickly to other nations
  (2) Critics of globalization contend that the quality, as well as the quantity, of jobs should be considered

- **The Environment**

(1) Many of the most desired resources are in the poorest areas of the world where people can benefit economically from exploiting these resources
(2) On the other hand, concern is high over the depletion of finite resources, potential climatic changes, and despoliation of the environment

Monetary and fiscal conditions

(1) An advantage of globalization is that money, if allowed to move freely, should go where it will be most needed and have the highest productivity
(2) Monetary, fiscal, and regulatory differences remain

Sovereignty

(1) Globalization may undermine sovereignty in two ways:
(2) Contact with other countries creates more cultural borrowing
(3) Countries are concerned that important decisions may be made abroad that will undermine their national well-being

What Makes International Business Different?

Different National Environments:

(1) Most countries vary internally, causing companies to alter their business practices from one region to another
(2) To conduct business successfully abroad, companies must often adopt practices other than what they are accustomed to domestically

Legal-Political Environment:

(1) Companies that conduct business internationally are subject to the laws of each country in which they operate
(2) Political relationships between countries also influence what companies can do internationally
(3) There are sometimes differences in laws between countries

Economic Environment

(1) In fact, the average income in most of the world‘s countries is very low
(2) Generally, poor countries have smaller markets on a per capita basis, less educated populations, higher unemployment or underemployment, poor health conditions, greater supply problems, higher political risk, and more foreign exchange problems

The Cultural Environment

(1) Culture: refers to the specific learned norms of a society based on attitudes, values, beliefs, and frameworks for processing information and tasks
(2) These norms vary from one country to another

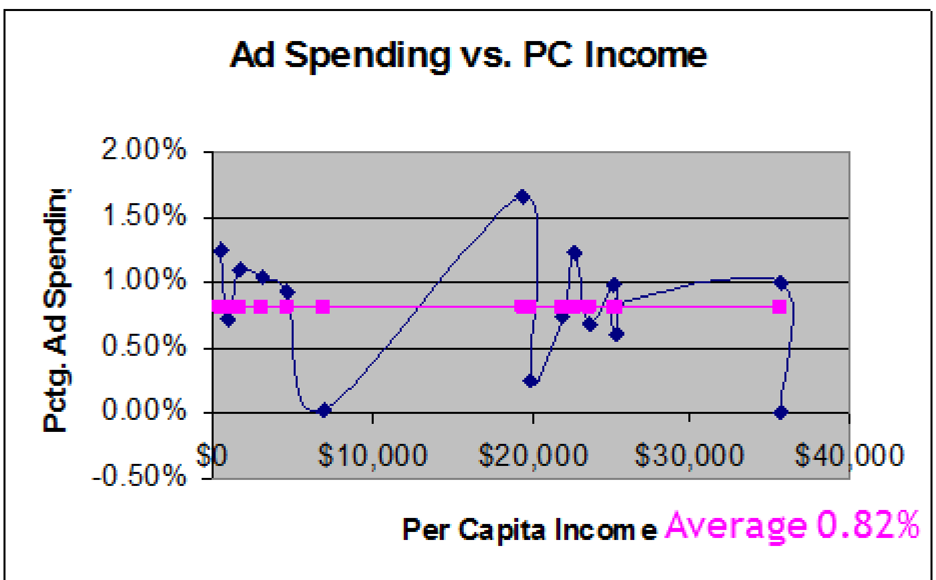
Mobility

(1) Impediments to the movement of goods and the inputs to produce them are more pronounced among countries than within them

2.1 PROMOTION GLOBAL BUSINESS:

Promotional tools. Numerous tools can be used to influence consumer purchases:.

- Advertising—in or on newspapers, radio, television, billboards, busses, taxis, or the Internet.
- Price promotions—products are being made available temporarily as at a lower price, or some premium (e.g., toothbrush with a package of toothpaste) is being offered for free.
- Sponsorships
- Point-of-purchase—the manufacturer pays for extra display space in the store or puts a coupon right by the product
- Other method of getting the consumer's attention—all the Gap stores in France may benefit from the prominence of the new store located on the Champs-Elysees



Promotional objectives. Promotional objectives involve the question of what the firm hopes to achieve with a campaign - "increasing profits" is too vague an objective, since this has to be achieved through some intermediate outcome (such as increasing market share, which in turn is achieved by some change in consumers which cause them to buy more). Some common objectives that firms may hold:

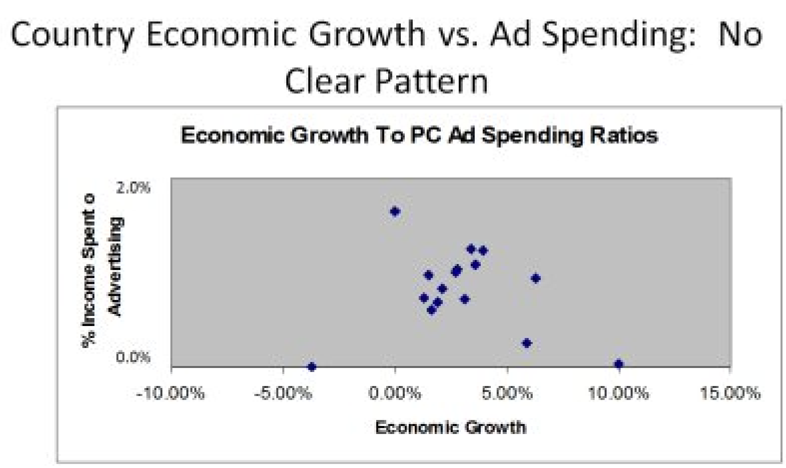
- **Awareness**:

  Many French consumers do not know that the Gap even exists, so they cannot decide to go shopping there. This objective is often achieved through advertising, but could also be achieved through favorable point-of-purchase displays. Note that since advertising and promotional stimuli are often afforded very little attention by consumers, potential buyers may have to be exposed to the promotional stimulus numerous times before it "registers."

- **Trial:**
  Even when consumers know that a product exists and could possibly satisfy some of their desires, it may take a while before they get around to trying the product especially when there are so many other products that compete for their attention and wallets. Thus, the next step is often to try get consumer to try the product at least once, with the hope that they will make repeat purchases. Coupons are often an effective way of achieving trial, but these are illegal in some countries and in some others, the infrastructure to readily accept coupons (e.g., clearing houses) does not exist. Continued advertising and point-of-purchase displays may be effective. Although Coca Cola is widely known in China, a large part of the population has not yet tried the product

- **Attitude toward the product**:
  A high percentage of people in the U.S. and Europe has tried Coca Cola, so a more reasonable objective is to get people to believe positive things about the product - e.g., that it has a superior taste and is better than generics or store brands. This is often achieved through advertising

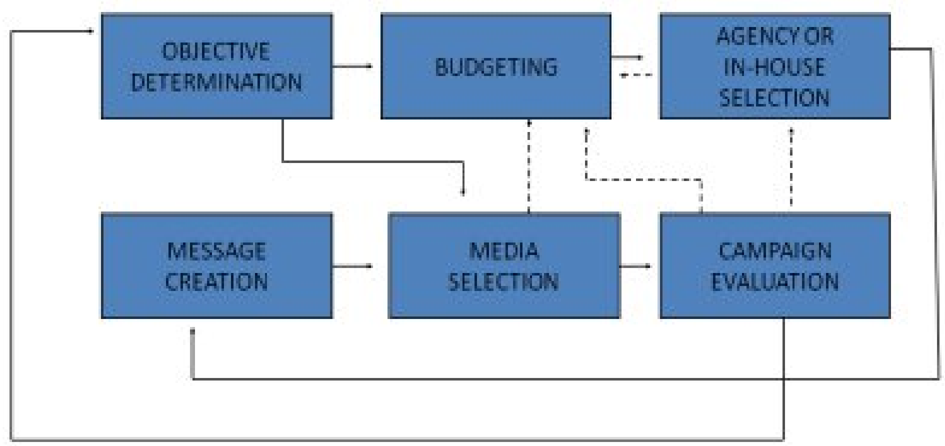
- **Temporary sales increases**:
  For mature products and categories, attitudes may be fairly well established and not subject to cost-effective change. Thus, it may be more useful to work on getting temporary increases in sales (which are likely to go away the incentives are removed).
  In the U.S. and Japan, for example, fast food restaurants may run temporary price promotions to get people to eat out more or switch from competitors, but when these promotions end, sales are likely to move back down again (in developing countries, in contrast, trial may be a more appropriate objective in this category)



Constraints on Global Communications Strategies. Although firms that seek standardized positions may seek globally unified campaigns, there are several constraints:

- **Language barriers:**
  The advertising will have to be translated, not just into the generic language category (e.g., Portuguese) but also into the specific version spoken in the region (e.g., Brazilian Portuguese). (Occasionally, foreign language ads are deliberately run to add mystique to a product, but this is the exception rather than the rule).

- **Cultural barriers:**
  Subtle cultural differences may make an ad that tested well in one country unsuitable in another. e.g., an ad that featured a man walking in to join his wife in the bathroom was considered an inappropriate invasion in Japan. Symbolism often differs between cultures, and humor, which is based on the contrast to people's experiences, tends not to travel well.
  Values also tend to differ between cultures in the U.S. and Australia, excelling above the group is often desirable, while in Japan, "The nail that sticks out gets hammered down." In the U.S., "The early bird gets the worm" while in China "The first bird in the flock gets shot down."
- **Local attitudes toward advertising:**
  People in some countries are more receptive to advertising than others. While advertising is accepted as a fact of life in the U.S., some Europeans find it too crass and commercial.
- **Media infrastructure:**
  Cable TV is not well developed in some countries and regions, and not all media in all countries accept advertising. Consumer media habits also differ dramatically; newspapers appear to have a higher reach than television and radio in parts of Latin America.
- **Advertising regulations:** 3
  Countries often have arbitrary rules on what can be advertised and what can be claimed. Comparative advertising is banned almost everywhere outside the U.S. Holland requires that a toothbrush be displayed in advertisements for sweets, and some countries require that advertising to be shown there be produced in the country.



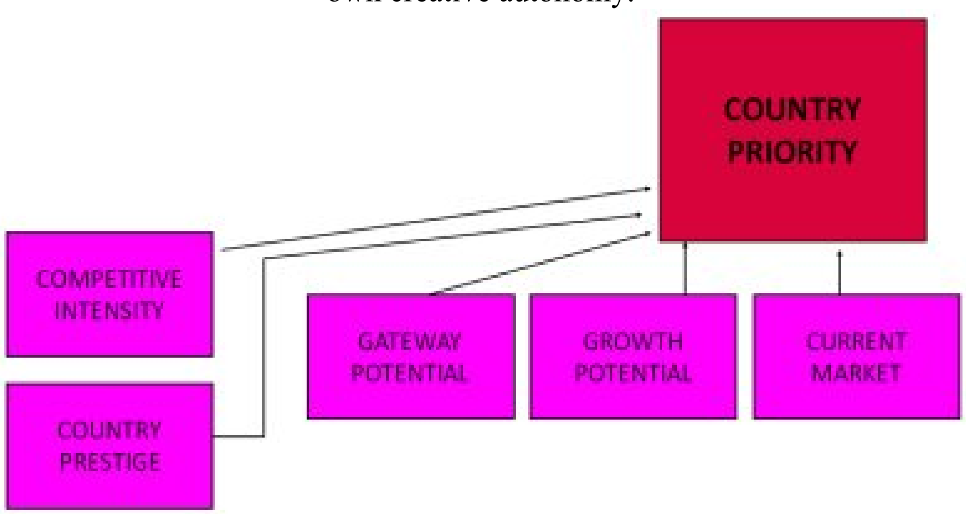
Some cultural dimensions:

- **Directness vs. indirectness:** U.S. advertising tends to emphasize directly why someone would benefit from buying the product. This, however, is considered too pushy for Japanese consumers, where it is felt to be arrogant of the seller to presume to know what the consumer would like.
- **Comparison:** Comparative advertising is banned in most countries and would probably be very counterproductive, as an insulting instance of confrontation and bragging, in Asia

even if it were allowed. In the U.S., comparison advertising has proven somewhat effective (although its implementation is tricky) as a way to persuade consumers what to buy.

- **Humor:** Although humor is a relatively universal phenomenon, what is considered funny between countries differs greatly, so pre-testing is essential.
- **Gender roles**. A study found that women in U.S. advertising tended to be shown in more traditional roles in the U.S. than in Europe or Australia. On the other hand, some countries are even more traditional—e.g., a Japanese ad that claimed a camera to be "so simple that even a woman can use it" was not found to be unusually insulting.
- **Explicitness:** Europeans tend to allow for considerably more explicit advertisements, often with sexual overtones, than Americans.
- **Sophistication**. Europeans, particularly the French, demand considerably more sophistication than Americans who may react more favorably to emotional appeals - e.g., an ad showing a mentally retarded young man succeeding in a job at McDonald's was very favorably received in the U.S. but was booed at the Cannes film festival in France.
- **Popular vs. traditional culture:** U.S. ads tend to employ contemporary, popular culture, often including current music while those in more traditional cultures tend to refer more to classical culture.
- **Information content vs. fluff:** American ads contain a great deal of "puffery," which was found to be very ineffective in Eastern European countries because it resembled communist propaganda too much. The Eastern European consumers instead wanted hard, cold facts.

Advertising standardization: Issues surrounding advertising standardization tend to parallel issues surrounding product and positioning standardization. On the plus side, economies of scale are achieved, a consistent image can be established across markets, creative talent can be utilized across markets, and good ideas can be transplanted from one market to others. On the down side, cultural differences, peculiar country regulations, and differences in product life cycle stages make this approach difficult. Further, local advertising professionals may resist campaigns imposed from the outside. sometimes with good reasons and sometimes merely to preserve their own creative autonomy.



Legal issues. Countries differ in their regulations of advertising, and some products are banned from advertising on certain media (large supermarket chains are not allowed to advertise on TV in France, for example). Other forms of promotion may also be banned or regulated. In some European countries, for example, it is illegal to price discriminate between consumers, and thus coupons are banned and in some, it is illegal to offer products on sale outside a very narrow seasonal and percentage range.

2.2 ROLE OF GATT & WTO:

The World Trade Organization (WTO) is an organization that intends to supervise and liberalize international trade. The organization officially commenced on 1 January 1995 under the Marrakech Agreement, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries by providing a framework for negotiating and formalizing trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986–1994).

The organization is attempting to complete negotiations on the Doha Development Round, which was launched in 2001 with an explicit focus on addressing the needs of developing countries. As of June 2012, the future of the Doha Round remained uncertain: the work program lists 21 subjects in which the original deadline of 1 January 2005 was missed, and the round is still incomplete. The conflict between free trade on industrial goods and services but retention of protectionism on farm subsidies to domestic agricultural sector (requested by developed countries) and the substantiation of the international liberalization of fair trade on agricultural products (requested by developing countries) remain the major obstacles.

These points of contention have hindered any progress to launch new WTO negotiations beyond the Doha Development Round. As a result of this impasse, there have been an increasing number of bilateral free trade agreements signed. As of July 2012, there were various negotiation groups in the WTO system for the current agricultural trade negotiation which is in the condition of stalemate.

WTO's current Director-General is Roberto Azevêdo, who leads a staff of over 600 people in Geneva, Switzerland.[13] A trade facilitation agreement known as the Bali Package was reached by all members on 7 December 2013, the first comprehensive agreement in the organization's history

History

The economists Harry White (left) and John Maynard Keynes at the Bretton Woods Conference. Both had been strong advocates of a central-controlled international trade environment and recommended the establishment of three institutions: the IMF (for fiscal and monetary issues); the World Bank (for financial and structural issues); and the ITO (for international economic cooperation).

The WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation – notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund. A comparable international institution for trade, named the International Trade Organization was successfully negotiated. The ITO was to be a

United Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements. But the ITO treaty was not approved by the U.S. and a few other signatories and never went into effect.

In the absence of an international organization for trade, the GATT would over the years "transform itself" into a de facto international organization.

GATT ROUNDS OF NEGOTIATIONS

The GATT was the only multilateral instrument governing international trade from 1946 until the WTO was established on 1 January 1995. Despite attempts in the mid-1950s and 1960s to create some form of institutional mechanism for international trade, the GATT continued to operate for almost half a century as a semi-institutionalized multilateral treaty regime on a provisional basis.

FROM GENEVA TO TOKYO

Seven rounds of negotiations occurred under GATT. The first real GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT anti-dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system, adopting a series of agreements on non-tariff barriers, which in some cases interpreted existing GATT rules, and in others broke entirely new ground.

Because these plurilateral agreements were not accepted by the full GATT membership, they were often informally called "codes". Several of these codes were amended in the Uruguay Round, and turned into multilateral commitments accepted by all WTO members. Only four remained plurilateral (those on government procurement, bovine meat, civil aircraft and dairy products), but in 1997 WTO members agreed to terminate the bovine meat and dairy agreements, leaving only two.

URUGUAY ROUND

During the Doha Round, the US government blamed Brazil and India for being inflexible and the EU for impeding agricultural imports. The then-President of Brazil, Luiz Inácio Lula da Silva (above right), responded to the criticisms by arguing that progress would only be achieved if the richest countries (especially the US and countries in the EU) made deeper cuts in agricultural subsidies and further opened their markets for agricultural goods.

Well before GATT's 40th anniversary, its members concluded that the GATT system was straining to adapt to a new globalizing world economy.[25][26] In response to the problems identified in the 1982 Ministerial Declaration (structural deficiencies, spill-over impacts of certain countries' policies on world trade GATT could not manage etc.), the eighth GATT round – known as the Uruguay Round – was launched in September 1986, in Punta del Este, Uruguay.

It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.[26] The Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed 15 April 1994, during the ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement.

The GATT still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations (a distinction is made between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994). GATT 1994 is not however the only legally binding agreement included via the Final Act at Marrakesh; a long list of about 60 agreements, annexes, decisions and understandings was adopted. The agreements fall into a structure with six main parts:

- The Agreement Establishing the WTO
- Goods and investment – the Multilateral Agreements on Trade in Goods including the GATT 1994 and the Trade Related Investment Measures (TRIMS)
- Services - the General Agreement on Trade in Services
- Intellectual property – the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
- Dispute settlement (DSU)
- Reviews of governments' trade policies (TPRM)

In terms of the WTO's principle relating to tariff "ceiling-binding" (No. 3), the Uruguay Round has been successful in increasing binding commitments by both developed and developing countries, as may be seen in the percentages of tariffs bound before and after the 1986–1994 talks.

Ministerial conferences

The World Trade Organization Ministerial Conference of 1998, in the Palace of Nations (Geneva, Switzerland).

The highest decision-making body of the WTO is the Ministerial Conference, which usually meets every two years. It brings together all members of the WTO, all of which are countries or customs unions. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements. The inaugural ministerial conference was held in Singapore in 1996. Disagreements between largely developed and developing economies emerged during this conference over four issues initiated by this conference, which led to them being collectively referred to as the "Singapore issues". The second ministerial conference was held in Geneva in Switzerland.

The third conference in Seattle, Washington ended in failure, with massive demonstrations and police and National Guard crowd-control efforts drawing worldwide attention. The fourth ministerial conference was held in Doha in the Persian Gulf nation of Qatar. The Doha Development Round was launched at the conference. The conference also approved the joining of China, which became the 143rd member to join.

The fifth ministerial conference was held in Cancún, Mexico, aiming at forging agreement on the Doha round. An alliance of 22 southern states, the G20 developing nations (led by India, China, Brazil, ASEAN led by the Philippines), resisted demands from the North for agreements on the so-called "Singapore issues" and called for an end to agricultural subsidies within the EU and the US. The talks broke down without progress.

The sixth WTO ministerial conference was held in Hong Kong from 13-18 December 2005. It was considered vital if the four-year-old Doha Development Round negotiations were to move forward sufficiently to conclude the round in 2006. In this meeting, countries agreed to phase out all their agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006.

Further concessions to developing countries included an agreement to introduce duty-free, tariff-free access for goods from the Least Developed Countries, following the Everything but Arms initiative of the European Union - but with up to 3% of tariff lines exempted. Other major issues were left for further negotiation to be completed by the end of 2010. The WTO General Council, on 26 May 2009, agreed to hold a seventh WTO ministerial conference session in Geneva from 30 November-3 December 2009.

A statement by chairman Amb. Mario Matus acknowledged that the prime purpose was to remedy a breach of protocol requiring two-yearly "regular" meetings, which had lapsed with the Doha Round failure in 2005, and that the "scaled-down" meeting would not be a negotiating session, but "emphasis will be on transparency and open discussion rather than on small group processes and informal negotiating structures". The general theme for discussion was "The WTO, the Multilateral Trading System and the Current Global Economic Environment"

DOHA ROUND (DOHA AGENDA)

The Doha Development Round started in 2001 is at an impasse. The WTO launched the current round of negotiations, the Doha Development Round, at the fourth ministerial conference in Doha, Qatar in November 2001. This was to be an ambitious effort to make globalization more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming. The initial agenda comprised both further trade liberalization and new rule-making, underpinned by commitments to strengthen substantial assistance to developing countries.

The negotiations have been highly contentious. Disagreements still continue over several key areas including agriculture subsidies, which emerged as critical in July 2006. According to a European Union statement, "The 2008 Ministerial meeting broke down over a disagreement between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers on the precise terms of a 'special safeguard measure' to protect farmers from surges in imports."

The position of the European Commission is that "The successful conclusion of the Doha negotiations would confirm the central role of multilateral liberalization and rule-making. It would confirm the WTO as a powerful shield against protectionist backsliding."An impasse remains and, as of August 2013, agreement has not been reached, despite intense negotiations at several ministerial conferences and at other sessions. On 27 March 2013, the chairman of agriculture talks announced "a proposal to loosen price support disciplines for developing countries' public stocks and domestic food aid." He added: "we are not yet close to agreement - in fact, the substantive discussion of the proposal is only beginning."

2.3 MULILATERAL TRADE NOGOTIATIONS & AGREEMENTS VII & IX

Functions:

Among the various functions of the WTO, these are regarded by analysts as the most important:

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes.

Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training.

(i) The WTO shall facilitate the implementation, administration and operation and further the objectives of this Agreement and of the Multilateral Trade Agreements, and shall also provide the frame work for the implementation, administration and operation of the multilateral Trade Agreements.

(ii) The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the Agreement in the Annexes to this Agreement.

(iii) The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes.

(iv)The WTO shall administer Trade Policy Review Mechanism.

(v) With a view to achieving greater coherence in global economic policy making, the WTO shall cooperate, as appropriate, with the international Monetary Fund (IMF) and with the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

The above five listings are the additional functions of the World Trade Organization. As globalization proceeds in today's society, the necessity of an International Organization to manage the trading systems has been of vital importance. As the trade volume increases, issues such as protectionism, trade barriers, subsidies, violation of intellectual property arise due to the differences in the trading rules of every nation. The World Trade Organization serves as the mediator between the nations when such problems arise. WTO could be referred to as the product of globalization and also as one of the most important organizations in today's globalized society.

The WTO is also a center of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Principles of the trading system

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. **Non-discrimination**. It has two major components: the most favored nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favorable conditions under which it allows trade in a certain product type to all other WTO members.[45] "Grant someone a special favor and you have to do the same for all other WTO members."[29] National treatment means that imported goods should be treated no less favorably than domestically produced goods (at least after the foreign goods have

entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).

2. **Reciprocity**. It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialize.

3. **Binding and enforceable commitments**. The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.

4. **Transparency**. The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM).The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.

5. **Safety valves**. In specific circumstances, governments are able to restrict trade. The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health.[48]

   There are three types of provision in this direction:
   - Articles allowing for the use of trade measures to attain non-economic objectives;
   - Articles aimed at ensuring "fair competition"; members must not use environmental protection measures as a means of disguising protectionist policies.[48]
   - Provisions permitting intervention in trade for economic reasons.

   Exceptions to the MFN principle also allow for preferential treatment of developing countries, regional free trade areas and customs unions.

Organizational structure

The General Council has the following subsidiary bodies which oversee committees in different areas:

Council for Trade in Goods

There are 11 committees under the jurisdiction of the Goods Council each with a specific task. All members of the WTO participate in the committees. The Textiles Monitoring Body is separate from the other committees but still under the jurisdiction of Goods

Council. The body has its own chairman and only 10 members. The body also has several groups relating to textiles.[49]

Council for Trade-Related Aspects of Intellectual Property Rights

Information on intellectual property in the WTO, news and official records of the activities of the TRIPS Council, and details of the WTO's work with other international organizations in the field.[50]

Council for Trade in Services

The Council for Trade in Services operates under the guidance of the General Council and is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). It is open to all WTO members, and can create subsidiary bodies as required

Trade Negotiations Committee

The Trade Negotiations Committee (TNC) is the committee that deals with the current trade talks round. The chair is WTO's director-general. As of June 2012 the committee was tasked with the Doha Development Round.

The Service Council has three subsidiary bodies: financial services, domestic regulations, GATS rules and specific commitments. The council has several different committees, working groups, and working parties. There are committees on the following: Trade and Environment; Trade and Development (Subcommittee on Least-Developed Countries); Regional Trade Agreements; Balance of Payments Restrictions; and Budget, Finance and Administration. There are working parties on the following: Accession. There are working groups on the following: Trade, debt and finance; and Trade and technology transfer.

Decision-making

The WTO describes itself as "a rules-based, member-driven organization - all decisions are made by the member governments, and the rules are the outcome of negotiations among members."The WTO Agreement foresees votes where consensus cannot be reached, but the practice of consensus dominates the process of decision-making.

Richard Harold Steinberg (2002) argues that although the WTO's consensus governance model provides law-based initial bargaining, trading rounds close through power-based bargaining favoring Europe and the U.S., and may not lead to Pareto improvement.

Dispute settlement

In 1994, the WTO members agreed on the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in 1994. Dispute settlement is regarded by the WTO as the central pillar of the multilateral trading system, and as a "unique contribution to the stability of the global economy".[58] WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

The operation of the WTO dispute settlement process involves the DSB panels, the Appellate Body, the WTO Secretariat, arbitrators, independent experts and several specialized institutions.[60] Bodies involved in the dispute settlement process, World Trade Organization.

Accession and membership

The process of becoming a WTO member is unique to each applicant country, and the terms of accession are dependent upon the country's stage of economic development and current trade regime. The process takes about five years, on average, but it can last more if the country is less than fully committed to the process or if political issues interfere. The shortest accession negotiation was that of the Kyrgyz Republic, while the longest was that of Russia, which, having first applied to join GATT in 1993 was approved for membership in December 2011 and became a WTO member on 22 August 2012. The second longest was that of Vanuatu, whose Working Party on the Accession of Vanuatu was established on 11 July 1995.

After a final meeting of the Working Party in October 2001, Vanuatu requested more time to consider its accession terms. In 2008, it indicated its interest to resume and conclude its WTO accession. The Working Party on the Accession of Vanuatu was reconvened informally on 4 April 2011 to discuss Vanuatu's future WTO membership. The re-convened Working Party completed its mandate on 2 May 2011. The General Council formally approved the Accession Package of Vanuatu on 26 October 2011. On 24 August 2012, the WTO welcomed Vanuatu as its 157th member. An offer of accession is only given once consensus is reached among interested parties.

Accession process

WTO accession progress:

- Members (including dual-representation with the European Union)
- Draft Working Party Report or Factual Summary adopted
- Goods and/or Services offers submitted
- Memorandum on Foreign Trade Regime (FTR) submitted
- Observer, negotiations to start later or no Memorandum on FTR submitted
- Frozen procedures or no negotiations in the last 3 years
- No official interaction with the WTO

A country wishing to accede to the WTO submits an application to the General Council, and has to describe all aspects of its trade and economic policies that have a bearing on WTO agreements.[65] The application is submitted to the WTO in a memorandum which is examined by a working party open to all interested WTO Members.

After all necessary background information has been acquired; the working party focuses on issues of discrepancy between the WTO rules and the applicant's international and domestic trade policies and laws. The working party determines the terms and conditions of entry into the WTO for the applicant nation, and may consider transitional periods to allow countries some leeway in complying with the WTO rules.

The final phase of accession involves bilateral negotiations between the applicant nation and other working party members regarding the concessions and commitments on tariff levels and market access for goods and services. The new member's commitments are to apply equally to all WTO members under normal non-discrimination rules, even though they are negotiated bilaterally.

When the bilateral talks conclude, the working party sends to the general council or ministerial conference an accession package, which includes a summary of all the working party meetings, the Protocol of Accession (a draft membership treaty), and lists ("schedules") of the member-to-be's commitments. Once the general council or ministerial conference approves of the terms of accession, the applicant's parliament must ratify the Protocol of Accession before it can become a member. Some countries may have faced tougher and a much longer accession process due to challenges during negotiations with other WTO members, such as Vietnam, whose negotiations took more than 11 years before it became official member in January 2007.

Members and observers

The WTO has 160 members and 24 observer governments. In addition to states, the European Union is a member. WTO members do not have to be full sovereign nation-members. Instead, they must be a customs territory with full autonomy in the conduct of their external commercial relations. Thus Hong Kong has been a member since 1995 (as "Hong Kong, China" since 1997) predating the People's Republic of China, which joined in 2001 after 15 years of negotiations.

The Republic of China (Taiwan) acceded to the WTO in 2002 as "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu" (Chinese Taipei) despite its disputed status. The WTO Secretariat omits the official titles (such as Counselor, First Secretary, Second Secretary and Third Secretary) of the members of Chinese Taipei's Permanent Mission to the WTO, except for the titles of the Permanent Representative and the Deputy Permanent Representative

As of 2007, WTO member states represented 96.4% of global trade and 96.7% of global GDP. Iran, followed by Algeria, is the economies with the largest GDP and trade outside the WTO, using 2005 data. With the exception of the Holy See, observers must start accession negotiations within five years of becoming observers. A number of international intergovernmental organizations have also been granted observer status to WTO bodies. 14 UN member states have no official affiliation with the WTO.

Agreements

The WTO oversees about 60 different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. A discussion of some of the most important agreements follows. The Agreement on Agriculture came into effect with the establishment of the WTO at the beginning of 1995.

The AoA has three central concepts, or "pillars": domestic support, market access and export subsidies. The General Agreement on Trade in Services was created to extend the multilateral trading system to service sector, in the same way as the General Agreement on Tariffs and Trade (GATT) provided such a system for merchandise trade. The agreement entered into force in January 1995. The Agreement on Trade-Related Aspects of Intellectual Property Rights sets down minimum standards for many forms of intellectual property (IP) regulation. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994.

The Agreement on the Application of Sanitary and Phytosanitary Measures also known as the SPS Agreement was negotiated during the Uruguay Round of GATT, and entered into force with the establishment of the WTO at the beginning of 1995. Under the SPS agreement, the WTO sets constraints on members' policies relating to food safety (bacterial contaminants, pesticides, inspection and labeling) as well as animal and plant health (imported pests and diseases).

The Agreement on Technical Barriers to Trade is an international treaty of the World Trade Organization. It was negotiated during the Uruguay Round of the General Agreement on

Tariffs and Trade, and entered into force with the establishment of the WTO at the end of 1994. The object ensures that technical negotiations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade".[78] The Agreement on Customs Valuation, formally known as the Agreement on Implementation of Article VII of GATT, prescribes methods of customs valuation that Members are to follow. Chiefly, it adopts the "transaction value" approach.

Organization structure of the WTO

1. Ministerial conference
2. General council,
3. Councils,
4. Committees and Management bodies

1. Ministerial conference:

It is the authority to make decisions on all matters relating to multilateral trade agreements. It is the top decision making body of the WTO. It meets at least once in every two years. There have been seven ministerial conferences.

I) **First ministerial conference** – held in Singapore 1996, primary purpose to initiate an international effort among global trading nations.
II) **Second ministerial conference** - was held in Geneva in Switzerland.
III) **Third ministerial conference** - was held in Seattle in Washington
IV) **Fourth ministerial conference** - was held in Doha in Persian Gulf Nation of Qatar.
V) **Fifth ministerial conference** - was held in Cancun, Mexico.
VI) **Sixth ministerial conference** - held in Hong Kong.
VII) **Seventh ministerial conference -** held in Geneva, Switzerland

2. General council:

The general council has other forms like dispute settlement body and trade policy reviews body.

3. Councils:

I. Council for trade in goods
II. Council for trade in services
III. Council for trade related aspects of intellectual property rights.

4. Committee and management bodies:

The general council delegates powers, responsibilities and authorities to these bodies.

I. Committee on trade and development
II. Committee on balance of balance of payments
III. Committee on budget, finance and administration.

Multilateral agreements

Multilateralism - Coordination mechanism for achieving mutually beneficial trade outcomes (response to a coordination failure, i.e.(to successive retaliations)

WTO's Parts

- **GATT:** to reduce trade barriers and to create more comprehensive and enforceable world trade rules.
- **GATS:** General Agreement on Trade in Services (National Treatment for Service Firms)

- **TRIPs:** Agreement is Trade Related Aspects of Intellectual Property Rights (Enforce Patents, Copyrights, and Trademarks)
- **TRIMs:** Agreement on Trade Related Investment Measures, are rules that apply to the domestic regulations a country applies to foreign investors.

GATT→ WTO

World Trade Organization: Rounds

Years	Name	Accomplishments	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960-61	Dillon Round	Tariffs	26
1964-67	Kennedy Round	Tariffs & AD	62
1973-79	Tokyo Round	Tariffs, NTBs & “framework Agreements”	102
1986-94	Uruguay Round	Marrakesh Agreement	123

WTO’s Most Basic Principles

MFN = Most Favored Nation

Each member country should treat all members as well as it treats its “most favored nation” (i.e., the member that it treats the best)

National Treatment

Once a product or seller has entered a country, it should be treated the same as products or sellers that originated inside that country.

GATT-WTO: Comparison

GATT	WTO
• Provisional Agreement → Contracting Parties	• International Organisation → Members
• Restricted Coverage → Goods	• Broad Coverage → Goods, Services, TRIPs
Dispute Settlement	Dispute Settlement strengthened
GATT was ad hoc and provisional	WTO and its agreements are permanent

GATT (general agreement on tariffs and trade)

GATT is a multilateral trade agreement with overseas and it has been labeled the locomotive that powers international conference. Created in January 1948 is intended to achieve a broad, multilateral and free worldwide system of trading.

Basic principles of GATT:

1. Member countries will consult each other concerning trade problems.

2. It provides a framework for negotiation and embodies results of negotiations in a legal environment.
3. Trade should conduct on a non-discriminatory basis.

Objectives of GATT:

1. To provide equal opportunities to all countries in international market for trading purpose.
2. To increase the effective demand.
3. To provide amicable solution to the disputes related to international trade.
4. To ensure a better living standards in the world as a whole.

Four Terms from Trade Law

Non-discrimination
- Reciprocity
- Market access
- Fair competition

Trade Agreements

Unilateral Trade Agreement:

A trade agreement joins two or more states in a joint commitment to expand their trade. Normally, this includes domestic structural reforms such as lowering tariffs and reducing bureaucratic regulations.

Bilateral Trade Agreement

Bilateral Trade Agreements are between on two nations at a time. They are fairly easy to negotiate, and give those two nations favored trading status between each other.

Multilateral Trade Agreement:

Multilateral Trade Agreement is between many nations at one time. For this reason, they are very complicated to negotiate, but are very powerful once all parties sign the agreement. The primary benefit of multilateral agreements is that all nations get treated equally

Example: The Doha round of trade agreements is a multilateral trade agreement between all 149 members of the World Trade Organization.

Plurilateral agreement:

It is an agreement between more than two countries, but not a great many, which would be multilateral agreement. A plurilateral agreement implies that member countries would be given the choice to agree to new rules on a voluntary basis.

What are the challenges to managing a global business?

Developing organization and human resource strategies across multiple borders should not simply be a matter of adapting a domestic model to accommodate changes in distance and global scale. Starting with a global mindset discussed earlier, you will have to develop a fresh perspective in order to take into consideration the unique challenges of doing business globally.

Human Resource Management Issues

There are certain human resource management issues that are particular for the global enterprise. The key issues involve staffing policies, such as selecting the right people with the right mixture of local versus home experience; managing the expatriate manager; and dealing with particular problems like repatriation. Others issues include understanding the challenges of living and working overseas, performance appraisals from a distance, training and management development, compensation packages, and labor relations and organized labor laws.

Finally, it is very important to remain focused on being the market leader. As Susanna Kass, a CEO who served for international operations at eBay explains, “We are not looking to be in twenty-four markets all at the same time. We are looking to have a very successful community for every market we enter. So it’s more important to us to be the leader in the market we are in versus being in every continent.”

Managing Accounting and Control Issues

We examine two key financial issues. First, we look at the accounting issues. Doing business in different countries means differences in accounting standards. But this also includes differences in relationships between business and capital providers, which can place restrictions on raising money or borrowing locally through individual investors, financing community (banks, investment banks, venture capital), and the government.

Other accounting issues include inflation-accounting, differences in multinational taxation, U.S. taxation of foreign-source income, and determining corporate income tax and indirect taxes, such as the value-added tax (VAT), withholding tax, and miscellaneous taxes on business transactions.

The second financial issue focuses on managing foreign exchange rate movement risk. Foreign exchange rate exposure is defined as the risk that future changes in a country’s exchange rate will hurt the venture’s operating income.

There are five types of exposure to foreign exchange risk. The greatest risk is from transaction exposure, the net cash flows from individual transactions. It is affected by fluctuations in foreign exchange values; ventures need to think about this before establishing an invoice policy (what currency), and pricing strategies (how much).

Other risks include translation exposure; the impact of currency exchange rates on the reported consolidated financial statements; operating exposure; long-term effect of changes in exchange rates on future prices, sales, and costs; tax exposure, which is determined by each country; and finally, interest rate exposure, which is the difference and sensitivity to the value of the London Interbank Offered Rate (LIBOR).

2.4 CHALLENGES FOR GLOBAL BUSINESS:

Entering new country markets unprepared can often lead to disappointing results as well as detract from efforts in your domestic marketplace. One of the first challenges is how to appraise the success of any global business activity. We have all too often found that a global business quite literally “takes on a life of its own” and grows with specific strategy, management, and no specific performance metrics. Measuring the ROI is a complex activity that involves analyzing the many variables particular to global expansion.

There are additional costs in developing products to be used in global markets, and there are additional administrative costs in creating marketing and sales materials, or obtaining special export licenses. There are also longer sales cycles, longer cash conversion cycles, and the difficulty of trying to determine return on investments when there are multiple currencies involved.

All in all, it is far all too easy to fall into the trap of defining what constitutes a "success" too narrowly because each product/market situation requires that you set different objectives and establish a different performance metrics process.

For example, the complexities of shipping and logistics are overwhelming. In fact, the hardest aspects of circumnavigating the business world fall into two broad categories: how to get an order from one place on the globe to another, and how to negotiate the Byzantine bylaws of trade and customs regulations.

Other challenges include having to learn new business practices, as well as dealing with insufficient technology, local employee hiring, regulatory hurdles, international transaction costs, currency differences, and establishing local partnerships.

Monitoring "country risk" is most challenging for small ventures. Large corporations like IBM, General Motors, and Coca-Cola have huge departments for monitoring this specific challenge. Country risk is composed of a handful of challenges. For examples, there is the challenge of dealing with "political risk" which is dealing with the overall attitude of host governments, attitudes of consumers, expropriation, racial strife, religious freedoms, civil strife, corruption, nepotism, nationalism, war, and bureaucracy.

There is also the challenge of following and monitoring governmental controls, trade barriers, exchange rate policy tools, and foreign exchange systems, such as currency inconvertibility and the intervention of buying and selling of currencies in foreign markets. Finally, there is the challenge of monitoring the international flow of funds, each country's "capital account," or each country's trade balances with the rest of the world.

Perhaps the greatest challenge is refreshing the global mindset.

It is only through a fundamental shift in mindset that new opportunities are discovered. In fact, some suggest it should be a formal corporate process that consists of "global learning." We stress that this formal process should be an ongoing commitment of time and energy and, perhaps more important, the ability to admit that you never know everything and to be always open to learning something new.

Compliance and Regulations

Whether you are a small business shipping homemade handbags through a website or a consulting firm offering your services to multinational corporations, you must understand and follow various rules and regulations that govern your goods and services. You must comply with the tax laws of different countries as well as statutory export regulations. Some countries have strict policies about the types of business practices allowed in their countries that often include human resource and pension restrictions and rules if you hire a foreign workforce.

Culture and Language

One of the advantages of a global economy is that more small businesses can compete competitively. However, few small businesses are prepared to handle the customer service calls from China, Vietnam and other emerging markets key to the success of a global competitor. If your sales are increasingly going overseas, you have to find ways to navigate the language barriers that may crop up in emails and phone calls. At the same time, cultural differences can play a big role in your success in the global market. For example, in China, the color red is a symbol of luck, while in other countries, it represents a warning sign. Religious and cultural boundaries must be understood to run effective marketing campaigns abroad.

Environmental Impact

Recycling is rapidly becoming a common practice in most U.S. companies as business leaders realize the impact their behavior has on global environmental issues. You may be challenged to incorporate successful recycling programs because they may be cost-prohibitive or just inconvenient. Energy-saving devices such as compact fluorescent light bulbs make a dent in world energy consumption, but they may not be viable for your office. Challenges abound for developers looking to build new factories or office space. Food, energy and transportation companies all face environmental pressures to use fewer natural resources and offer products made with recyclable materials.

Technology and Communication

One of the biggest challenges facing globally competitive marketplaces is the communication issues that crop up when technology doesn't keep up in every sector. When your company relies on disparate systems that can't communicate with each other, your bookkeeping gets bogged down, and orders slow or cease. Access to vital information may be compromised when technological systems are not standardized. You've got to rely on translations and reports from foreign staff members instead of using a centralized system when the technology you rely on to run your business isn't compatible with the technology used by your buyers, foreign offices and global sales force.

2.6 THEORIES OF INTERNATIONAL TRADE AND INVESTMENT:

- **Classical theories**
- **Contemporary theories**
- **Firm internationalization**
- **FDI and Non-FDI explanations**

Comparative advantage

Comparative advantage is an economic theory about the potential gains from trade for individuals, firms, or nations that arise from differences in their factor endowments or technological progress.[1] In an economic model, an agent has a comparative advantage over another in producing a particular good if he can produce that good at a lower relative opportunity cost or autarky price, i.e. at a lower relative marginal cost prior to trade. The closely related law or principle of comparative advantage holds that under free trade, an agent will produce more of and consume less of a good for which he has a comparative advantage.

David Ricardo developed the classical theory of comparative advantage in 1817 to explain why countries engage in international even when one country's workers are more efficient at producing every single good than workers in other countries. He demonstrated that if two countries capable of producing two commodities engage in the free market, then each country will increase its overall consumption by exporting the good for which it has a comparative advantage while importing the other good, provided that there exist differences in labor productivity between both countries.

Widely regarded as one of the most powerful yet counter-intuitive[7] insights in economics, Ricardo's theory implies that comparative advantage rather than absolute advantage is responsible for much of international trade

A famous example, Ricardo considers a world economy consisting of two countries, Portugaland England, which produce two goods of identical quality. In Portugal, the a priori more efficient country, it is possible to produce wine and cloth with less labor than it would take to produce the same quantities in England. However, the relative costs of producing those two goods differ between the countries.

Hours of work necessary to produce one unit		
Country	**Cloth**	**Wine**
England	100	120
Portugal	90	80

In order to produce an additional unit of cloth, England must commit 100 labor hours, which could have instead produced $\frac{5}{6}$units of wine. Although Portugal can produce a unit of cloth with fewer hours of work (90 hours) than England, it must forego producing a greater amount of wine ($\frac{9}{8}$ units) to do so. Accordingly, England is said to possess a comparative advantage in cloth even though Portugal possesses an absolute advantage in cloth. A similar argument would show that Portugal has both an absolute and comparative advantage in wine.
In the absence of trade, England requires 220 hours of work to both produce and consume one unit each of cloth and wine while Portugal requires 170 hours of work to produce and consume the same quantities. If each country specializes in the good for which it has a comparative advantage, then the global production of both goods increases, for England can spend 220 labor hours to produce 2.2 units of cloth while Portugal can spend 170 hours to produce 2.125 units of wine. Moreover, if both countries specialize in the above manner and England trades a unit of its cloth for $\frac{5}{6}$ to $\frac{9}{8}$ units of Portugal's wine, then both countries can consume at least a unit each of cloth and wine, with 0 to 0.2 units of cloth and 0 to 0.125 units of wine remaining in each respective country to be consumed or exported. Consequently, both England and Portugal can consume more wine and cloth under free trade than in autarky.

HECKSCHER–OHLIN MODEL (**H–O MODEL**):

The Heckscher–Ohlin model (H–O model) is a general equilibrium mathematical model of international trade, developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics. It builds on David Ricardo's theory of comparative advantage by predicting patterns of commerce and production based on the factor endowments of a trading region. The model essentially says that countries will export products that use their abundant and cheap factor(s) of production and import products that use the countries' scarce factors.

2×2×2 MODEL

The original H–O model assumed that the only difference between countries was the relative abundances of labor and capital. The original Heckscher–Ohlin model contained two countries, and had two commodities that could be produced. Since there are two (homogeneous) factors of production this model is sometimes called the "2×2×2 model".

The model has "variable factor proportions" between countries—highly developed countries have a comparatively high capital-to-labor ratio compared to developing countries. This makes the developed country capital-abundant relative to the developing country and the developing nation labor-abundant in relation to the developed country.

With this single difference, Ohlin was able to discuss the new mechanism of comparative advantage, using just two goods and two technologies to produce them. One technology would be a capital-intensive industry, the other a labor-intensive business
theoretical Assumptions.

Both countries have identical production technology:

This assumption means that producing the same output of either commodity could be done with the same level of capital and labor in either country. Actually, it would be inefficient to use the same balance in either country (because of the relative availability of either input factor) but, in principle this would be possible. Another way of saying this is that the per-capita productivity is the same in both countries in the same technology with identical amounts of capital.

Countries have natural advantages in the production of various commodities in relation to one another, so this is an "unrealistic" simplification designed to highlight the effect of variable factors. This meant that the original H-O model produced an alternative explanation for free trade to Ricardo's, rather than a complementary one; in reality, both effects may occur due to differences in technology and factor abundances.

In addition to natural advantages in the production of one sort of output over another (wine vs. rice, say) the infrastructure, education, culture, and "know-how" of countries differ so dramatically that the idea of identical technologies is a theoretical notion. Ohlin said that the H-O model was a long-run model, and that the conditions of industrial production are "everywhere the same" in the long run.

Production output is assumed to exhibit constant returns to scale

In a simple model, both countries produce two commodities. Each commodity in turn is made using two factors of production. The production of each commodity requires input from both factors of production capital (K) and labor (L). The technologies of each commodity are assumed to exhibit constant returns to scale (CRS). CRS technologies imply that when inputs of both capital and labor are multiplied by a factor of k, the output also multiplies by a factor of k. For example, if both capital and labor inputs are doubled, output of the commodities doubled. In other terms production function of both commodities is "homogeneous of degree 1".

The assumption of constant returns to scale CRS is useful because it exhibits diminishing returns in a factor. Under constant returns to scale, doubling both capital and labor leads to a doubling of the output. Since outputs are increasing in both factors of production, doubling capital while holding labor constant leads to less than doubling of an output. Diminishing returns to capital and diminishing returns to labor are crucial to the Stolper–Samuelson theorem.

The technologies used to produce the two commodities differ[edit]

The CRS production functions must differ to make trade worthwhile in this model. For instance if the functions are Cobb–Douglas technologies the parameters applied to the inputs must vary. An example would be:

Arable industry: $A = K^{1/3}L^{2/3}$

Fishing industry: $F = K^{1/2}L^{1/2}$

Where A is the output in arable production, F is the output in fish production, and K, L are capital and labor in both cases.

In this example, the marginal return to an extra unit of capital is higher in the fishing industry, assuming units of fish (F) and arable output (A) have equal value. The more capital-abundant country may gain by developing its fishing fleet at the expense of its arable farms. Conversely, the workers available in the relatively labor-abundant country can be employed relatively more efficiently in arable farming.

Factor mobility within countries

Within countries, capital and labor can be reinvested and reemployed in order to produce different outputs. Similar to Ricardo's comparative advantage argument, this is assumed to happen without cost. If the two production technologies are the arable industry and the fishing industry it is assumed that farmers can shift to work as fishermen with no cost and vice versa.

It is further assumed that capital can shift easily into either technology, so that the industrial mix can change without adjustment costs between the two types of production. For instance, if the two industries are farming and fishing it is assumed that farms can be sold to pay for the construction of fishing boats with no transaction costs.

The theory by Avsar has offered much criticism to this.

Factor immobility between countries

The basic Heckscher–Ohlin model depends upon the relative availability of capital and labor differing internationally, but if capital can be freely invested anywhere competition (for investment) will make relative abundances identical throughout the world. Essentially, free trade in capital would provide a single worldwide investment pool.

Differences in labour abundance would not produce a difference in relative factor abundance (in relation to mobile capital) because the labour/capital ratio would be identical everywhere. (A large country would receive twice as much investment as a small one, for instance, maximizing capitalist's return on investment).

As capital controls are reduced, the modern world has begun to look a lot less like the world modelled by Heckscher and Ohlin. It has been argued that capital mobility undermines the case for free trade itself, see: Capital mobility and comparative advantage Free trade critique.

Capital is mobile when:

- There are limited exchange controls
- Foreign direct investment (FDI) is permitted between countries, or foreigners are permitted to invest in the commercial operations of a country through a stock or corporate bond market

Like capital, labor movements are not permitted in the Heckscher–Ohlin world, since this would drive an equalization of relative abundances of the two production factors, just as in the case of capital immobility. This condition is more defensible as a description of the modern world than the assumption that capital is confined to a single country.

Commodity prices are the same everywhere[edit]

The 2x2x2 model originally placed no barriers to trade, had no tariffs, and no exchange controls (capital was immobile, but repatriation of foreign sales was costless). It was also free of transportation costs between the countries, or any other savings that would favor procuring a local supply.

If the two countries have separate currencies, this does not affect the model in any way purchasing power parity applies. Since there are no transaction costs or currency issues the law of one price applies to both commodities, and consumers in either country pay exactly the same price for either good.

In Ohlin's day this assumption was a fairly neutral simplification, but economic changes and econometric research since the 1950s have shown that the local prices of goods tend to be correlated with incomes when both are converted at money prices (although this is less true with traded commodities). See: Penn effect.

2.8 RTB (REGIONAL TRADE BLOCKS)

Definition: A regional trade block is the result of economic integration of various trading areas of different countries and it is also known as trade blocks, regional trade organizations, and regional groupings. A trade block (regional trade block/regional grouping) is a type of intergovernmental agreement, often part of a regional intergovernmental organization, where regional barriers to trade (tariffs and non-tariff barriers) are reduced or eliminated among the participating countries.

Characteristics:

1. It implies a reduction or elimination of barriers to trade, and
2. This trade liberalization is discriminatory, in the sense that it applies only to the member countries of the trade block, outside countries being discriminated against in their trade relations with trade block members.

2.8.1 TYPES OF REGIONAL TRADE BLOCKS:

1. Preferential trading agreement:

It is loosest form of economic integration. Under this, a group of countries have a formal agreement to allow each other’s goods and services to be traded on preferential terms.

2. Free trade area:

It is a permanent arrangement between neighboring countries. It involves the complete removal of tariffs on goods traded among the members of the free trade area.

3. Customs union:

Customs union removes barriers to trade in goods and services among themselves.

4. Common market:

It has no barriers to trade among members; in addition, the common market removes restrictions on the movement of factors of production (labor, capital and technology) across borders.

5. Economic union:

This represents full integration of the economics of two or more member countries. In addition to eliminating internal trade barriers, adopting external trade policies and abolishing restrictions on the mobility of the factors of production among members.

6. Political union:

While some degree of political integration often accompanies economic integration, political union implies more formal political links between countries. A limited form of political union may exist where two or more countries share common decision-making bodies and have common policies.

Major regional trade blocks/groups:

1. European union :(EU)

The largest and most comprehensive of the regional economic groups is the European Union. To abolish internal tariffs in order to more closely integrate EU and hopefully allow economic co-operation to help avoid further political conflicts. It includes European Economic Community later it is called as European Community.

2. North American Free Trade Agreement :(NAFTA):

It came into being on January 1, 1994. The most affluent nations of the world I.e., USA and Canada with Mexico – a developing country joined together, to eliminating all tariffs and trade barriers among these countries.

3. South Asian Association for Regional Cooperation (SAARC): December 1985

The successful performance of this trade block is, for economic development of the member countries and in improving the employment opportunities, incomes and living standards of the people of the region gave impetus for the formation of SAARC.

4. SAARC Preferential Trading Arrangement (SAPTA):

The member states realizing the fact that expansion of intra-regional trade could act as a stimulus to the development of their economics, by expanding investment and production, decided to establish and promote regional preferential trading agreement. December 7, 1995.

5. South Asian Free Trade Area (SAFTA):

The SAFTA agreement came into force from January 1, 2006. The agreement promotes mutual trade and economic cooperation among the contracting states, through exchange of concessions in accordance with it. In general, the agreement requires the completion of trade liberalization program.

6. Association of South-East Asian Nations (ASEAN):

A group of six countries, Viz, Singapore, Brunei, Malaysia, Philippines, Thailand and Indonesia, agreed in January 1992 to establish a Common Effective Preferential Tariffs (CEPT). It enables the member countries to have close cohesiveness, share their economic and human resources and synergy in the development of their agricultural sectors, industrial sectors and service sectors. Their strength is well educated and skilled human resources. This strength enabled them to achieve faster industrialization.

7) ASEAN Free Trade Area (AFTA):

The major objectives of the AFTA are:

a) To encourage inflow of foreign investment into this region,
b) To establish free trade area in the member countries,
c) To reduce tariff of the products produced in ASEAN countries. AFTA was formed in the year (September 1994).

8) Mercosur:

Mercosur, the South American trading block, known as Mercosur is Spanish and Mercosur in Portuguese includes Brazil, Argentina, Paraguay and Uruguay. Two more countries – Chile and Bolivia – are in the process of joining the trading block. It came into force on January 1, 1995. It has three

Objectives:

1. Establishment of a free trade zone,
2. A common external tariff (a customs union), and
3. Free movement of capital, labor, and services.

9) Asia Pacific Economic Cooperation (APEC):

It was formed in 1989 in response to the growing interdependence among the Asia-pacific economics. APEC is a much looser economic grouping but is unique for its members, the huge differences in their economics and stage of development, and for the juxtaposition of almost every system along the political spectrum.

10. European Free Trade Association: (EFTA)

It was formed in 1959. The member countries of EFTA include: Austria, Norway, Portugal, Sweden, and Switzerland. The associate members are Finland and Iceland, Great Britain and Denmark. The EFTA council makes policy decisions of the organization.

11. Latin American Integration Association: (LAIA)

It was formed in 1960. The countries signed the LAIA agreement were Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay, Colombia, Ecuador, Venezuela, and Bolivia. The council of ministers is assisted by a conference of contracting parties which makes discussions on issues requiring a joint resolution of the members.

12. Economic and Social Commission for Asia and the pacific (ESCAP):

It has 48 member countries and 10 associate members. The ESCAP's geographical covers as follows:

i) East: Cook Islands
ii) West: Azerbaijan
iii) North: Mongolia
iv) South: Australia and New Zealand

13) Andean Pact:

It was formed in 1969 includes Bolivia, Chile, Ecuador, Colombia, and Peru. It have had to deal with low economic growth, hyperinflation, high unemployment, political unrest and crushing debt burdens.

14) Central American Common Market and CARRICOM:

It referred to as CARRICOM, it was established in 1973. However, it has repeatedly failed to make any progress towards economic integration. A formal commitment to economic and monetary union was adopted by CARRICOM's member states in 1984, but since then little progress has been made.

2.8.2 ADVANTAGES & DISADVANTAGES OF TRADE BLOCKS:

1. **Foreign Direct Investment**: An increase in foreign direct investment results from trade blocs and benefits the economies of participating nations. Larger markets are created, resulting in lower costs to manufacture products locally.

2. **Economies of Scale**: The larger markets created via trading blocs permit economies of scale. The average cost of production is decreased because mass production is allowed.

3. **Competition**: Trade blocs bring manufacturers in numerous countries closer together, resulting in greater competition. Accordingly, the increased competition promotes greater efficiency within firms.

4. **Trade Effects** Trade blocs eliminate tariffs, thus driving the cost of imports down. As a result, demand changes and consumers make purchases based on the lowest prices, allowing firms with a competitive advantage in production to thrive.

5. **Market Efficiency**: The increased consumption experienced with changes in demand combines with a greater amount of products being manufactured to result in an efficient market. The disadvantages, on the other hand, include: regionalism vs. multinationalism, loss of sovereignty, concessions, and interdependence.

6. **Regionalism vs. Multinationalism**: Trading blocs bear an inherent bias in favor of their participating countries. For example, NAFTA, a free trade agreement between the United States, Canada and Mexico, has contributed to an increased flow of trade among these three countries. Trade among NAFTA partners has risen to more than 80 percent of Mexican and Canadian trade and more than a third of U.S. trade, according to a 2009 report by the Council on Foreign Relations.

However, regional economies by establishing tariffs and quotas that protect intra-regional trade from outside forces, according to the University of California Atlas of Global Inequality. Rather than pursuing a global trading regime within the World Trade Organization, which includes the majority of the world's countries, regional trade bloc countries contribute to regionalism rather than global integration.

Loss of Sovereignty: A trading bloc, particularly when it is coupled with a political union, is likely to lead to at least partial loss of sovereignty for its participants. For example, the European Union, started as a trading bloc in 1957 by the Treaty of Rome, has transformed itself into a far-reaching political organization that deals not only with trade matters, but also with human rights, consumer protection, greenhouse gas emissions and other issues only marginally related to trade.

Concessions: No country wants to let foreign firms gain domestic market share at the expense of local companies without getting something in return. Any country that wants to join a trading bloc must be prepared to make concessions. For example, in trading blocs that involve developed and developing countries, such as bilateral agreements between the U.S. or the EU and relatively poor Asian, Latin American or African countries, the latter may have to allow multinational corporations to enter their home markets, making some local firms uncompetitive.

Interdependence: Because trading blocs increase trade among participating countries, the countries become increasingly dependent on each other. A disruption of trade within a trading bloc as a result of a natural disaster, conflict or revolution may have severe consequences for the economies of all participating countries.

Part A

Define the term International trade

What is meant by international investment?

Outline the need for international trade and Investment

Can you list out the factors affecting international trade and Investment

State the theories of international trade & investment?

What are the features of "Free Trade Area(Regime)"?

What is meant by Competitive Advantage?

What can you say about Internationalization?

How new trade theory is different from product life cycle Theory?

Why do you think FDI International Entrepreneurship is essential?

Write any three articles important articles of GATT.

Write short note on promotional strategies?

Define Regional Trade Block.

Part B

Discuss the WTO agreements in context to trade without discrimination

Explain the Objectives and Functions of World Trade Organization.

Elaborate the various levels of Regional Trade Agreements with Examples.

Briefly discuss the various Trade Barriers and Non- Trade Barriers.

Explain the different forms of protection and its impact on welfare and how far the WTO play key role in protecting the free trade.

Part C

"Global trade is more difficult and risky, however, than domestic trade because of financing". Discuss with share of India in global trade.

"Despite the realization of NAFTA, the share of intra-regional trade has not increased significantly". State the reasons behind it.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – III - INTERNATIONAL BUSINESS MANAGEMENT- SBA1602

Unit III

Strategic Compulsions – Standardization vs. Differentiation – Strategic Options – Global Portfolio Management – Global Entry Strategy – Different Forms of International Business – Advantages– Organizational Issues of International Business – Organizational Structures – Controlling of International Business – Approaches to Control – Performance of Global Business – Performance Evaluation System.

Frame work for International Strategic Management

International strategic management builds on five phases of planning and analysis that provide a framework for deploying resources and a plan of action.

- Recognizing antecedents
- External and internal analysis
- Strategic analysis and choice
- Leveraging competitive advantage and process

International strategic planning

International strategic planning is a process of evaluating the internal and external environment by multinational organizations, through which they set their long-term and short-term goals and then they implement a specific plan of action in order to achieve those objectives.

3.1 STRATEGIC COMPULSIONS:

It means that the companies face the compulsion to be global if they want to gain the global market and more values. But in the modern context strategic management faces many compulsions. The present and future development of the field of strategic management is likely to be driven by compulsions like contemporary developments in social and economic theory and recent changes in the nature of the business and economic context.

International/global strategic management

Strategic management is the process of systematically analyzing various opportunities and threats vis-à-vis organizational strengths and weaknesses, formulating and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organization.

Area of strategic compulsions

1. Orientation for globalization
2. Emerging E-commerce and Internet culture
3. Cut-throat competition
4. Diversification
5. Active pressure groups
6. Motive for corporate social responsibility (CSR) and ethics.

3.2 STANDARDIZATION VERSUS DIFFERENTIATION:

According to Levitt, represents local marketing versus global marketing and focus on the central question of whether a standardized (global) or a differentiated (local), country-specific marketing approach.

Perspectives on standardization versus Differentiation:

1) Regional perspective
2) Marketing process prospective
3) Marketing components/marketing mix perspective.

Factors Favoring Standardization and Differentiation

Factors favoring Standardization	**Factors favoring differentiation**

Economics of scale. In R&D, production and marketing.	Local environment-induced adaptation.., government and regulatory influences, legal issues.
Global competition	Local competition
Convergence of tastes and consumer needs(consumer preferences are homogeneous)	Variation in consumer needs(consumer needs are heterogeneous)
Centralized management of international operation.	Fragmented and decentralized management with independent country subsidies
A standardized concept is used by competitors	An adopted concept is used by competitors

3.3 STRATEGIC OPTIONS:

Strategic options/choice involves the selection of a strategy or set of strategies that helps in achieving organizational objectives.

1. **Global strategy**
2. **International strategy**
3. **Transactional strategy**
4. **Multi-domestic strategy**

1. Global strategy: It views the world as a single market. Tightly controls global operations from headquarters to preserve focus on standardization.
2. International strategy: In this strategy company extends marketing, manufacturing and other activities outside the home country.
3. Multi-domestic strategy: the international company discovers that differences in markets around the world demand an adaptation of its marketing mix in order to succeed.
4. Transactional strategy: this is company that thinks globally and acts locally. The transactional corporation is much more than a company with sales, investments and operations in many countries.

Factors affecting strategic options:

1) External constraints
2) Intra-organizational forces and managerial power-relations
3) Values and preferences and managerial attitudes risk
4) Impact of past strategy
5) Time constraints in choice of strategy.
6) Information constraints
7) Competitor’s reaction

3.4 GLOBAL PORTFOLIO MANAGEMENT:

Global portfolio investment means the purchase of stocks, bonds, and money market instruments by foreigners for the purpose of realizing a financial return which does not result in foreign management, ownership, or control. Portfolio investment is part of the capital account on the balance of payments statistics. An international portfolio is designed to give the investor exposure to growth in emerging and international markets and provide diversification.

Factors affecting global portfolio investment:

1) Tax rates on interest or dividends
2) Interest rates
3) Exchange rates

Problems of global portfolio investment:

1. Unfavorable exchange rate movement
2. Frictions in international financial market
3. Manipulation of security prices
4. Unequal access to information

Global entry strategies

Level of involvement:

- Wholly-owned subsidiary
- Company acquisition
- Assembly operations
- Joint venture
- Strategic alliance
- Licensing
- Contract manufacture
- Direct marketing
- Distributors and agents
- Sales force
- Trading companies
- Export management companies
- Piggyback operations
- Domestic purchasing
- Franchising

3.5 GLOBAL ENTRY STRATEGIES:

FORMS OF INTERNATIONAL BUSINESS:

I) Exporting as an entry strategy:

Exporting is the most traditional mode of entering the foreign market. Exporting is that which allows manufacturing operations to be concentrated in a single location, which may lead to scale economics.

a) Indirect exporting: For firms that little inclination or few resources for international marketing, the simplest and lowest cost method of market entry is for them to have their products sold overseas by others

b) Direct exporting:

Exporting is the most popular approach for firms as it requires fewer resources, has little effect on existing operation and involves low investment and financial risks.

II) **Manufacturing strategies without foreign direct investment:**

1) Licensing:

Under a licensing agreement, a company (the licensor) grants rights to intangible property to another company (the licensee) for a specified period; in exchange, the licensee ordinarily pays a royalty to the licensor.

2) Franchising:

It means of marketing goods and services in which the franchiser grants the legal right to use branding, trademarks and products and the method of operation is transferred to third party – the franchise – in return for a franchise fee.

3) Contract manufacture:

A firm which markets and sells products into international markets might arrange for a local manufacturer to produce the product for them under contract.

4) Turnkey projects:

It is a contract under which a firm agrees to fully design, construct and equip a manufacturing/business/service facility and turn the project over to the purchaser when it is ready for operation for remuneration.

5) Managements contracts:

It is an agreement between two companies, whereby one company provides managerial assistance, technical expertise and specialized services to the second company of the argument for a certain agreed period in return for monetary compensation

III) Manufacturing strategies with FDI:

1) Joint ventures:

It occurs when a company decides that shared ownership of a specially set up new company for marketing and/or manufacturing is the most appropriate method of exploiting a business opportunity.

2) Strategic alliances:

SIA is a business relationship established by two or companies to co-operate out of mutual need and to share risk in achieving a common objective.

3) Merger:

It is a combination (other terms are amalgamation, consolidation or integration) of two or more
organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash.

4) Acquisition:

It is process of acquiring and purchasing an existing venture. It is one of the easy means of expanding a business by entering new markets or new product areas.

5) wholly-owned subsidiary:

The common reason for operating wholly-owned subsidiary separately from the owner company could be name value.
Often, a well-known and respected corporation is acquired by another entity that has no name recognition in that particular market.

6) Assembly operations:

A foreign owned operation might be set up simply to assemble components which have been manufactured in the domestic market. It has the advantage of reducing the effect of tariff barriers which are normally lower on components than on finished goods.

3.5.1 The advantages of International business (an economic view) The economic benefits that greater openness to international trade bring are:

- Faster growth: economies that have in the past been open to foreign direct investments have developed at a much quicker pace than those economies closed to such investment e.g. communist Russia

- Cheaper imports: this is down to the simple fact that if we reduce the barriers imposed on imports (e.g. tariffs, quota, etc) then the imports will fall in price

- New technologies: by having an open economy we can bring in new technology as it happens rather than trying to develop it internally

- Spur of foreign competition: foreign competition will encourage domestic producers to increase efficiency. Carbaugh (1998) states that global competitiveness is a bit like golf, you get better by playing against people who are better than you.

- Increase consumer income: multination will bring up average wage levels because if the multinationals were not there the domestic companies would pay less.

Increased investment opportunities: with globalization companies can move capital to whatever country offers the most attractive investment opportunity. This prevents capital being trapped in domestic economies earning poor returns.

Factors affecting the selection of entry mode

External factors

1) Market size
2) Market growth
3) Government regulations
4) Level of competition
5) Level of risk

Internal factors

1) Company objectives
2) Availability of company resources
3) Level of commitment
4) International experience
5) Flexibility

3.6 ORGANIZATIONAL ISSUES OF INTERNATIONAL BUSINESS:

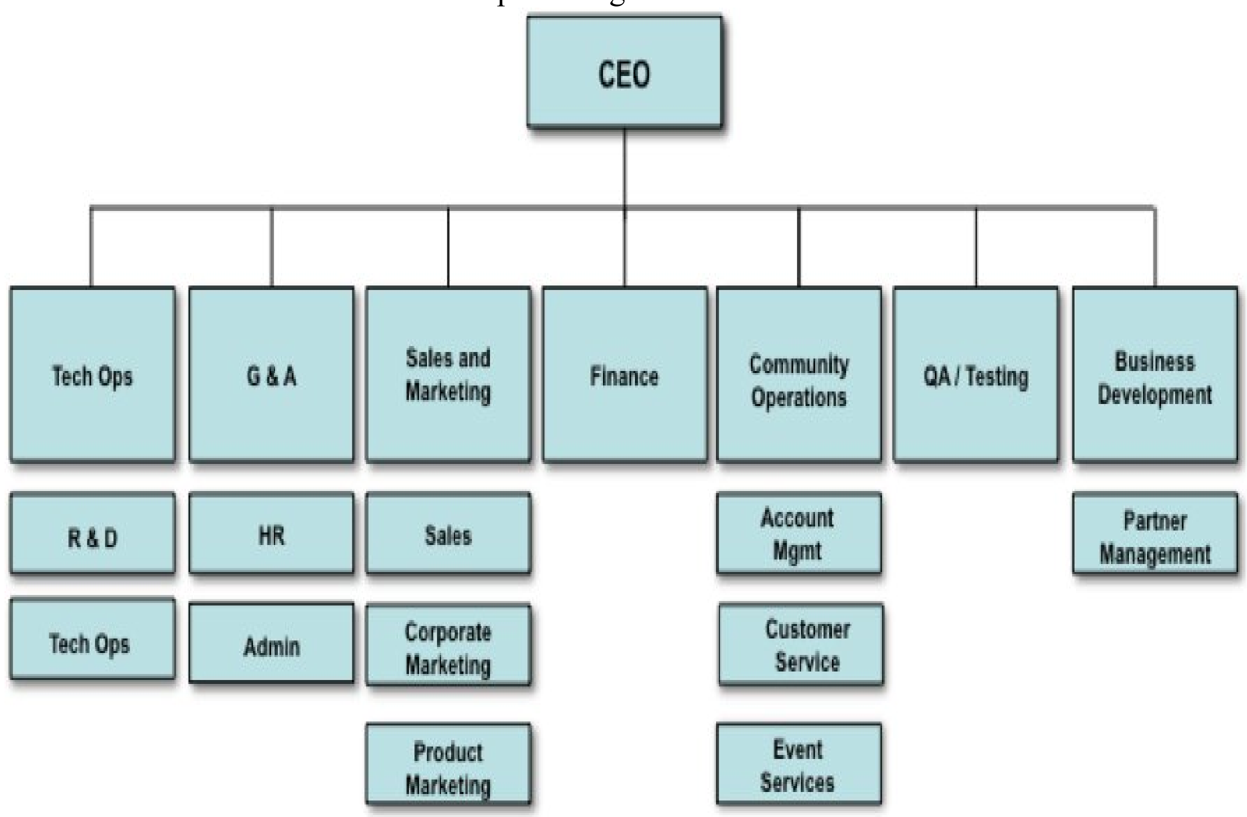
3.6.1 ORGANIZATIONAL STRUCTURE:

An **organizational structure** defines how activities such as task allocation, coordination and supervision are directed towards the achievement of organizational aims. It can also be considered as the viewing glass or perspective through which individuals see their organization and its environment.

Organizations are a variant of clustered entities.

An organization can be structured in many different ways, depending on their objectives. The structure of an organization will determine the modes in which it operates and performs.

Organizational structure allows the expressed allocation of responsibilities for different functions and processes to different entities such as the branch, department, workgroup and individual. It affects organizational action in two big ways. First, it provides the foundation on which standard operating procedures and routines rest. Second, it determines which individuals get to participate in which decision-making processes, and thus to what extent their views shape the organization's actions



Designing organizational structure: It includes an analysis of the following aspects;

1) External environment
2) Overall aims and purpose of the enterprise
3) Objectives
4) Activities
5) Decisions
6) Relationships

7) Organization structure
8) Job structure
9) Organization climate
10) Management style
11) Human resource

Types of organizational structure

1) International division's structure:

Grouping each international business activity into its own division, puts internationally specialized personnel together to handle such diverse matters as export documentation, foreign-exchange transactions and relations with foreign governments.

2) Functional division's structure:

It emphasizes on specific functions such as manufacturing, marketing, finance and so on. It is more suitable where the products and customers are few and homogeneous.

3) Product division structure:

It is more common in international business and more suitable in case of a multiple brand system. In this case, there are different product divisions, in each division, there are sub-divisions.

4) Geographic (Area) division structure:

In case of area structure, organization is based on the geographic areas, namely, Asia, Africa, and Latin America and so on and the operation is divided accordingly.

5) Matrix division structure:

The global matrix structure is more complex when it combines all the three aspects – product, area, and function.

This is found in multi-product firms where one group of products needs area structure of organization, while the other group of products needs functional structure, and for yet another group, product structure is found more appropriate.

6) Mixed structure:

Most firms allow the hybrid design which best suits their purpose as dictated by size, strategy, and technology, environment and culture. This is the reason why the famous saying "structure follows strategy has emerged. Ex: Philips and Unilever

Controlling of international business

According to Child, "Control is essentially concerned with regulating the activities within an organization so that they are in accord with expectations established in policies, plans and practices.

Types/Methods of control systems:

1) **Personal controls:** It is control by personal contact with subordinates.
2) **Bureaucratic controls:** The control through a system of rules and procedures that directs the actions of sub-units.
3) **Output controls:** It involves setting goals for subsidiaries to achieve; expressing these goals in terms of relatively objective criteria such as profitability, productivity, growth, market share, and quality.

4) **Cultural controls:** It exists when employees "buy into" the norms and value systems of the firm.

Approaches to control:
1) Market approach
2) Rules approach
3) Corporate culture approach

Control mechanisms:
1) Reports
2) Visits to subsidiaries
3) Management performance evaluations
4) Cost and comparisons
5) Evaluative measurements
6) Information systems

Process of performance measurement
- Establish standards of performance
- Measure actual performance
- Analyze performance and compare it with standards
- Construct and implement an action plan
- Review and revise standards

Performance evaluation system
It can be defined as, "the periodic review of operations to ensure that the objectives of the enterprise are being accomplished".
Various performance indicators:
1) Financial measures
a) Return on investment(ROI)
b) Budget as a success indicator
2) Non-financial measures.

Types of performance evaluation system
1) Budget programming
2) Management audit
3) PERT(Program evaluation review technique)
4) Management information system

3.6..2 ORGANIZATIONAL DESIGN:

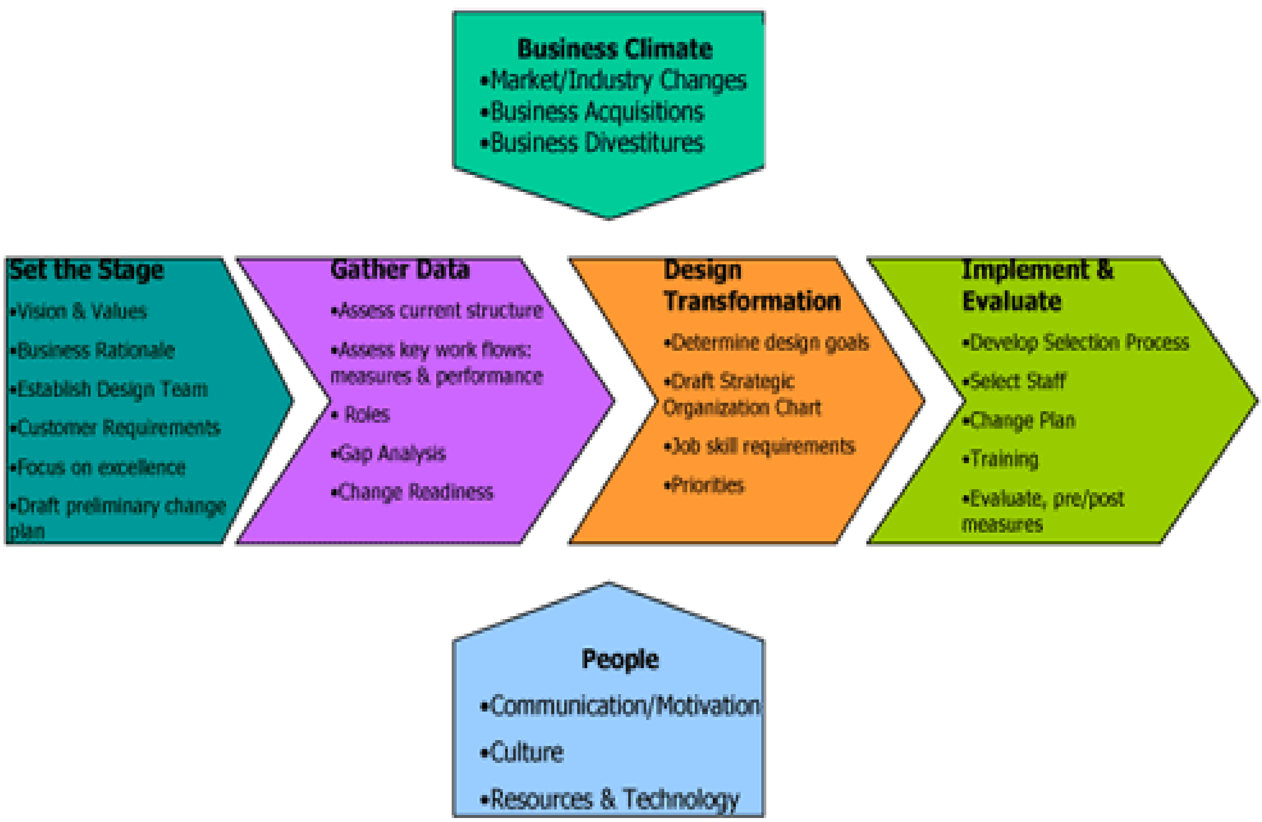
1. Meaning

Organizational design is a step-by-step methodology which identifies dysfunctional aspects of work flow, procedures, structures and systems, realigns them to fit current business realities/goals and then develops plans to implement the new changes. The process focuses on improving both the technical and people side of the business.

For most companies, the design process leads to a more effective organization design, significantly improved results (profitability, customer service, internal operations), and employees who are empowered and committed to the business. The hallmark of the design process is a comprehensive and holistic approach to organizational improvement that touches all aspects of organizational life, so you can achieve:

- Excellent customer service
- Increased profitability
- Reduced operating costs
- Improved efficiency and cycle time
- A culture of committed and engaged employees
- A clear strategy for managing and growing your business

Organizational Design Model



Five Approaches to Organizational Design

Managers must make choices about how to group people together to perform their work. Five common approaches - functional, divisional, matrix, team, and networking help managers determine departmental groupings (grouping of positions into departments). The five structures are basic organizational structures, which are then adapted to an organization's needs. All five approaches combine varying elements of mechanistic and organic structures.

For example, the organizational design trend today incorporates a minimum of bureaucratic features and displays more features of the organic design with a decentralized authority structure, fewer rules and procedures, and so on.

Functional structure

The functional structure group's positions into work units based on similar activities, skills, expertise, and resources (see Figure 1 for a functional organizational chart). Production, marketing, finance, and human resources are common groupings within a functional structure.

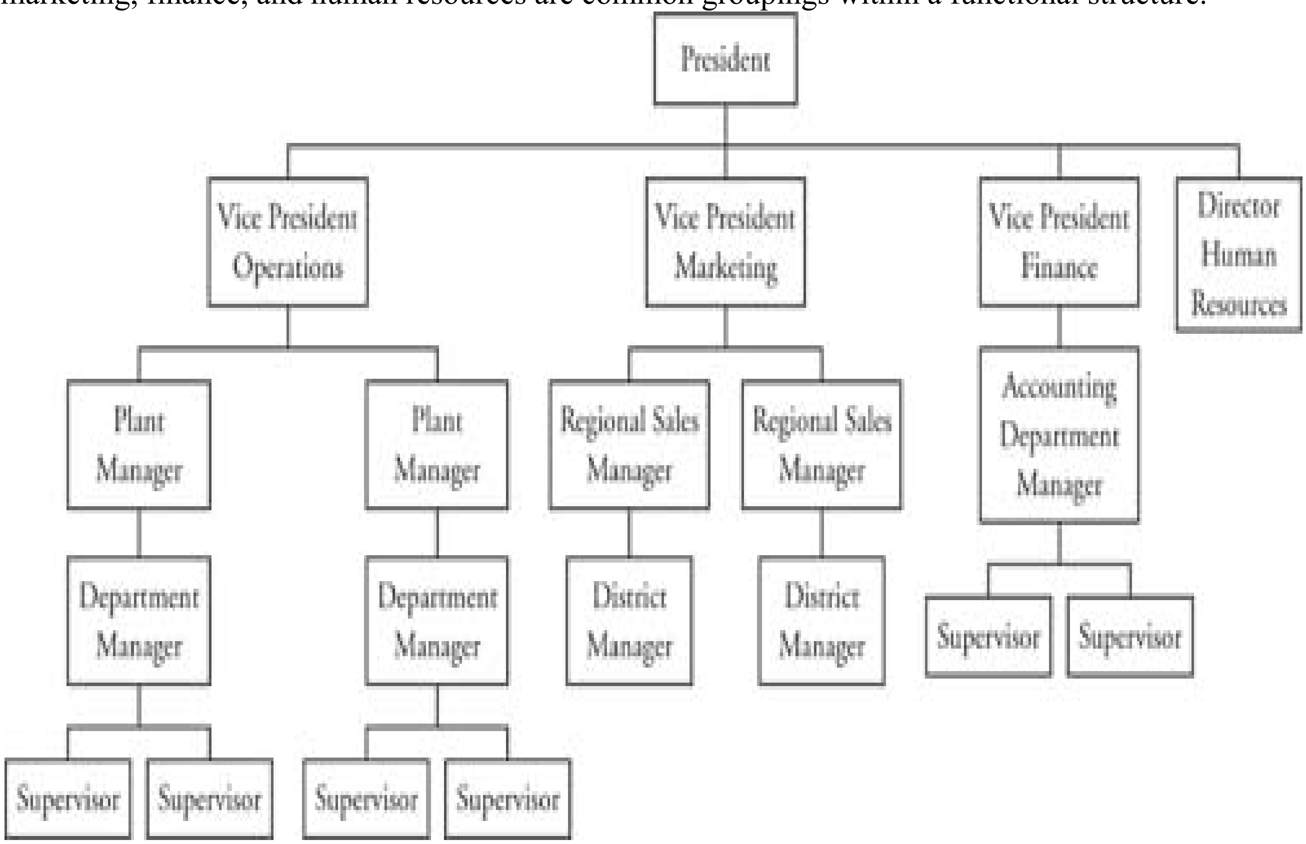


Figure 1 The functional structure.

As the simplest approach, a functional structure features well-defined channels of communication and authority/responsibility relationships. Not only can this structure improve productivity by minimizing duplication of personnel and equipment, but it also makes employees comfortable and simplifies training as well.

But the functional structure has many downsides that may make it inappropriate for some organizations. Here are a few examples:

- The functional structure can result in narrowed perspectives because of the separateness of different department work groups. Managers may have a hard time relating to marketing, for example, which is often in an entirely different grouping. As a result, anticipating or reacting to changing consumer needs may be difficult. In addition, reduced cooperation and communication may occur.
- Decisions and communication are slow to take place because of the many layers of hierarchy. Authority is more centralized.
- The functional structure gives managers experience in only one fields their own. Managers do not have the opportunity to see how all the firm's departments work together and understand their interrelationships and interdependence. In the long run, this specialization results in executives with narrow backgrounds and little training handling top management duties.

Divisional structure

Because managers in large companies may have difficulty keeping track of all their company's products and activities, specialized departments may develop. These departments are divided according to their organizational outputs. Examples include departments created to distinguish among production, customer service, and geographical categories. This grouping of departments is called divisional structure (see Figure 2). These departments allow managers to better focus their resources and results. Divisional structure also makes performance easier to monitor. As a result, this structure is flexible and responsive to change.

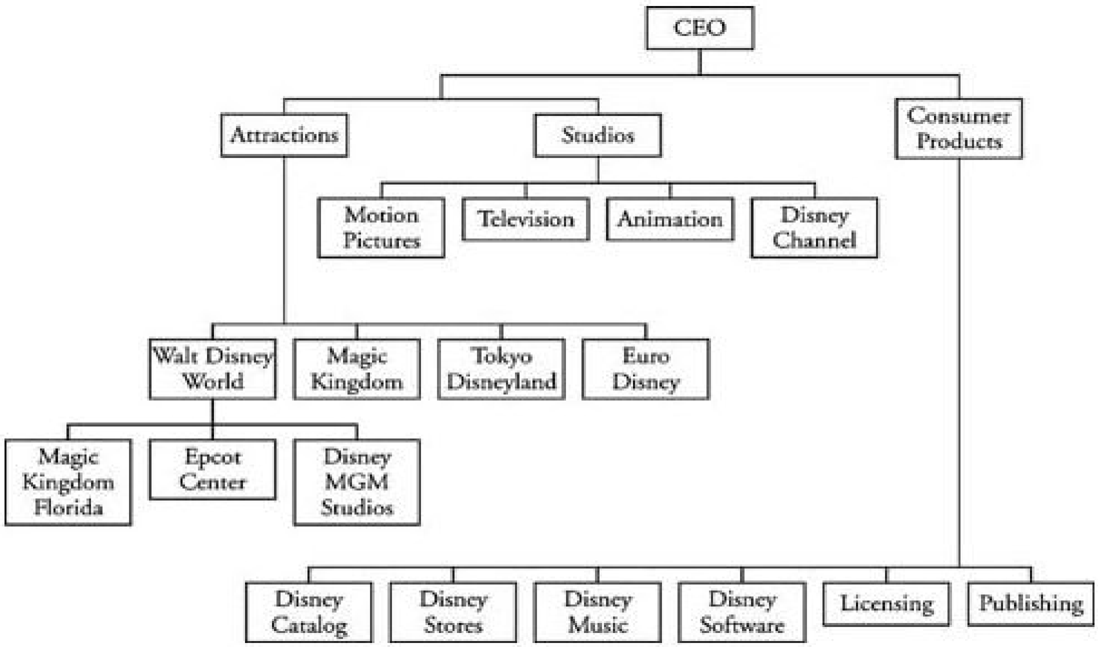


Figure 2
The divisional structure—Disney in the early 1990s.

However, divisional structure does have its drawbacks. Because managers are so specialized, they may waste time duplicating each other's activities and resources. In addition, competition among divisions may develop due to limited resources.

Matrix structure

The matrix structure combines functional specialization with the focus of divisional structure. This structure uses permanent cross-functional teams to integrate functional expertise with a divisional focus.

Employees in a matrix structure belong to at least two formal groups at the same time a functional group and a product, program, or project team. They also report to two bosses one within the functional group and the other within the team.

This structure not only increases employee motivation, but it also allows technical and general management training across functional areas as well. Potential advantages include

- Better cooperation and problem solving.
- Increased flexibility.
- Better customer service.
- Better performance accountability.
- Improved strategic management.

Predictably, the matrix structure also has potential disadvantages. Here are a few of this structure's drawbacks:

- The two-boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority.
- Members of the matrix may suffer task confusion when taking orders from more than one boss.
- Teams may develop strong team loyalties that cause a loss of focus on larger organization goals.
- Adding the team leaders, a crucial component, to a matrix structure can result in increased costs.

Team structure:
Team structure organizes separate functions into a group based on one overall objective (see Figure 4). These **cross‑functional teams** are composed of members from different departments who work together as needed to solve problems and explore opportunities. The intent is to break down functional barriers among departments and create a more effective relationship for solving ongoing problems.

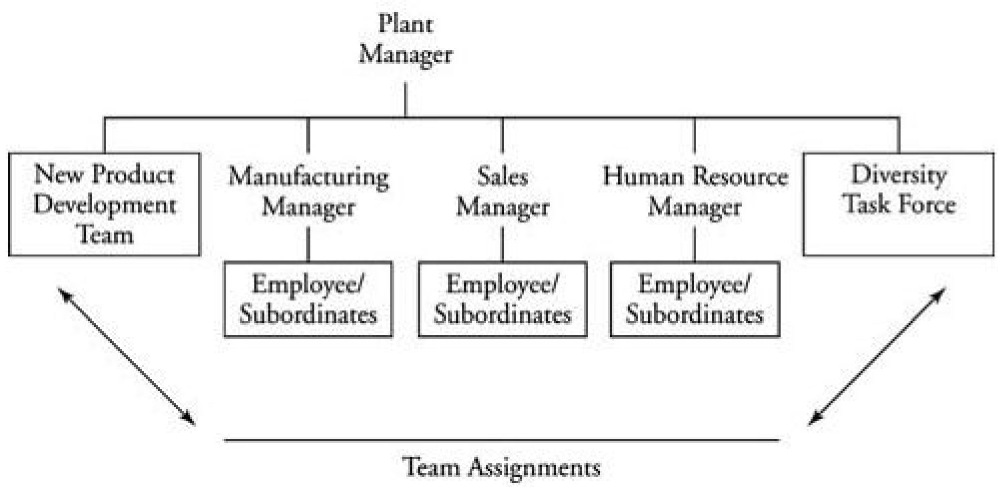


Figure 4
The team structure.

The team structure has many potential advantages, including the following:
- Intradepartmental barriers break down.
- Decision-making and response times speed up.
- Employees are motivated.
- Levels of managers are eliminated.
- Administrative costs are lowered.

The disadvantages include:
- Conflicting loyalties among team members.
- Time-management issues.
- Increased time spent in meetings.

Managers must be aware that how well team members work together often depends on the quality of interpersonal relations, group dynamics, and their team management abilities.

Network structure
The network structure relies on other organizations to perform critical functions on a contractual basis (see Figure 5). In other words, managers can contract out specific work to specialists.

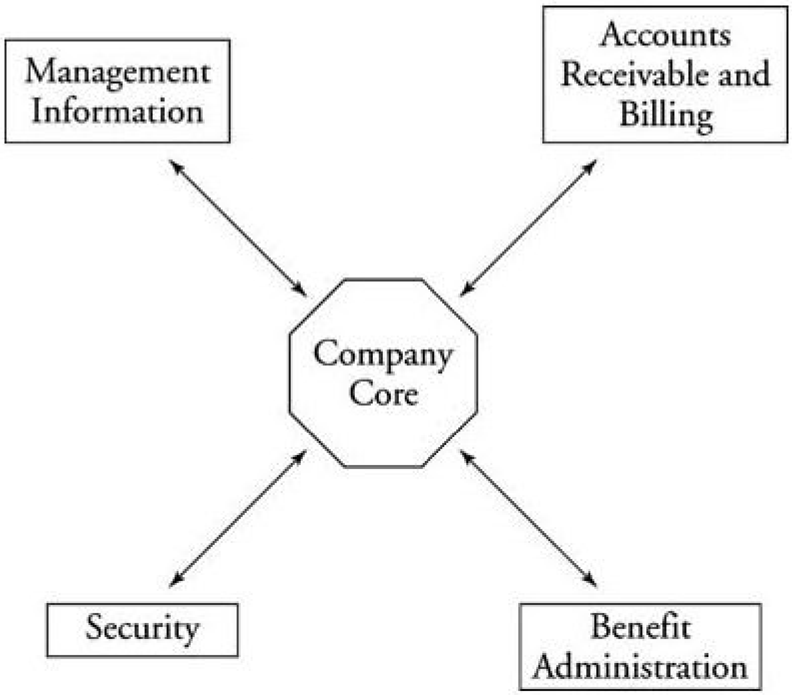


Figure 5 The network structure.

This approach provides flexibility and reduces overhead because the size of staff and operations can be reduced. On the other hand, the network structure may result in unpredictability of supply and lack of control because managers are relying on contractual workers to perform important work.

3.6 CONTROLLING OF INTERNATIONAL BUSINESS

There are three main levels at which control can be implemented and managed in an international business. These three key levels of control are as follows:

1. Strategic
2. Organizational
3. Operational

Strategic Control:

Strategic control in intended both how well an international business formulates strategy and how well it goes about implementing it. Thus strategic control focuses on how well the firm defines and maintains its desired strategic alignment with its environment and how effectively it is setting and achieving its strategic goals.

Strategic control also play a major role in the decisions firms make about foreign-market entry and expansion and most critical aspect of strategic control is control of an international firm's financial resources.

Organizational Control:

Organizational control focuses on the design of the organization itself. There are many different forms of organizational design an international firm can use. But selecting and implementing a particular design does not necessarily end the organization design process.

International firm generally use one or more of three types of organizational control systems:

a. **Responsibility Centre Control:**
   The most common type of organizational control system is a decentralized one called responsibility centre control. Using this system, a firm first identifies fundamentals responsibility centers within the organization. Strategic business units are frequently defined as responsibility centers, as are geographical regions or product groups.
b. **Generic Organizational Control:**
   A firm may prefer to use generic organizational across its entire organization; that is, the control systems used are the same for each unit or operation, and the locus of authority generally resides at the firm's headquarters.
c. **Planning Process Control:**
   A third type of organizational control, which could be used in combination with either responsibility center control or generic organizational control, focuses on the strategic planning process itself rather than on outcomes. Planning process control calls for a firm to concentrate its organizational control system on the actual mechanics and processes its uses to develop strategic plans.

Operations Control:

The third level of control in an international firm is operations control. Operations control focuses specifically on operating processes and systems within both the firm and its subsidiaries and operating units. Thus a firm needs an operation control system within each business unit and within each country or market in which it operates.

Establishing International Control Systems

Control systems in international business are established through four basic steps:

1. Set Control standards for performance
2. Measure actual performance
3. Compare performance against standards
4. Respond to deviations

Set Control Standards for Performance

The first step in establishing an international control system is to define relevant control standards. A control standards in this context is a target, a desired level of performance component the firm is attempting control.

Control standards need to be objective and consistent with firm's goals. Suppose a firm is about to open its first manufacturing facility in Thailand. It might set the following three control standards for the plant:

a. Productivity and quality in the new plant will exceed the levels in the firm's existing plants.
b. After an initial break-in period, 90% of all key management positions in the plant will be filled by local managers.
c. The plant will obtain at least 89% of its resources from local suppliers.

Measure Actual Performance

The second step in creating an international control system is to develop a valid measure of the performance component being controlled. For the firm introducing a new product in a foreign market, performance is based on the actual number of units sold. For the new plant in Thailand used as an example earlier, performance would be assessed in terms of productivity, quality, and hiring and purchasing practices.

Compare Performance Against Standards

The next step in establishing an international control system is to compare measured performance against the original control standards. Again, when control standards are straightforward and objective and performance is relatively easy to asses, this comparison is easy. But when control standards and performance measures are less concrete, comparing one against the other is considerably more complicated.

Responding to Deviations

The final step in establishing an international control system is responding to deviations observed in step 3. Three different outcomes can result when comparing a control standard and actual performance:

a. The control standard has been met.
b. It has not been met.
c. It has been exceeded.

Depending on the circumstances, managers have many alternative responses to these outcomes. If a standard has not been met and the manager believes it is because of performance deficiencies on the part of employees accountable for the performance, the manger may mandate higher performance, increase incentives to perform at a higher level, or discipline or even terminate those employees.

Essential Controlling Techniques

Because of the complexities of both the international environment and international firms themselves, those firms rely on a wide variety of different control techniques. We do not describe them all here but introduce a few of the most important ones.

1. **Accounting Systems:**
   Accounting is a comprehensive for collecting, analyzing, and communicating data about firm's financial resources. Accounting procedures are heavily regulated and must follow

prescribed methods dictated by national government. Because of these regulations and systems accounting process can be a good controlling techniques.

2. **Procedures:**
   Firms also use various procedures to maintain effective control. Policies, standard operating procedures, rules, and regulations all help managers carry out the control function.

3. **Performance Ratio:**
   International firms also use various performance rations to maintain control. A performance ratio is a numerical index of performance that the firm wants to maintain. A common performance ration used by many firms is inventory turnover. Holding excessive inventory is dysfunctional because the inventory ties up resources that could otherwise be used for different purposes and because the longer materials sit in inventory, the more prone they are to damage and loss.

Controlling Quality in International Business

Control also helps firms maintain and enhance the quality has become such a significant competitive issue in most industries that control strategies invariably have quality as a central focus.

Quality is a vital importance for several reasons:

1. Many firms today compete on the basis of quality.
2. Quality is important because it is directly linked with productivity.
3. Higher quality helps firms to develop and maintain customer loyalty.

Quality consist of eight dimensions:

1. **Performance:** comprises the product's primary operating characteristics, such as, an automobile's ability to transport its driver.
2. **Features:** include supplementary characteristics, such a power window on an automobile.
3. **Reliability:** refers to the dependability of a product, such as the probability of an automobile's starting.
4. **Conformance:** is how well the product meets normal standards.
5. **Durability:** refers to the product's expected lifespan.
6. **Serviceability:** refers to how fast and easily the product can be repaired.
7. **Aesthetics:** refers to how the product looks, feels, tastes, and/or smells.
8. **Perceived quality:** is the level of quality as seen by the customer.

Quality Improvement Tools

1. **Statistical process control:** is a family of mathematically-based tools for monitoring and controlling quality. Its basic purpose is to define the target level of quality, specify an acceptable range of deviation, and then ensure that product quality is hitting the target.

2. **Benchmarking:** is the process of legally and ethically studying how other firms do something in high-quality way and then either imitating or improving on their methods.

3. **Total Quality Management (TQM):** is an integrated effort to systematically and continuously improve the quality of an organization's products and /or services. The components of TQM are – strategic commitment to quality, employee involvement, high-quality materials, up-to-date technology, and effective process.

3.8 PERFORMANCE OF GLOBAL BUSINESS:

Global Business Performance is a flexible, web based solution that provides the key components to support global decision making. It offers the integration and management of multiple, cross-country data sources including POS, retailer direct, syndicated and consumer data. Global Business Performance identifies trends and opportunities and delivers sales and performance insights across regions, countries and categories, only days after data is available.

Business Issue Addressed:

Sales & Channel Management

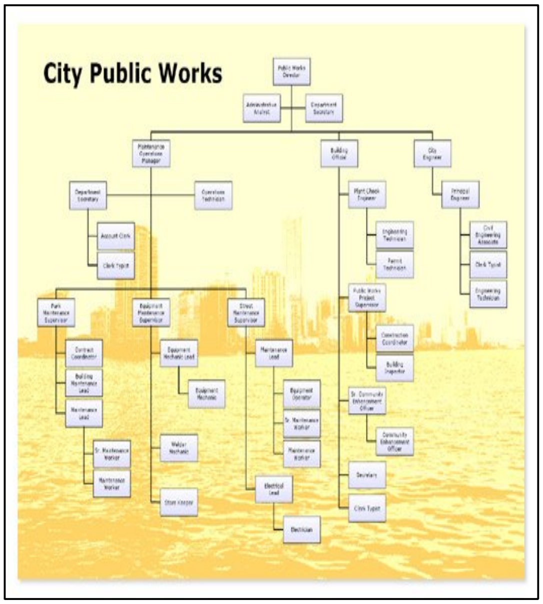
Key Features and Benefits:

- Data from many disparate sources can be harmonized and integrated to give one consistent, accurate and actionable view of a company's performance across many different markets.
- Sales, trends, performance, issues and opportunities can be identified across multiple countries, regions and categories a few days after the data is available, rather than weeks or months later.
- This approach ensures the fast identification of global sales, marketing and supply chain opportunities, and provides the ability to focus on the key issues, and expand the solution when and where required

3.9 PERFORMANCE EVALUATION SYSTEM:

The second evaluation challenge is that networks are unique organizations that contrast to a large degree with the corporate, governmental or civil society organizational structures of their members. To paraphrase systems thinker Russell

The organizational chart on the left is common for government, business or civil society



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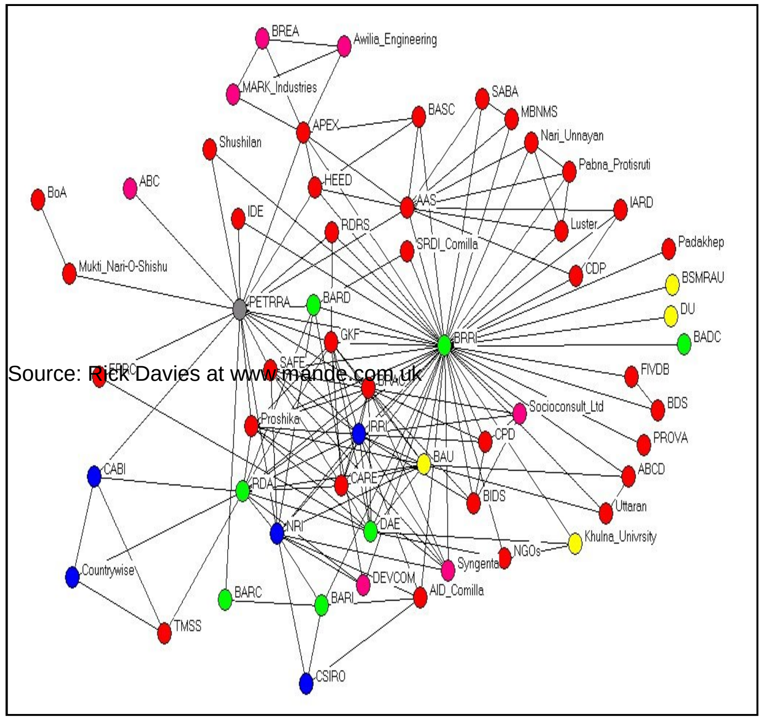

Source: Rick Davies at www.mande.com.uk

organizations...typically the organizational forms of the members of a network. The network's own organizational chart, however, is quite different, similar to what is presented on the right. The difference between a network and other organizational forms is more than the structure of relationships of power, money, information, co-operation and activities. The nature of those relationships is also unique in two important ways.

Democracy:

It is a necessity because network members are voluntary autonomous organizations. Hierarchical management and command and control simply do not work well with these social actors. Success depends on equity in the relations and exercise of power within the network. Leadership must stimulate and strengthen the active participation of all members and effective work in alliances. Democratic management and participation are the keys to empowerment, ownership and concerted, common action in a network.

Therefore, members' participation in decision-making is the best guarantee that the decision will be implemented. Echoing the folks at the Canadian International Development Research Centre's Evaluation Unit, the willingness of the members of a network to monitor and interpret success (along with planning, implementing and adjusting activities) constitutes ownership in a network.[1]

- Another unique difference of a network compared to other organizational forms is the great diversity amongst its members, of course within a unity of purpose. Part of the genius of this organizational form is that its members share common values and a collective purpose but have different visions and strategies on how to achieve change. The organizational challenge is to enable each one of these heterogeneous actors to make a creative and constructive contribution. The evaluation task is to assess how well the actors are interacting and understand the fruits of their co-operation.

- Because networks are such unique organizational forms that demand empowerment of the enormously diverse actors within it, the task of evaluation is also unique. Essentially, it is all about participation. As Madeline Church and colleagues at the Development Planning Unit, University College London say:
- "Evaluation in the network context needs to pay attention to how the network:
  - fosters participation by its members,
  - adds value to the work of its participants and
  - Links participants and their work together across time and space in ways that mobilise greater forces for change."[ii]

Network stakeholders expect project-type evaluations

The third challenge of evaluating the performance of networks is that stakeholders demand accountability and results seen from a program or project perspective. Stakeholders want to see quick progress and clear results for money and time invested in the network project. Consequently, donors especially exert project-minded, cost-benefit pressure. The familiar project planning, monitoring and evaluation approach runs along the linear, causal chain:

Inputs→activities→outputs→outcomes→impact. They expect efficiency in the inputs→activities→outputs sequence, and they want to know that this sequence effectively leads to outcomes and impact. Are we doing well? Was our hypothesis valid? Did we do the right thing in a worthwhile way?

These are valid, understandable questions but they are problematic for two reasons. First, when a network carries on projects, typically managed by the secretariat, that mode of evaluation may be appropriate. When, however, the evaluation focus is the operation of the network as a whole, project or program evaluation methodologies do not work. Why? Well, for three reasons that flow from the two challenges presented above.

1. Networks are in the category of organizational forms that Michael Quinn Patton calls "non-linear, dynamic social change agents".[iii] They make interventions based more on values than hypotheses. Their activities take place in complex situations without predetermined, predictable, or controllable results. Even the "right" inputs-activities-outputs equation is often uncertain, because what works and does not work only emerges as the interactions of the network unfold.
2. In a network's activities and results—and we are talking fundamentally about fluid relationships amongst members and significant social change—cause and effect is rarely known and frequently not knowable, and then usually in retrospect.
3. The time horizon of a network is long-term and especially uncertain. The farther out the time horizon, the more uncertainty increases. Opportunities and risks proliferate, and with more time, these variations magnify uncertainty.

- That is, sometimes the environment in which international networks operate is so volatile that project evaluation may not work even for short-term Secretariat projects. The project evaluation approach is even less appropriate for a program of projects or for the network as a whole.

Network evaluation requires hybrid, innovative approaches

- The fourth and last challenge I see for network evaluation is the other side of the coin: How can networks demonstrate results if standard evaluation methods are inappropriate? The short answer is that networks must innovate and create hybrid approaches that meet their special needs and circumstances. That, however, requires just as much professional rigor as it does vigor.
- Thus, a basic criterion is that evaluation in an international network must conform to professional standards. These four evaluation standards originally developed by the American Evaluation Association[iv] are now being adapted around the world. Of course, a network may want to modify these or affirm others. An evaluation must meet standards of:
  - **Utility** - Serve the information needs of intended users.
  - **Feasibility -** Ensure that an evaluation will be realistic and achievable in the light of the questions it seeks to answer and the available resources, be politically sensitive and sensible, and cost effective.
  - **Propriety -** Make sure that evaluation is conducted legally, ethically, and with due regard for the welfare of those involved, as well as those affected by its results.
  - **Accuracy -** Utilize evidence generated through appropriate and solid research methods and quantitative and qualitative analytical tools. For example, information should be triangulated—derived from three or more sources.

A second criterion is that you craft the evaluation to be highly participatory, or as participatory as the stakeholders want it to be. This is not simply recognition of the core, democratic values of an international social change network. In my experience, and that of other network evaluators, broad, active participation by stakeholders greatly enhances the validity and cost/benefit of the evaluation. Perhaps most importantly, through their participation, stakeholders and especially the members develop the understanding and the commitment to implement the conclusions and results.

- Third, it has been found that the most useful definition of outcomes is IDRC's notion of changes in the behaviour, relationships or activities of other social actors.[v] By focusing on two types of outcomes, international networks can resolve two of the biggest dilemmas they encounter in assessing their achievements: the dilemma of means and ends and impact measurement and attribution.

Networks are both a means and an end in them. The existence of a network is of special value because without it there would not be the interaction of its parts. I know that this is an unconventional criterion for results evaluation. A for-profit business can rarely justify itself by the number of employees it hires; its margin of profit and return on investment is the principal measurement of success. Sometimes the major achievement of a government may be simply to have finished its term of office, but usually its results are evaluated in terms of the quantity and nature of its contribution to the common good. An NGO does not exist to exist; the NGO must benefit other people.

Part A

Outline the stages in International strategic planning?

What is meant by strategic compulsions?

How would you show your understanding of standardization vs differentiation?

What conclusion can you draw on strategic options?

How would you categorize the problems of global portfolio management?

How would you explain the forms of international business?

Define global entry strategies

What is the main idea of the exporting?

How would you use manufacturing strategies without FDI?

Why do you think exporting is essential?

How would you explain the different forms of International Business

What is your opinion about licensing?

Define franchising

What are the main ideas of management contracts?

Part B

Describe the different forms of Global Entry Strategy.

Explain in detail about control techniques in international business

Explain in detail about the difference between standardization and differentiation strategies with suitable examples.

Discuss in detail about Global Portfolio Management

Part C

Explain he organizational issues of international Business and how they can be solved effectively.

"Organizational issues discuss several topics from every dimension while setting up an international business". What are they?

"Control is necessary to achieve international objectives". Elaborate this statement by giving aspects of international control process.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – IV - INTERNATIONAL BUSINESS MANAGEMENT- SBA1602

Unit IV

Global production –Location –scale of operations- cost of production – Make or Buy decisions – global supply chain issues – Quality considerations- Globalization of markets, marketing strategy – Challenges in product development , pricing, production and channel management- Investment decisions – economic- Political risk – sources of fund- exchange –rate risk and management – strategic orientation – selection of expatriate managers- Training and development – compensation.

4.1 GLOBAL PRODUCTION STRATEGIES:

Multi-domestic**.** Concerns operations where each market is serviced independently. Can relate to simple products that are easy to replicate but costly to transport over long distances. Production can be integrated globally, while the marketing is Multi-domestic, reflecting cultural and consumer preferences differences. The goal is therefore to better answer the needs of every market. This implies an independency in productivity, meaning that the efficiencies and productivities achieved in each market are unrelated to those taking place in other markets.

Globally integrated**.** Systems of production located in several countries and commonly involving complex products. Logistics activities are highly important as production and distribution capabilities need to be effectively reconciled. This implies an interdependency in productivity, as each component of the supply chain directly impacts the cost and the quality of the final product.

Four major location strategies for Global Production Networks can be identified:

- **Centralized global production**. The entire production occurs within only one nation (or region) and is exported thereafter on the global market. This is particularly the case for activities that are difficult to relocate, such as goods linked to the location of resources, difficult to reproduce (e.g. luxury and craft) or depending on massive economies of scale.
- **Regional production**. Takes place within each region that manufactures a good with the size of the production system related to the size of the regional market. This system depends more on a regional accessibility than on economies of scale. It particularly applies to well known manufacturing technologies and/or to products having high distribution costs (e.g. soft drinks).
- **Regional specialization**. This global production network involves a spatial division of the production based on comparative advantages. Each region specializes in the production of a specific good and imports from other regions what it requires.
- **Vertical transnational integration**. This global production network is another variant of specialization. Different stages of the production occur at locations offering the best comparative advantages. Raw materials are extracted from locations where they are the most accessible, while assembly is performed in regions having low labor costs or high skill levels depending on the type of product or the stage in its manufacturing.

Each production sectors has a different production network. The automotive and electronics sectors are good examples of vertical integration. For instance, the manufacture of a television generally implies stages of research and development in the United States and Japan (as well as being important markets). Several nations, such as England, South Korea and Germany provide components. The assembly takes place in low wages countries such as China, Mexico and Thailand. Labor costs are a key element of this system, but also the required level of knows how.

4.2 INTERNATIONAL LOCATION DECISIONS:

Major Issues:

The objective of this study is to elicit a consensus of judgments on issues of critical factors in international location decisions and to classify these factors under type of business which firms located, location of manufacturing plant, location of parent company and the nature of business.

The major issues in this study are as follows:

1. Identification of motivations of firms that seek to manufacture across the borders.
2. Determination of steps in international location decision process.
3. Identifying the most difficult problem in making an international location decision and recommending ways to overcome the problem.
4. Identification of factors relating to international location decisions by asking the experts indicates the importance of each of the thirteen major factors using a seven-point scale. Explanatory on the importance of sub-factors and the sectors, types of business or countries in which they are most relevant.

Identifying factors that need to be considered in international location decisions under location of manufacturing plant in different geographical areas i.e. Western Europe, Eastern Europe, Japan, United Stated, Middle-East, Far-east, Africa, Latin America from experts' points of view.

6. Identifying factors that need to be considered in international location decisions under location of parent company I United States, United Kingdom, Western Europe and Japan from experts' points of view.
7. Identifying factors that need to be considered in international location decisions under type of business i.e. Automotive/Motor Vehicles, Electronic Products/IT and Software, Electronic Equipment and Appliances, Textiles/Apparel, Consumer products/ Food and Beverages, Rubber/Plastics, Chemical/Petroleum and Coal and other businesses from experts' points of view.
8. Identifying factors that need to be considered in international location decisions under nature of firm i.e. world-class manufacturing, large company and medium-sized company by identifying the top four important factors from experts' points of view.

4.3 SCALE OF OPERATIONS:

The cost advantage that arises with increased output of a product. Economies of scale arise because of the inverse relationship between the quantity produced and per-unit fixed costs; i.e. the greater the quantity of a good produced, the lower the per-unit fixed cost because these costs are shared over a larger number of goods. Economies of scale may also reduce variable costs per unit because of operational efficiencies and synergies. Economies of scale can be classified into two main types: Internal – arising from within the company; and External – arising from extraneous factors such as industry size.

Economies of Scale and International Trade

One important motivation for international trade is the efficiency improvements that can arise because of the presence of economies of scale in production. Although economists wrote about these effects long ago, models of trade developed after the 1980s introduced economies of scale in creative new ways and became known as the "New Trade Theory."

In this chapter, the barest essentials of economies of scale models are developed to explain the rationale for trade with this production feature. The chapter also presents the monopolistic competition model of trade that incorporates an obvious feature of the real world, namely, the presence of heterogeneous goods.

The WTO can cut the cost of doing business internationally

Many of the benefits of the trading system are more difficult to summarize in numbers, but they are still important.

They are the result of essential principles at the heart of the system, and they make life simpler for the enterprises directly involved in trade and for the producers of goods and services.

Trade allows a division of labor between countries.

It allows resources to be used more efficiently and effectively for production. But the WTO's trading system offers more than that. It helps to increase productivity and to cut costs even more because of important principles enshrined in the system, designed to make life simpler and clearer.

Imagine a situation where each country sets different rules and different customs duty rates for imports coming from different trading partners. Imagine that a company in one country wants to import raw materials or components copper for wiring or touch screens for electronic equipment, for example for its own production.

It would not be enough for this company to look at the prices offered by suppliers around the world. The company would also have to make separate calculations about the different duty rates it would be charged on the imports (which would depend on where the imports came from), and it would have to study each of the regulations that apply to products from each country. Buying copper or touch screens would become very complicated. That, in simple terms, is one of the problems of discrimination.

Imagine now that the government announces it will charge the same duty rates on imports from all countries, and will use the same regulations for all products, whether imported or locally produced. Life for the company would be much simpler. Sourcing components would become more efficient and cost less.

Non-discrimination is just one of the key principles of the WTO's trading system. Others include:

- Transparency (clear information about policies, rules and regulations)
- Increased certainty about trading conditions (commitments to lower trade barriers and to increase other countries' access to one's markets are legally binding)
- Simplification and standardization of customs procedure, removal of red tape, centralized databases of information, and other measures to simplify trade, known as "trade facilitation".

Together, they make trading simpler, cutting companies' costs. That, in turn, means more jobs and better goods and services for consumers.

"Trade facilitation" has become an important subject in the Doha Round negotiations. Red tape and other obstacles are like a tax on trade. The saving from streamlining procedures could be 2% –15% of the value of the goods traded, according to estimates by the Organization for Economic Cooperation and Development (OECD). The Peterson Institute for International

Economics estimates that it could add $117.8 billion to the world economy (global GDP). The World Bank says that for every dollar of assistance provided to support trade facilitation reform in developing countries, there is a return of up to $70 in economic benefits

WALMART TO SCALE BACK INTERNATIONAL OPERATIONS:

The largest retailer in the world, Wal-Mart has said it will close approximately 50 under-performing stores in China and Brazil due to an increasingly tough global economic outlook. Credit: walmart.com

Wal-Mart is scaling back its international operations and has detailed plans to shutter poorly performing stores in two of its biggest international markets and concentrate on opening additional smaller operations across the US.

The move was motivated by what the world's largest retailer sees as an increasingly "tough" and "unpredictable" global economic environment.

According to the Arkansas-based company, the strategy calls for the construction of just 14 million square feet of new store space in international markets this year, down from its previously forecasted goal of 20 million to 22 million square feet.

In addition, Wal-Mart will close approximately 50 under-performing stores in Brazil and China. Bentonville, Arkansas-based Wal-Mart entered Brazil in 1995 with two supercenters and three Sam's Clubs in the state of São Paulo. After 15 years, the company had become the third largest retailer in Brazil.

Its brands there include BIG, Bompreço, Hiper Bompreço, Magazine, Maxxi, Mercadorama, Nacional, Sam's Club, Supermercado Todo Dia, TodoDia, Walmart and Walmart Posto.

Walmart China began operations in 1996 with the opening of a supercenter and Sam's Club in Shenzhen. It currently operates stores under the Smart Choice, Trust-Mart, Walmart, Walmart Neighborhood Market and Sam's Club brands.

The stores set to close reportedly represent about 2 percent to 3 percent of its sales in each of those markets.

The company's Wal-Mart International division added 19 million square feet of store space in fiscal 2013, after first targeting growth of 30 million to 33 million square feet, then lowering that target to 21 million to 23 million square feet.

The company has also scaled back its operations India, saying that it still wants to invest in the country despite the recent dissolution of its joint venture with Bharti Enterprises that left the US company with just the 20 Best Price Modern Wholesale cash-and-carry stores there.

4.5 MAKE-OR-BUY DECISION:

Definition:

The act of choosing between manufacturing a product in-house or purchasing it from an external supplier. In a make-or-buy decision, the two most important factors to consider are cost and availability of production capacity.

An enterprise may decide to purchase the product rather than producing it, if is cheaper to buy than make or if it does not have sufficient production capacity to produce it in-house. With the phenomenal surge in global outsourcing over the past decades, the make-or-buy decision is one that managers have to grapple with very frequently.

Make-or-Buy decision situation:

The make-or-buy decision is the act of making a strategic choice between producing an item internally or buying it externally. The buy side of the decision also is referred to as outsourcing. Make-or-buy decisions usually arise when a firm that has developed a product or part or significantly modified a product or part is having trouble with current suppliers, or has diminishing capacity or changing demand.

Make-or-buy analysis is conducted at the strategic and operational level. Obviously, the strategic level is the more long-range of the two. Variables considered at the strategic level include analysis of the future, as well as the current environment. Issues like government regulation, competing firms, and market trends all have a strategic impact on the make-or-buy decision. Of course, firms should make items that reinforce or are in-line with their core competencies. These are areas in which the firm is strongest and which give the firm a competitive advantage.

The increased existence of firms that utilize the concept of lean manufacturing has prompted an increase in outsourcing. Manufacturers are tending to purchase subassemblies rather than piece parts, and are outsourcing activities ranging from logistics to administrative services. In their2003 book World Class Supply Management, David Burt, Donald Dobler, and Stephen Starling present a rule of thumb for out-sourcing.

It prescribes that a firm outsource all items that do not fit one of the following three categories:

(1) The item is critical to the success of the product, including customer perception of important product attributes

(2) The item requires specialized design and manufacturing skills or equipment, and the number of capable and reliable suppliers is extremely limited

(3) The item fits well within the firm's core competencies, or within those the firm must develop to fulfill future plans. Items that fit less than one of these three categories are considered strategic in nature and should be produced internally if at all possible.

Make-or-buy decisions also occur at the operational level. Analysis in separate texts by Cost considerations (less expensive to make the part)

- Desire to integrate plant operations
- Productive use of excess plant capacity to help absorb fixed overhead (using existing idle capacity)
- Need to exert direct control over production and/or quality
- Better quality control
- Design secrecy is required to protect proprietary technology
- Unreliable suppliers
- No competent suppliers
- Desire to maintain a stable workforce (in periods of declining sales)
- Quantity too small to interest a supplier
- Control of lead time, transportation, and warehousing costs
- Greater assurance of continual supply
- Provision of a second source

- Political, social or environmental reasons (union pressure)
- Emotion (e.g., pride)

Factors that may influence firms to buy a part externally include:

- Lack of expertise
- Suppliers' research and specialized know-how exceeds that of the buyer
- cost considerations (less expensive to buy the item)
- Small-volume requirements
- Limited production facilities or insufficient capacity
- Desire to maintain a multiple-source policy
- Indirect managerial control considerations
- Procurement and inventory considerations
- Brand preference
- Item not essential to the firm's strategy

The two most important factors to consider in a make-or-buy decision are cost and the availability of production capacity. Burt, Dobler, and Starling warn that "no other factor is subject to more varied interpretation and to greater misunderstanding" Cost considerations should include all relevant costs and be long-term in nature. Obviously, the buying firm will compare production and purchase costs. Burt, Dobler, and Starling provide the major elements included in this comparison. Elements of the "make" analysis include:

- Incremental inventory-carrying costs
- Direct labor costs
- Incremental factory overhead costs
- Delivered purchased material costs
- Incremental managerial costs
- Any follow-on costs stemming from quality and related problems
- Incremental purchasing costs
- Incremental capital costs

Cost considerations for the "buy" analysis include:

- Purchase price of the part
- Transportation costs
- Receiving and inspection costs
- Incremental purchasing costs
- Any follow-on costs related to quality or service

One will note that six of the costs to consider are incremental. By definition, incremental costs would not be incurred if the part were purchased from an outside source. If a firm does not currently have the capacity to make the part, incremental costs will include variable costs plus the full portion of fixed overhead allocable to the part's manufacture.

If the firm has excess capacity that can be used to produce the part in question, only the variable overhead caused by production of the parts are considered incremental. That is, fixed costs, under conditions of sufficient idle capacity, are not incremental and should not be considered as part of the cost to make the part.

While cost is seldom the only criterion used in a make-or-buy decision, simple break-even analysis can be an effective way to quickly surmise the cost implications within a decision. Suppose that a firm can purchase equipment for in-house use for $250,000 and produce the needed parts for $10 each. Alternatively, a supplier could produce and ship the part for $15 each.

Ignoring the cost of negotiating a contract with the supplier, the simple break-even point could easily be computed:

$$\$250{,}000 + \$10Q = \$15Q$$
$$\$250{,}000 = \$15Q - \$10Q$$
$$\$250{,}000 = \$5Q$$
$$50{,}000 = Q$$

Therefore, it would be more cost effective for a firm to buy the part if demand is less than 50,000 units, and make the part if demand exceeds 50,000 units. However, if the firm had enough idle capacity to produce the parts, the fixed cost of $250,000 would not be incurred (meaning it is not an incremental cost), making the prospect of making the part too cost efficient to ignore.

Stanley Gardiner and John Blackstone's 1991 paper in the International Journal of Purchasing and Materials Management presented the contribution-per-constraint-minute (CPCM) method of make-or-buy analysis, which makes the decision based on the theory of constraints.

They also used this approach to determine the maximum permissible component price (MPCP) that a buyer should pay when outsourcing. In 2005 Jaydeep Balakrishnan and Chun Hung Cheng noted that Gardiner and Blackstone's method did not guarantee a best solution for a complicated make-or-buy problem. Therefore, they offer an updated, enhanced approach using spreadsheets with built-in liner programming (LP) capability to provide "what if" analyses to encourage efforts toward finding an optimal solution.

Firms have started to realize the importance of the make-or-buy decision to overall manufacturing strategy and the implication it can have for employment levels, asset levels, and core competencies. In response to this, some firms have adopted total cost of ownership (TCO) procedures for incorporating non-price considerations into the make-or-buy decision.

Situation of Make-or-Buy Decisions:

International businesses frequently face sourcing decisions**,** decisions about whether they should make or buy the component parts that go into their final product. Should the firm vertically integrate to manufacture its own component parts or should it outsource them, or buy them from independent suppliers? Make-or-buy decisions are important factors of many firms' manufacturing strategies.

In the automobile industry, for example, the typical car contains more than 10,000 components, so automobile firms constantly face make-or-buy decisions. Ford of Europe, for example, produces only about 45 percent of the value of the Fiesta in its own plants. The remaining 55 percent, mainly accounted for by component parts, come from independent suppliers. In the athletic shoe industry, the make-or-buy issue has been taken to an extreme with companies such as Nike and Reebok having no involvement in manufacturing; all production has been outsourced, primarily to manufacturers based in low-wage countries.

Make-or-buy decisions pose plenty of problems for purely domestic businesses but even more problems for international businesses. These decisions in the international arena are complicated by the volatility of countries' political economies, exchange rate movements, changes in relative factor costs, and the like. In this section, we examine the arguments for making components and for buying them, and we consider the trade - offs involved in these decisions. Then we discuss strategic alliances as an alternative to manufacturing component parts within the company.

THE ADVANTAGES OF MAKE:

The arguments that support making component parts in-house--vertical integration--are fourfold. Vertical integration may be associated with lower costs, facilitate investments in highly specialized assets, protect proprietary product technology, and facilitate the scheduling of adjacent processes.

Lower Costs

It may pay a firm to continue manufacturing a product or component part in-house if the firm is more efficient at that production activity than any other enterprise. Boeing, for example, recently undertook a very detailed review of its make-or-buy decisions with regard to commercial jet aircraft (for details see the accompanying Management Focus). It decided that although it would outsource the production of some component parts, it would keep the production of aircraft wings in-house.

Its rationale was that Boeing has a core competence in the production of wings, and it is more efficient at this activity than any other comparable enterprise in the world. Therefore, it makes little sense for Boeing to out-source this particular activity.

Facilitating Specialized Investments

We first encountered the concept of specialized assets in Chapter 6 when we looked at the economic theory of vertical foreign direct investment. A variation of that concept explains why firms might want to make their own components rather than buy them. The argument is that when one firm must invest in specialized assets to supply another, mutual dependency is created. In such circumstances, each party fears the other will abuse the relationship by seeking more favorable terms.

Proprietary Product Technology Protection

Proprietary product technology is technology unique to a firm. If it enables the firm to produce a product containing superior features, proprietary technology can give the firm a competitive advantage. The firm would not want this technology to fall into the hands of competitors. If the firm contracts out the manufacture of components containing proprietary technology, it runs the risk that those suppliers will expropriate the technology for their own use or that they will sell it to the firm's competitors. Thus, to maintain control over its technology, the firm might prefer to make such component parts in-house.

An example of a firm that has made such decisions is given in the accompanying Management Focus, which looks at make-or-buy decisions at Boeing. While Boeing has decided to outsource a number of important components that go toward the production of an aircraft, it has explicitly decided not to outsource the manufacture of wings and cockpits because it believes that doing so would give away key technology to potential competitors.

Improved Scheduling

The weakest argument for vertical integration is that production cost savings result from it because it makes planning, coordination, and scheduling of adjacent processes easier. This is particularly important in firms with just-in-time inventory systems (which we discuss later in the chapter). In the 1920s, for example, Ford profited from tight coordination and scheduling made possible by backward vertical integration into steel foundries, iron ore shipping, and mining. Deliveries at Ford's foundries on the Great Lakes were coordinated so well that ore was turned into engine blocks within 24 hours. This substantially reduced Ford's production costs by eliminating the need to hold excessive ore inventories.

THE ADVANTAGES OF BUY:

The advantages of buying component parts from independent suppliers are that it gives the firm greater flexibility, it can help drive down the firm's cost structure, and it may help the firm to capture orders from international customers.

Strategic Flexibility

The great advantage of buying component parts from independent suppliers is that the firm can maintain its flexibility, switching orders between suppliers as circumstances dictate. This is particularly important internationally, where changes in exchange rates and trade barriers can alter the attractiveness of supply sources. One year Hong Kong might be the lowest-cost source for a particular component, and the next year, Mexico may be.

Sourcing component parts from independent suppliers can also be advantageous when the optimal location for manufacturing a product is beset by political risks. Under such circumstances, foreign direct investment to establish a component manufacturing operation in that country would expose the firm to political risks. The firm can avoid many of these risks by buying from an independent supplier in that country, thereby maintaining the flexibility to switch sourcing to another country if a war, revolution, or other political change alters that country's attractiveness as a supply source.

However, maintaining strategic flexibility has its downside. If a supplier perceives the firm will change suppliers in response to changes in exchange rates, trade barriers, or general political circumstances, that supplier might not be willing to make specialized investments in plant and equipment that would ultimately benefit the firm.

Lower Costs

Although vertical integration is often undertaken to lower costs, it may have the opposite effect. When this is the case, outsourcing may lower the firm's cost structure. Vertical integration into the manufacture of component parts increases an organization's scope, and the resulting increase in organizational complexity can raise a firm's cost structure. There are three reasons for this.

First, the greater the number of subunits in an organization, the greater is the problems of coordinating and controlling those units. Coordinating and controlling subunits requires top management to process large amounts of information about subunit activities. The greater the number of subunits, the more information top management must process and the harder it is to do well.

Offsets

Another reason for outsourcing some manufacturing to independent suppliers based in other countries is that it may help the firm capture more orders from that country. As noted in the Management Focus on Boeing, the practice of offsets is common in the commercial aerospace industry. For example, before Air India places a large order with Boeing, the Indian government might ask Boeing to push some subcontracting work toward Indian manufacturers. This kind of quid pro quo is not unusual in international business, and it affects far more than just the aerospace industry. Representatives of the US government have repeatedly urged Japanese automobile companies to purchase more component parts from US suppliers in order to partially offset the large volume of automobile exports from Japan to the United States.

Trade-offs

Trade-offs is involved in make-or-buy decisions. The benefits of manufacturing components in-house seem to be greatest when highly specialized assets are involved, when vertical integration is necessary for protecting proprietary technology, or when the firm is simply more efficient than external suppliers at performing a particular activity.

When these conditions are not present, the risk of strategic inflexibility and organizational problems suggest that it may be better to contract out component part manufacturing to independent suppliers. Since issues of strategic flexibility and organizational control loom even larger for international businesses than purely domestic ones, an international business should be particularly wary of vertical integration into component part manufacture. In addition, some outsourcing in the form of offsets may help firm gain larger orders in the future.

Strategic Alliances with Suppliers

Several international businesses have tried to reap some of the benefits of vertical integration without the associated organizational problems by entering strategic alliances with essential suppliers. For example, in recent years we have seen an alliance between Kodak and Canon, under which Canon builds photocopiers for sale by Kodak, and an alliance between Apple and Sony, under which Sony builds laptop computers for Apple. By these alliances, Kodak and Apple have committed themselves to long-term relationships with these suppliers, which have encouraged the suppliers to undertake specialized investments.

Recall from our earlier discussion that a lack of trust inhibits suppliers from making specialized investments to supply a firm with inputs. Strategic alliances build trust between the firm and its suppliers. Trust is built when a firm makes a credible commitment to continue purchasing from a supplier on reasonable terms. For example, the firm may invest money in a supplier--perhaps by taking a minority shareholding--to signal its intention to build a productive, mutually beneficial long-term relationship.

This kind of arrangement between the firm and its parts suppliers was pioneered in Japan by large auto companies such as Toyota. Many Japanese automakers have cooperative relationships with their suppliers that go back for decades. In these relationships, the auto companies and their suppliers collaborate on ways to increase value - added by, for example, implementing just-in-time inventory systems or cooperating in the design of component parts to improve quality and reduce assembly costs. These relationships have been formalized when the auto firms acquired minority shareholdings in many of their essential suppliers to symbolize their desire for long-term cooperative relationships with them.

At the same time, the relationship between the firm and each essential supplier remains market mediated and terminable if the supplier fails to perform up to standard. By pursuing such a strategy, the Japanese automakers capture many of the benefits of vertical integration, particularly those arising from investments in specialized assets, without suffering the organizational problems that come with formal vertical integration. The parts suppliers also benefit from these relationships because since they grow with the firm they supply and they share in its success.

Because of these strategies, Toyota manufactures only 27 percent of its component parts in-house, compared to 48 percent at Ford and 67 percent at GM. Of these three firms, Toyota appears to spend the least on component parts, suggesting it has captured many of the benefits that induced Ford and GM to vertically integrate.[19]

In general, the trends toward just-in-time systems (JIT), computer-aided design (CAD), and computer-aided manufacturing (CAM) seem to have increased pressures for firms to establish long-term relationships with their suppliers. JIT, CAD, and CAM systems all rely on close links between firms and their suppliers supported by substantial specialized investment in equipment and information systems hardware. To get a supplier to agree to adopt such systems, a firm must make a credible commitment to an enduring relationship with the supplier--it must build trust with the supplier. It can do this within the framework of a strategic alliance.

4.6 GLOBAL SUPPLY CHAIN ISSUES:

Supply chain management (SCM) is "the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long term performance of the individual companies and the supply chain as a whole."[2] It has also been defined as the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally."

Main functions of Supply Chain Management are as follows:

- Inventory Management
- Distribution Management
- Channel Management
- Payment Management
- Financial Management
- Supplier Management
- Transportation Management
- Customer Service Management

GLOBAL SUPPLY CHAIN MANAGEMENT:

- Through every phase of a product's lifestyle, global supply chain management professionals ensure that customers get the products and services they need and want faster, better and more cost-effectively from across town or around the world. They play a critical role to the successful functioning of businesses, healthcare, nonprofit agencies and governments.

- A "supply chain" refers to the collection of steps that a company takes to transform raw material components into a final product that is delivered to customers. Typically, supply chain management has five stages: plan, make, source, deliver and return.

- Every stage of that process involves professional skills that are critical to success, from marketing and logistics to data management and warehousing.

- Our GSCM graduates find a wealth of different career tracks that offer both financial rewards and personal satisfaction.

Every successful organization owes some of its success to effective supply chain management and logistics.

These processes focus on the flow of goods and information from the source of raw materials through the distribution channels to the final consumer, and beyond, to recycling and disposal.

In today's competitive environment, managing transportation, inventory, product plans and schedules, and information flows are critical to satisfying customers and creating competitive advantages.

Organizations compete globally by working with international suppliers, outsourcing, and marketing to consumers worldwide. This global reality places even more importance on successful supply chain management.

The global supply chain management major focuses on global business and prepares students for success. And with the flexibility of multiple campuses and online courses, you can personally tailor your educational experience.

Courses provide insight into many subjects, including:

- Managing raw materials and finished products
- Developing transportation and logistics strategies
- Merging transportation policies with production and marketing plans
- Global supply chain analysis and planning

MANAGING GLOBAL SUPPLY CHAIN:

Globalization is one of those politically charged words that often imply more than it actually means. From the relatively benign “the world is flat” philosophy that suggests offshore factories help stimulate U.S. imports, to the “off shoring costs American jobs” idea that everything can and should be made in the United States, everybody in manufacturing has an opinion on whether globalization is good or bad for their companies and/or their fellow citizens.

Some might suggest, in fact, that globalization is a fait accompli. As Daniel Ackerson, chairman and CEO of General Motors Co. (IW 500/4) pointed out at a news conference in 2011, seven out of 10 of all GM vehicles are made outside the United States, and the trend shows no signs of stopping.

There’s nothing very new about globalization, though, a concept that basically refers to the practice of sourcing, manufacturing, transporting and distributing products outside of your native country. Its modern application predates the rise of the Internet by a good 40 years, beginning in the early 1950s when container shipping was introduced, making it possible to quickly, efficiently and economically move entire container loads onto ocean vessels at ports of call throughout the world.

As the world has gotten flatter and supply chains have gotten longer, the need for companies to follow best practices in global supply chain management has intensified. Gary Miller has a deep familiarity with such a role, having spent 40 years as vice president, global supply chain and chief procurement officer with $23 billion tire manufacturer Goodyear Tire and Rubber Co. (IW 500/54) before taking on the same role in 2008 at A. Schulman Inc. (IW 500/343), a $2.5 billion plastics manufacturer. As Miller explains it, he’s responsible for Schulman’s supply chain and procurement activities to better leverage its worldwide purchasing power, reduce materials inventories, eliminate waste and improve efficiency. The company has 35 facilities globally, with nearly 70% of its revenues derived out of the European market.

“We have global customers that we service around the world,” he says. “Europe is a very large region for us, so we have deep relationships with our customers there. As those customers expand around the world, they’re also looking for us to come with them.”

4.7 QUALITY CONSIDERATIONS IN INTERNATIONAL BUSINESS:

Outsourcing is a strategic management option rather than just another way to cut costs. The decision to outsource is often made in the interests of lowering costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of labor, capital, technology and resources. Its aim is to help companies achieve their business objectives through operational excellence.

One aspect of this is QA and testing. This can provide many benefits to companies, who are seeking to improve the quality of their production applications, reduce business risk through rigorous testing and augment and improve upon the incumbent testing teams and processes. Given the increase in global IT outsourcing agreements, many companies will be looking at outsourcing QA and testing as an independent validation and acceptance phase in order to ensure high quality deliverables and gain competitive advantages.

To achieve these benefits, organizations select an outsourcing partner who will typically have local and offshore test centers and capabilities as well as a strong onsite consultancy presence.

Some of the critical success factors for outsourcing QA and testing engagements include:

- Ensuring that the business objectives agreed at the outset of the contract or business case are managed through to successful completion
- Ensuring that transition from the "testing today" to "tomorrow’s testing" is seamless in terms of business impact and employee satisfaction
- Noticeable and continuous improvements in the approach and methods used within your IT organization (not just testing)

When taking on the challenge of outsourcing your testing, there are many things that should be considered and accounted for before any contract is signed. This paper outlines 10 key considerations that organizations should consider when outsourcing QA and testing services.

Incremental Outsourcing

Organizations can mitigate their risks of outsourcing by dividing the work into small, more manageable projects that they outsource to service providers. Managers at the client organization therefore have well defined deliverables, programs that work under an umbrella contract with associated schedules. The location of the work is determined on a project by project basis.

Total Outsourcing - Onsite/Offshore

In this model, multiple projects and programs at the client organizations are outsourced to a service provider, which also takes on the end-to-end program management and delivery on behalf of the client. The service provider takes on the project, module or program from a client organization, deploys a small team onsite that works with the client managers and teams and coordinates work with the offshore team that does the bulk of the work. Typical models range from 20-30% onsite to 70-80% offsite.

1. Engagement Models

Selecting an engagement model is a crucial aspect of developing the outsourcing plan. The process involves several factors, including aspects of international business strategy, selecting the geographical location, understanding the landscape and deciding on the outsourcing strategy. Some of the engagement models are:

2. Service Level Agreements (SLAs)

The SLAs should detail the minimum level of service to be provided by the outsourcing vendor. They should be objective and measurable and have no ambiguity. This helps both parties in the long term. Some good examples of the type of SLAs that should be considered are:

- **On time delivery** - dates must be agreed from the outset on all major deliverables with all efforts to ensure they are met. Use change control processes if these dates need to be moved.
- **Client Satisfaction** - periodic surveys should be conducted to make sure that the service provided by the outsourcing company is satisfactory to customers.
- **Effectiveness** - effectiveness metrics focus on lowering costs, improving profit, and adjusting business transactions
- **Volume of Work** - the volume of work sometimes is difficult to define. For example, projects that are billed on a time-and-material basis may discuss volume in terms of number of resources, while a fixed-price project usually specifies number of deliverables. This metric is an important part of the SLA.
- **Sensitivity** - sensitivity metrics measure the amount of time required for an outsource company to handle a request.
- **System Downtime and Availability** - in outsourcing, guaranteeing 100% availability of services costs significantly more than guaranteeing 99% or 98%, and not every company or every application needs 100% reliability. The SLA should request service availability to meet specific business needs.

It is also good to ensure that SLAs are tied into the contract, sometimes on a risk/reward basis to ensure that there is mutual interest in meeting them.

3. Mobilization

Once the contract is signed there will be a period of mobilization for both parties. This phase generally includes setting up communication protocol with the client, defining work breakdown structure, sharing standard templates (used for authoring test cases, reporting project status, presenting the key metrics etc.) with the client, building test strategy etc. Some of the key elements of this can be seen below:

People

The outsourcing providers maintain a pool of highly qualified and dedicated professionals including QA engineers, QA leads, project managers and technical specialists. Many outsourcing providers have unique centers of excellence to train their interns and employees on various testing methodologies and tools that are required for seamless execution of the engagement. Ensuring the most appropriate resources for your requirements are in place is critical for the success of the engagement.

Knowledge Acquisition

Outsourcing providers follow various approaches to obtain adequate knowledge for the test engineers to understand the core business requirements and also the critical functionality to be tested. Test leads or managers will be sent onsite long/short term to meet various stakeholders in the client organization to understand the product/system and its features. They will assume the responsibility of training the offshore team on the product/system to be tested and all the features of it that the client and the outsourcing vendor have agreed to be tested.

Infrastructure

Some applications require extensive compatibility testing in different environments and back-end database systems. Other applications need to be tested in production-sized environments that closely resemble the final production environment. Outsourcing providers, with their extensive test labs, should stimulate the production environment for performing such complex levels of testing. The cost for setting up this environment offshore would be negotiated with customers with a cost effective solution being drawn in favor of both parties.

Processes

Outsourcing providers in this competitive industry are continuously working on raising their standards with respect to adhering to CMMi Level 5 and other standard ISO processes to ensure tangible benefits for their customers. These include low project risk, on time/on budget deliveries, minimal error rate, high process visibility and enhanced customer satisfaction. Process implementation not only suggests complying to standard guidelines and procedures but also gives greater visibility to customers by delivering metrics (such as schedule/effort variance, productivity etc.) that measure the quality of the product/system which is the ultimate aim for any outsourcing provider.

4. Integration with other third party service providers

Independent QA and testing is becoming more and more common. One of the reasons for this is that it provides objective rigor and thoroughness that might not be provided by a single vendor. However, in this scenario, it is important that all the parties (client, testing vendor and development vendor) work harmoniously to achieve the right result.

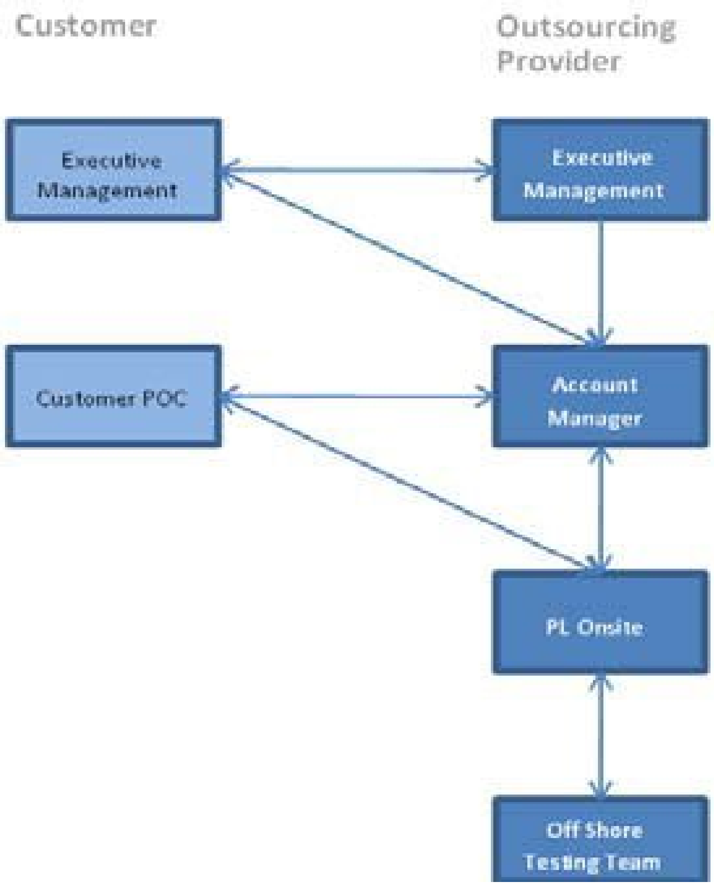
The testing provider should have a good understanding of the challenges involved in working with multiple vendors spread across geographies and develop appropriate interfaces and best practices in communication to ensure successful completion of engagements. Understanding other SDLC methods is also imperative.

A clearly defined defect management and resolution process should be established as a high priority and ensuring consistent reporting styles on progress will make it easier on all parties to assess the readiness of any application throughout its lifecycle.

5. Communication:

Outsourcing providers facilitate seamless communication between the client and their stakeholders. As communication is considered a key obstacle in outsourcing, providers maintain effective channels and points of contact (POC) open to clients.

An effective model and plan (including methods) should be tailored to the needs of the client and would help both parties in identifying and resolving issues promptly. A typical communication flow model is shown below:



Escalation and Issue Resolution

There needs to be a clear and objective escalation and issue resolution process agreed from the outset. Early identification should be built into the standard project risks and issues logs as well as action plans for mitigation. Successful processes work best when there is a trusting relationship between the vendor and the client.

Reporting

It is important that formal reporting is put in place and communicated by a regular set of reports and deliverables updating the client on the engagement (at project/IT organization level). These reports will be sent to the client on a daily, weekly, bi-weekly or on a monthly basis based on the nature of the reports and the agreed plan. This should be in addition to the less formal reporting that will become apparent through the personal relationships formed.

6. Flexibility and Scalability

QA and testing outsourcing agreements demand a degree of flexibility and scalability to help ensure fluctuations in scope and timescales can be met. Some of the scenarios where flexibility is required are:

- New or enhanced systems require revised testing commitments
- More releases require more testing phases
- Increased levels of system or data integration require wider scope and coverage in testing
- Regression test demands will grow as systems are developed

- Performance and load test and other special tests may place demands on the service

The outsourcing provider must have an organization with infrastructure and resources sufficiently sized so that the client demands are met. The correct scope and planning helps prevent this but some eventualities are unavoidable. It is therefore important that clients have an expectation that should the nature of the requirements change, there will be provision made within the contract or through good change management processes.

7. Quality Improvement

The key objective of the client is often to gain a significant improvement in quality and this can be achieved through outsourcing. In order to do this, there are some fundamental steps that need to be taken.

The outsourcing provider needs to assess and map the client.s testing capability to understand how the engagement is going to work. Identifying the "major gaps" in test processes from the outset and implementing positive changes to address these will result in quality improvements. As the relationship matures between the two parties, there should be a willingness to continually improve process and working methods etc. This should not necessarily be restricted to just testing, but the whole lifecycle if it improves the end product.

8. Configuration and Change Management

Many businesses have frequently changing requirements which if handled badly can have a significant impact on time, quality and cost. To help clients overcome this, QA and testing outsourcing organizations maintain a comprehensive change and configuration management system.

A typical scenario would be that a Change Request is raised by a client and sent to the vendor. The team then consolidates all Change Requests and performs an impact analysis on the Project Schedule, resources, costs and assesses the technical feasibility of the changes. These are all taken into account before the assessment is discussed with the client. Upon approval, an updated Project Schedule will be laid out to execute that change request.

9. Intellectual Property Protection

Intellectual Property (IP) protection is one of the important considerations for customers when outsourcing services. QA and testing outsourcing providers have to protect all Personally Identifiable Information (PII) given by clients or otherwise obtained in the course of outsourcing engagements and treat it as proprietary and/or trade secrets. Unauthorized use or disclosure by the QA and testing services provider of any PII will be detrimental to the client.s competitive position and on-going business operations. The QA and outsourcing provider.s staff should not duplicate, distribute, disclose, convey or in any other manner make available to third parties any PII.

Most of the outsourcing providers have well established security standards and measures in place to prevent unauthorized access to and misuse of PII. The IP protection policies of most of the outsourcing service providers have the following:

- Non-disclosure agreements signed with the client
- Project related IP protection
- Employee Confidentiality contract

10. Security

All the major outsourcing providers have Information Security Policies, Information Security Standards and Business Continuity Management policies in place, primarily to protect data.

The facilities of the outsourcing providers will have the controls and capability to prevent loss or accidental release of data or proprietary functionality. In the event of a disaster they should have the capacity to subsequently restore a service relevant to this.

The testing facilities of most of the outsourcing providers are assessed for BS7799 security management standards. Security measures are implemented at various levels at the facilities of the outsourcing provider that include physical security, infrastructure, network security and other ad hoc security measures based on specific case/project.

Some of the physical security measures provided by outsourcing vendors include measures to restrict the entry and exit of personnel, equipment and media from a designated area. These controls address not only the area containing system hardware but also the locations of wiring, supporting services, backup media and other elements required for the system's operation.

Seven Considerations for International Licensing

Apparel companies are now, more than ever before, recognizing the great potential in having a global presence. Licensing is a cost-effective way for small to medium-size companies to "plant their flag" overseas, without launching speculative joint ventures or wholly-owned subsidiaries. As a licensor, a company can springboard off a local licensee that has the expertise and presence in a particular brand category, with the critical knowledge of local markets and tastes.

Licensing represents a way to move a brand into new businesses, new geographical markets and new distribution channels that otherwise would be unavailable without making a major investment in new manufacturing processes, machinery, or facilities, while maintaining control over the brand image.

Licensing in global markets offers important advantages, but apparel companies should keep a number of other factors in mind, such as the many cultural, linguistic, political, legal and financial differences that exist in different countries.

1. Brand identity. First and foremost, an apparel firm seeking to become a licensor must evaluate whether an international licensing arrangement will enhance and improve the company's brand. Putting the brand into the hands of an overseas licensee requires proper due diligence, as there is potential for brand damage.

The company needs to be sure the licensee can create and deliver products that are of the agreed upon quality, whose goals for the brand coincide with those of the licensor, and who will be a true partner in furthering the licensor's brand identity. Also, apparel enterprises run the risk of creating or strengthening a potential competitor should they decide to enter that market on their own in the future.

It is also important to understand and limit the time commitments that will be involved from a creative and management point of view, and that the proper person in the company is in charge of the international licensing program.

2. Selecting a licensee:

After thoroughly assessing the new market's potential, compile a list of promising licensee candidates. International trade show organizers and trade associations can be helpful in identifying and assisting with due diligence. If possible, try to speak with the licensee's past customers. Search for feedback on the licensee, for example, through the internet or in trade publications.

After meeting a prospective licensee, preferably in person, try to work with the prospective licensee on a trial basis if possible, and trust your intuition. The company also needs to evaluate whether the licensee has the financial strength to perform its obligations to promote the identity of the brand in a manner that will satisfy the stated objectives.

Contract terms

Key issues to address include: which products and trademarks are covered, the royalty arrangements and design fees, whether the arrangement is exclusive or nonexclusive, and the definition of the design and approval relationships relating to the products and product promotions. If any training is involved, any extra fees or charges need to be identified. Advertising and other financial obligations need to be clearly defined.

3. License grant

The initial step is to define the products and trademarks to be covered and the rights to be granted in the license agreement. A licensor can control the scope of the license by including and excluding certain products and trademarks, incorporating exclusivity and territorial restrictions, and limiting assignment and sublicensing arrangements.

4. Territory

A strong licensee in one country is not necessarily a strong licensee in another. Care should be taken in defining the territory and determining if the territory is exclusive or nonexclusive. Provisions prohibiting licensees from sublicensing or selling into other territories should be included as well.

Since the brand is the most important product, in addition to making sure translated materials are accurate and properly credited, a licensor should always take the time to register its trademarks and copyrights in the countries in which it plans to license its products. Although it is expensive, it is cheaper than buying those rights back from squatters.

5. Royalties and other payments

Most licensing arrangements include initial up-front payments that are generally nonrefundable license fees, used to compensate the licensor for the costs of investigating the licensee and covering documentation costs, and which may or may not be creditable to future royalties. The main source of revenue for the licensor is a royalty fee, and this fee may be fixed or varied based on a percentage of sales or other factors. Royalties are typically structured with minimum payments to ensure that the licensor will have a reliable royalty stream.

6. Approvals and other controls

The licensor will want to include provisions in the agreement allowing the licensor (or a designated representative or agent) to have periodic inspection rights of the manufacturing facilities to ensure the quality of the goods produced, and also to monitor whether the licensee is counterfeiting or otherwise engaging in illegal or unapproved labor or business practices. Even if a licensor is not likely to conduct such inspections, including these provisions is prudent.

7. Term and termination

The duration of the agreement is negotiable. If the licensee is planning to make a substantial investment in launching the brand overseas, it is not uncommon to have a 3-, 5-, or even 10-year agreement, with options to renew. This is often balanced by the licensor with a minimum sales requirement to ensure that the licensee will be actively marketing the licensed products. The duration of the license, and any renewal provisions need to be clearly set forth in the agreement.

4.8 GLOBALIZATION IN MARKETS:

Globalization refers to the changes in the world where we are moving away from self-contained countries and toward a more integrated world. Globalization of business is the change in a business from a company associated with a single country to one that operates in multiple countries.

Impact of Globalization

Imagine for a moment that you run a business that produces digital cameras. How would globalization impact your company?

Market Globalization & Production Globalization.

Market globalization is the decline in barriers to selling in countries other than the home country. This change will make it easier for your company to begin selling products internationally, since lower tariffs keep consumer prices lower and fewer restrictions when crossing borders makes it easier for a company to enter a foreign market. It also means that companies must consider other cultures when developing their business strategies and potentially adjust the product and marketing messages if they aren't appropriate in the target country. This may not be an issue in the camera industry, but a hamburger company entering India would definitely need to revisit their product and strategies to be successful!

Production globalization is the sourcing of materials and services from other countries to gain advantage from price differences in different nations. For example, you might purchase materials and components for your cameras from multiple countries and then assemble the product in yet another international location to reduce your costs of production. This change should lead to lower prices for consumers, since products cost less to produce. It also impacts jobs, since production may shift from one country to another, usually from more developed countries to less developed countries with lower average wage rates.

4.9 INTERNATIONAL MARKETING STRATEGY:

Usually, selling focuses on the needs of the seller, marketing on the needs of the buyer (customer). The purpose of business is to get and keep a customer. Or, to use Peter Drucker`s more refined construction to create and keep a customer. (Through product Differentiation and price competition)

International marketing involves the marketing of goods and services outside the organization`s home country. Multinational marketing is a complex form of international marketing that engages an organization in marketing operations in many countries. Global marketing refers to marketing activities coordinated and integrated across multiple Markets.

A firm`s overseas involvement may fall into one of several categories:

1. Domestic: Operate exclusively within a single country.
2. Regional exporter: Operate within a geographically defined region that crosses national boundaries. Markets served are economically and culturally homogenous. If activity occurs outside the home region, it is opportunistic.
3. Exporter: Run operations from a central office in the home region, exporting finished goods to a variety of countries; some marketing, sales and distribution outside the home region.
4. International: Regional operations are somewhat autonomous, but key decisions are made and coordinated from the central office in the home region. Manufacturing and assembly, marketing and sales are decentralized beyond the home region. Both finished goods and intermediate products are exported outside the home region
5. International to global: Run independent and mainly self-sufficient subsidiaries in a range of countries. While some key functions (R&D, sourcing, financing) are decentralized, the home region is still the primary base for many functions. 6- Global: Highly decentralized organization operating across a broad range of countries. No geographic area (including the home region) is assumed a priori to be the primary base for any functional area. Each function including R&D, sourcing, manufacturing, marketing and sales is performed in the locations around the world most suitable for that function.

CREATIVE ANALYSIS:

In the Hoover case, an imaginative analysis of automatic washing machine sales in each country would have revealed that

1. Italian automatics, small in capacity and size, low-powered, without built-in heaters, with porcelain enamel tubs, were priced aggressively low and were gaining large market shares in all countries, including West Germany.
2. The best-selling automatics in West Germany were heavily advertised (three times more than the next most promoted brand), were ideally suited to national tastes, and were also by far the highest-priced machines available in that country.
3. Italy, with the lowest penetration of washing machines of any kind (manual, semiautomatic, or automatic), was rapidly going directly to automatics, skipping the pattern of first buying hand-wringer, manually assisted machines and then semiautomatics.
4. Detergent manufacturers were just beginning to promote the technique of cold-water and tepid-water laundering then used in the United States.

The growing success of small, low-powered, low-speed, low-capacity, low-priced Italian machines, even against the preferred but highly priced and highly promoted brand in West Germany, was significant. It contained a powerful message that was lost on managers confidently wedded to a distorted version of the marketing concept according to which you give customers what they say they want. In fact, the customers said they wanted certain features, but their behavior demonstrated they'd take other features provided the price and the promotion were right.

Accepting the Inevitable:

The global corporation accepts for better or for worse that technology drives consumers relentlessly toward the same common goals alleviation of life's burdens and the expansion of discretionary time and spending power. Its role is profoundly different from what it has been for the ordinary corporation during its brief, turbulent, and remarkably protean history. It orchestrates the twin vectors of technology and globalization for the world's benefit. Neither fate, nor nature, nor God but rather the necessity of commerce created this role.

In the United States, two industries became global long before they were consciously aware of it. After over a generation of persistent and acrimonious labor shutdowns, the United Steelworkers of America had not called an industry wide strike since 1959; the United Auto Workers had not shut down General Motors since1970. Both unions realize that they have become global; shutting down all or most of U.S. manufacturing would not shut out U.S. customers. Overseas suppliers are there to supply the market.

Technical Challenges:

American companies have done a good job of standardizing technology, but so have other countries, and those standards don't always match. Standard electrical voltage differs from country to country, so products must be designed to run on different voltages, and they need different plugs to fit different receptacles. Local water pressure might be different. Lettering on dials, knobs, levers or buttons might need to be in different languages. Some use Fahrenheit systems to measure temperature while others use Celsius. Some use metric measurements, while some use other measurement systems. Raw materials readily available in America might not be available in other countries. Phone, radio, television and ISP signals might be totally different from country to country.

Promotional Challenges:

In America, we have a variety of effective methods to promote a product and communicate with our customers. We can use television, radio, direct mail, magazines, social media, billboards, telemarketing and product placement in movies. Many other countries just don't have these promotional methods, certainly not to the extent we have here. You may have to use a grass roots approach, which is much harder. In addition, there may be cultural limitations. Our promotions tend to have a sexual orientation. The beautiful model as spokesperson, shot in reveling swimwear or with plunging neckline might be taboo in many companies. You may find you have to use methods with which you have no experience. You might have to completely redo packaging or promotional materials at considerable expense.

Global Marketing Strategies:

Although some would stem the foreign invasion through protective legislation, protectionism in the long run only raises living costs and protects inefficient domestic firms (national controls). The right answer is that companies must learn how to enter foreign markets and increase their global competitiveness. Firms that do venture abroad find the international marketplace far different from the domestic one. Market sizes, buyer behavior and marketing practices all vary, meaning that international marketers must carefully evaluate all market segments in which they expect to compete. Whether to compete globally is a strategic decision (strategic intent) that will fundamentally affect the firm, including its operations and its management. For many companies, the decision to globalize remains an important and difficult one (global strategy and action).

Typically, there are many issues behind a company`s decision to begin to compete in foreign markets. For some firms, going abroad is the result of a deliberate policy decision (exploiting market potential and growth); for others, it is a reaction to a specific business opportunity (global financial turmoil, etc.) or a competitive challenge (pressuring competitors). But, a decision of this magnitude is always a strategic proactive decision rather than simply a reaction (learning how to business abroad). Reasons for

Global expansion is mentioned below:

a) Opportunistic global market development (diversifying markets)
b) Following customers abroad (customer satisfaction)
c) Pursuing geographic diversification (climate, topography, space, etc.)
d) Exploiting different economic growth rates (gaining scale and scope)
e) Exploiting product life cycle differences (technology)
f) Pursuing potential abroad
g) Globalizing for defensive reasons
h) Pursuing a global logic or imperative (new markets and profits)

4.10 CHALLENGES IN PRODUCT DEVELOPMENT:

- **The cost of manufacturing**, distributing and marketing the product.

- **The actual physical location** of production plants.

- **Currency Exchange Rates -** US export companies are benefiting from a relatively low US Dollar price during the 2010s. Most hearing aid companies, however, these are based in Europe and therefore the high value of the Swiss Franc and the Euro relative to other currencies must be considered. This make imports into the United States from these countries expensive, but exports from the US relatively cheap to other nations. This has to do not just with demand for a particular product, but also with macroeconomic demand for national currencies, which affects inflation and, by extension, pricing. Currency fluctuations also make it very difficult for companies to make long-term decisions – such as building large factories in global markets. For example, the costs of production may be cheap today, but they could be expensive in the future, impacting upon the price that a manufacturer is forced to charge.

- The price that the international consumer is willing to pay for the product.

- The manufacturer's business objectives. For example, large international companies such as Starbucks may be willing to operate at a loss in some locations because they need a local presence to maintain their economies of scale, as well as their reputation as a global player. Some hearing aid manufacturers act similarly in order to become "world players."

- **The price that competitors** in international markets are already charging.
- **Business environment** factors such as government policy and taxation.

- **National Market Size** – A company will often attempt to use the potential volume of sales to estimate the price at which it will need to market a product to break even. For larger countries with the potential for more sales, this price may be set lower; for smaller countries, the price may be higher.

- **Cultural Differences** – One of the more complicated factors in international pricing is cultural variation among companies. Cultural variations that affect pricing can take many forms, most of which have to do with how members of certain cultures perceive the value of certain products, which in turn affects how much they are willing to pay for them. Some cultures do not value amplification products and they are seen with significant stigma. Thus, hearing aid prices can be greatly affected depending upon whether a manufacturer's device is large and obvious or invisible.

- **Regulations** – When setting prices in other countries, companies must research all national regulations relevant to their product, as many countries set price ceilings as well as price floors on certain products. Others require Value Added Tax (VAT) and other taxes that must be considered during the pricing decisions.

NINE STEPS TO AN INTERNATIONAL MARKETING STRATEGY:

As technology breaks down geographic and cultural communication barriers, even small businesses can often tap into the global marketplace. If you think your business is too small to pursue international business opportunities, think again. Get a jump on those opportunities by following the 9 steps outlined below.

Research

Unless you spend excessive amounts of time in foreign countries or soak up knowledge like a Jeopardy Champion, you're probably not able to make an informed decision about a global strategy without doing your homework first. Start with the low-hanging fruit: talk to your coworkers, peers, family and friends. Find out what you can about countries and markets with the greatest potential. Read relevant print and Web publications voraciously (I prefer e-marketer, Economist, Wall Street Journal and Yahoo! for general business and market research). Compile information about various opportunities and determine which markets have the greatest overall potential (in case you've been hiding in a cave, here's an emerging and growth market cheat sheet for you: China, India, South America, Russia and The Middle East).

Build

Most small to medium-sized businesses do not have the resources on staff to undertake a global market strategy. Assuming there are sufficient opportunities abroad, it's time to determine how to develop appropriate resources (i.e. in-country sales and support, logistics and fulfillment). In the build vs. buy decision, many companies prefer to minimize financial risk by partnering with companies that have extensive experience within the target market to provide those resources. While partnering minimizes risk, there are drawbacks, such as lack of direct management oversight. Those negatives can be alleviated by hiring employees who have the education, experience and native language skills relevant to your target market. International students are excellent resources: they are educated, affordable, multi-lingual and usually have some relevant work experience. The potential downside is that you'll probably have to navigate through a bushel of red tape in order to secure work visas.

Partner:

While your core business and marketing team may already be in place, there are a variety of reasons to explore additional partnerships. Companies specializing in marketing, logistics and customer service are excellent additions to the growing team. Partners within the target market may have relationships with your potential customers that can be leveraged for business development. For instance, we've partnered with a homeland security and business consultancy, Eminent Logic, to help penetrate into the Middle Eastern markets. In return, we introduce them to local companies we know that can further their business objectives.

Network:

Alternative business development strategies include attending, sponsoring, and participating in industry networking events and conferences. Look into joining industry associations that have a footprint in your target markets, or that are native to the target market. Web-based networking groups (e.g. LinkedIn) can also help expand your network.

Market:

Now that you've built out your infrastructure, trained and deployed a team, and modified your offering and marketing collateral, you're ready to turn on the fire hose. Two of the most effective forms of outreach are search engine and email marketing. Internet access is everywhere, which means everyone has access to search engines and email. The best way to build a house list of potential customers in your target market is to optimize your international Web site for search engines and offer visitors an incentive to provide their email address. Once you've got their permission to contact them regularly, build a relationship and convert site visitors and email subscribers into customers.

Travel:

Over time, cold leads will become hot, and those hot leads will want face-to-face meetings. Its decision time: are you ready to invest in a global travel expense account? If so, be prepared to reel in the business, as most of the world works on a handshake and face time is critical. Turn your business trips into tax-deductible vacations and see the world while you're at it.

4.14 INVESTMENT DECISIONS:

The proliferation of multinational corporations (hereinafter referred to as MNCs) began 200 years ago, but they were making only a part of the foreign investment in different countries in the form of portfolio rather than long term Greenfield or joint venture investments.

[1] With the increase of globalization, which is both the cause and the effect of internationalization of world trade,

[2] MNCs have become dominant players in the global economy.

Although severely affected by the economic and financial crisis, and expected to fall from

$1.7 trillion of 2008 to below $1.2 in 2009, the foreign direct investment (FDI) by MNCs have been paid great importance for high economic growth and strong economic performance in many parts of the world.

he end of the Cold War which led to the liberalization of the developing markets and opening of their economies with the removal of foreign investment barriers, privatization of the state economic enterprises and development of FDI attractive policies, has increased the investment of MNCs, especially in the developing countries. Latin America, Eastern Europe and Asian economies have become predominantly FDI focused first with labor-intensive manufacturing industries and then with market-seeking FDI by 1990's.

[3] While MNCs are struggling to get an accurate answer for the "where to invest"

- Question, countries have got into the competition of "attracting more FDI"
- To "become hosts to branch plants of MNCs as well as to small- and medium-sized firms from developed countries"

[4] Particularly after 1990's. FDI not only "has become by far the single largest component of their net capital inflows"

- [10] but it also has become critical for these countries in terms of their effects on the human capital of the economies.

[5] These countries not only try to benefit from the financial aspects of investment, they also try to get best practices, transfer knowledge with new ideas and technologies and adopt managerial skills and new methods of managing companies.

[6] Additionally, investments of the MNCs in developing countries have played a significant role in the process of integration of developing countries with other countries of the world, which is referred to as economic openness, via increasing imports and exports and integrating firms, particularly SME's into the global supply chain.

[7] In this global picture, it would be better to analyze the evolution of investment of MNCs in Turkey after early 1980's, when markets were liberalized and import substitution policies were left. The decrease in the importance of government's role in overall economy with the privatization of state enterprises and commercial and legal reforms aimed at attracting MNCs to Turkey, but the share Turkey had from worldwide FDI investments remained low until 2000's.

[8] After structural reforms, the political stability, economic growth of the domestic market, which increased annually by 6% from 2002 to 2008 in terms of annual average real GDP

[9] Increase in the government focus on FDI and as a result, increased openness of the country with local competitive environment

[10] Have changed the figures and Turkey has become the "target for foreign direct investment as it is both an efficient production base and an important market for delivery of goods and services."

[11] This paper aims to analyze the determinants of the MNCs' investments in different counties with a focus on Turkey. First of all, the growing importance of MNCs in global economy and their intentions to act globally will be analyzed. Secondly, different determinants of international investment decisions such as legal and commercial determinants will be discussed. Afterwards, investment policies of developing countries and their reforms will be elaborated taking Turkey as a topic of analysis and Turkey's investment environment will be discussed. In the conclusion, problems and different risks (commercial, political, legal risks) which an MNC may face in investing in Turkey will be analyzed.

There are different ways you can invest internationally: through mutual funds, American Depositary Receipts, exchange-traded funds, U.S.-traded foreign stocks, or direct investments in foreign markets. This online brochure explains the basic facts about international investing and how you can learn more about foreign companies and markets. Although this brochure covers foreign stocks, much of it also applies to foreign bonds.

Types of Business Risks

Business risks are of a diverse nature and arise due to innumerable factors. These risks may be broadly classified into two types, depending upon their place of origin.

- Internal Risks are those risks which arise from the events taking place within the business enterprise. Such risks arise during the ordinary course of a business. These risks can be forecasted and the probability of their occurrence can be determined. Hence, they can be controlled by the entrepreneur to an appreciable extent.

The various internal factors giving rise to such risks are:-

- **Human factors** are an important cause of internal risks. They may result from strikes and lock-outs by trade unions; negligence and dishonesty of an employee; accidents or deaths in the industry; incompetence of the manager or other important people in the organization, etc. Also, failure of suppliers to supply the materials or goods on time or default in payment by debtors may adversely affect the business enterprise.
- **Technological factors** are the unforeseen changes in the techniques of production or distribution. They may result in technological obsolescence and other business risks. For example, if there is some technological advancement which results in products of higher quality, then a firm which is using the traditional technique of production might face the risk of losing the market for its inferior quality product.
- **Physical factors** are the factors which result in loss or damage to the property of the firm. They include the failure of machinery and equipment used in business; fire or theft in the industry; damages in transit of goods, etc. It also includes losses to the firm arising from the compensation paid by the firm to the third parties on account of intentional or unintentional damages caused to them.

- External risks are those risks which arise due to the events occurring outside the business organization. Such events are generally beyond the control of an entrepreneur. Hence, the resulting risks cannot be forecasted and the probability of their occurrence cannot be determined with accuracy.

The various external factors which may give rise to such risks are :-

- **Economic factors** are the most important causes of external risks. They result from the changes in the prevailing market conditions. They may be in the form of changes in demand for the product, price fluctuations, changes in tastes and preferences of the consumers and changes in income, output or trade cycles. The conditions like increased competition for the product, inflationary tendency in the economy, rising unemployment as well as the fluctuations in world economy may also adversely affect the business enterprise. Such risks which are caused by changes in the economy are known as 'dynamic risks'. These risks are generally less predictable because they do not appear at regular intervals. Also, such risks may not necessarily result in losses to the firm because they may also contain an element of gain for the firm. For instance, due to market fluctuations well known product of a firm may either lose its demand or may occupy a larger market share.

- **Natural factors** are the unforeseen natural calamities over which an entrepreneur has very little or no control. They result from events like earthquake, flood, famine, cyclone, lightening, tornado, etc. Such events may cause loss of life and property to the firm or they may spoil its goods. For example, Gujarat earthquake caused irreparable damage not only to the business enterprises but also adversely affected the whole economy of the State.
- **Political factors** have an important influence on the functioning of a business, both in the long and short term. They result from political changes in a country like fall or change in the Government, communal violence or riots in the country, civil war as well as hostilities with the neighboring countries. Besides, changes in Government policies and regulations may also affect the profitability and position of a enterprise. For instance, changes in industrial and Trade policy annual announcement of the budget amendments to various legislations, etc. may enhance or reduce the profits of a business enterprise.

- **Market Risk**: The risk that the value of your investment will decline as a result of market conditions. This type of risk is primarily associated with stocks. You might buy the stock of a promising or successful company only to have its market value fall with a generally falling stock market.
- **Interest Rate Risk**: The risk caused by changes in the general level of interest rates in the marketplace. This type of risk is most apparent in the bond market because bonds are issued at specific interest rates. Generally, a rise in interest rates will cause a decline in market prices of existing bonds, while a decline in interest rates tends to cause bond prices to rise. For example, say you buy a 30-year bond today with a 6% annual yield. If interest rates rise, a new 30-year bond may be issued with an 8% annual yield. The price of your bond drops because investors aren't willing to pay full value for a bond that yields less than the current rate of interest.
- **Inflation or Purchasing Power Risk**: The risk that the return on your investment will fail to outpace inflation. This type of risk is most closely associated with cash/stable value investments. Thus, although you may think a traditional bank savings account is relatively risk free, you actually could be losing purchasing power unless the interest rate on the account exceeds the current rate of inflation.

Some risks are unique to specific investment non-systematic risks.

- **Business Risk**: This is the risk that issuers of an investment may run into financial difficulties and not be able to live up to market expectations. For example, a company's profits may be hurt by a lawsuit, a change in management or some other event.
- **Credit Risk**: For bonds, this is the risk that the issuer may default on periodic interest payments and/or the repayment of principal. For stocks, it is the risk that the company might reduce or eliminate dividend payments due to financial troubles.

When can invest internationally, the additional risks are also there,

- **Exchange Rate Risk**: This is the risk that returns will be adversely affected by changes in the exchange rate.

- **Country or Political Risk**: This is the risk that arises in connection with uncertainty about a country's political environment and the stability of its economy. This risk is especially important in emerging markets.

4.11.1 ECONOMIC RISK:

It is the chance that macroeconomic conditions like exchange rates, government regulation, or political stability will affect an investment, usually one in a foreign country.

- **How it works/Example:**
  - ✓ For example, let's assume American Company XYZ invests $1,000,000 in a manufacturing plant in the Congo. Aside from the business risk associated with making the plant profitable, Company XYZ is exposed to economic risk.
  - ✓ The political environment could shift quickly, perhaps prompting the Congolese government to seize the plant or significantly change laws that affect Company XYZ's ability to operate the plant.
  - ✓ Likewise, hyperinflation could make it impossible to pay workers, or exchange rate circumstances could make it unprofitable to move profits out of the country.

- **Why it Matters:**
  - ✓ Economic risk is one reason international investing carries more risk than domestic investing. Shareholders and bondholders often bear the economic risk undertaken by international companies like Company XYZ. Investors who purchase and sell foreign government bonds are also exposed.
  - ✓ Economic risk may also add opportunity for investors. Foreign bonds, for example, allow investors to participate indirectly in the foreign exchange markets and the interest rate environments of different countries. But the foreign regulatory authorities may impose different requirements on the types, sizes, timing, credit quality, disclosures, and underwriting of bonds issued in their countries.
- Economic risk can be mitigated by opting for international mutual funds because they provide instant diversification, often investing in a variety of countries, instruments, currencies, or international industries.

4.11.2 POLITICAL RISK:

It is a type of risk faced by investors, corporations, and governments. It is a risk that can be understood and managed with reasoned foresight and investment.

Broadly, political risk refers to the complications businesses and governments may face as a result of what are commonly referred to as political decisions or "any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives". Political risk faced by firms can be defined as "the risk of a strategic, financial, or personnel loss for a firm because of such nonmarket factors as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labor, and developmental), or events related to political instability (terrorism, riots, coups, civil war, and insurrection)."Portfolio investors may face similar financial losses. Moreover, governments may face complications in their ability to execute diplomatic, military or other initiatives as a result of political risk.

For multinational companies, political risk refers to the risk that a host country will make political decisions that will prove to have adverse effects on the multinational's profits and/or goals. Adverse political actions can range from very detrimental, such as widespread destruction due to revolution, to those of a more financial nature, such as the creation of laws that prevent the movement of capital.

In general, there are two types of political risk,

1. Macro risk and micro risk.
2. Macro risk

They refer to adverse actions that will affect all foreign firms, such as expropriation or insurrection, whereas micro risk refers to adverse actions that will only affect a certain industrial sector or business, such as corruption and prejudicial actions against companies from foreign countries. All in all, regardless of the type of political risk that a multinational corporation faces, companies usually will end up losing a lot of money if they are unprepared for these adverse situations. For example, after Fidel Castro's government took control of Cuba in 1959, hundreds of millions of dollars worth of American-owned assets and companies were expropriated. Unfortunately, most, if not all, of these American companies had no recourse for getting any of that money back.

4.12 SOURCES OF FUND:

Where and how you finance an operation can be the difference between dominance and failure. All money may sound like good money in this environment. It isn't. Often it makes the most sense to tap a few different sources of capital. One deal I arranged involved seven funding sources. That sounds like a hassle, but it ended up greatly reducing the company's cost of capital and saving it from bankruptcy.

There are myriad financing sources available for American entrepreneurs (see Handbook of Business Finance atwww.uentrepreneurs.com). Here are the 12 best, from least attractive to most. Two glaring omissions: venture capital–VCs fund just 3,500 of the 22 million small outfits in the U.S., and they only tend to hunt for companies with the potential for torrential growth–and a founder's own savings. If you don't know by now that financiers want to see some of your own skin in the game, you may already be in over your head.

1. **Angel equity:**

If you must sell an ownership stake to get your company off the ground, start by finding a respected industry executive who is willing to invest a reasonable amount and give your venture credibility with other investors. The advice and networking–without all the heavy-handed demands of a VC–come in handy, too.

2. **Smart leases**:

Leasing fixed assets conserves cash for working capital (to cover inventory), which is generally tougher to finance, especially for an unproven business. Warning: Don't put so much money down that you end up spending the same amount of cash as you would have had you bought the asset with a down payment. The cost of a lease may be slightly higher than bank financing (see source No. 10), but the cost of the down payment you did not have to make is likely to be less painful than the dilution you suffer from giving away equity.

3. **Bank loans**:

Banks are like the supermarket of debt financing. They provide short-, mid- or long-term financing, and they finance all asset needs, including working capital, equipment and real estate. This assumes, of course, that you can generate enough cash flow to cover the interest payments (which are tax deductible) and return the principal.

Banks want assurance of repayment by requiring personal guarantees and even a secured interest (such as a mortgage) on personal assets. Unlike other financing relationships, banks offer some flexibility: You can pay off your loan early and terminate the agreement. VCs and other institutional investors may not be so amenable.

4. **SBA loans:**

Of all the federally sponsored debt-financing programs, this is the most popular, and perhaps the best. It loosens the flow of credit by guaranteeing the lender against a portion of any loss incurred on the loan. Not to say that banks aren't careful when making 4(a) loans: They are required to keep the non-guaranteed portion on their books.

The interest rate can vary based on the size of the loan, with smaller amounts costing a little more. Shop around. Some banks reap servicing fees and nice profits by selling the guaranteed portion of the loan to insurance companies and pension funds; in those cases, a lender may be willing to offer you a better rate.

5. **Local and state economic development organizations:**

Economic-development organizations can charge tantalizingly low interest rates when lending alongside a bank.

Say company need to raise $200,000 for a building. A bank may offer $150,000 on a first mortgage at a variable interest rate of prime, now 3.25%, plus 200 basis points, for a total of 5.25%. The local development entity might lend you another $30,000 on a second mortgage at a fixed-interest rate of 4%, without seeking equity shares or warrants. (Without the development corporation's contributions, you would have to scare up $50,000 in equity–expensive.) If you don't have the cash flow to cover the interest, the development organization may offer extended terms. Some loans are interest-only for the first year or two, and even the interest payments can be accrued for a certain time period.

Development groups may not agree to finance an entire operation, but they make snagging the remainder from other private sources a lot easier. Talk to your local chamber of commerce to find these programs. (Also checkwww.infinancing.com for a list of the types of development finance organizations).

6. **Customers:**

Advance payments from customers–assuming the terms aren't too onerous–can give you the cash you need, at a relatively low cost, to keep your business growing. Advances also demonstrate a level of commitment by that customer to your operation. About half of the world-beating entrepreneurs in my book, Bootstrap to Billions (seewww.dileeprao.com), were funded by their customers. This strategy allowed them to grow faster and with limited resources, and to operate with relative impunity with respect to their investors.

7. **Vendors**:

Dick Schulze built Best Buy with financing from large consumer electronics firms–in other words, his suppliers. This way, your financiers do not control your growth; you do. Just be sure not to enslave yourself to a handful of powerful suppliers in the process.

8. **Friends and family members:**
If you're lucky, friends and family members might be the most lenient investors of the bunch. They don't tend to make you pledge your house, and they might even agree to sell their interest in your company back to you for a nominal return.
9. **Small Business Innovation Research (SBIR) grants**:
Getting past the paper-intensive application process and SBIR grants can be a great way to turn your intellectual property into mailbox money. For more on these grants, check out How to Get Uncle Sam to Fund Your Start-Up.
10. **Tax Increment Financing**:
TIF subsidies are geared toward real estate development in targeted areas. Depending on the state, the subsidies can be as large as 20% to 30% of the cost of the project. Better yet, you may even be able to borrow against this subsidized value. If your own community does not offer a TIF program, look at communities that do. You may end up a little farther from your home or office, but it could be worth your while.
11. **Internal Revenue Service**:
No, the IRS does not lend money. But it does allow you to deduct expenses. If you are paying a heap in taxes, evaluate whether you can use your profits to expand your business–and reduce your tax bill.
12. **Bootstrapping**:
Many billion-dollar entrepreneurs find a way to grow without external financing so that financiers don't control their destinies or grab a disproportionate slice of the wealth pie.

4.13 EXCHANGE RATE RISK & MANAGEMENT:

It is also known as FX risk, exchange rate risk or currency risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company. Foreign exchange risk also exists when the foreign subsidiary of a firm maintains financial statements in a currency other than the reporting currency of the consolidated entity. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed.[1][2] Investors and businesses exporting or importing goods and services or making foreign investments have an exchange rate risk which can have severe financial consequences; but steps can be taken to manage (i.e., reduce) the risk

TYPES OF EXPOSURE:

Transaction Exposure:

A firm has transaction exposure whenever it has contractual cash flows (receivables and payables) whose values are subject to unanticipated changes in exchange rates due to a contract being denominated in a foreign currency. To realize the domestic value of its foreign-denominated cash flows, the firm must exchange foreign currency for domestic currency. As firms negotiate contracts with set prices and delivery dates in the face of a volatile foreign exchange market with exchange rates constantly fluctuating, the firms face a risk of changes in the exchange rate between the foreign and domestic currency. It refers to the risk associated with the change in the exchange rate between the time an enterprise initiates a transaction and settles it.

Applying public accounting rules causes firms with transactional exposures to be impacted by a process known as "re-measurement". The current value of contractual cash flows is re-measured at each balance sheet date. If the value of the currency of payment or receivable changes in relation to the firm's base or reporting currency from one balance sheet date to the next, the expected value of these cash flows will change. U.S. accounting rules for this process are specified in ASC 830, originally known as FAS 52. Under ASC 830, changes in the value of these contractual cash flows due to currency valuation changes will impact current income.

Economic exposure:

A firm has economic exposure (also known as forecast risk) to the degree that its market value is influenced by unexpected exchange rate fluctuations. Such exchange rate adjustments can severely affect the firm's market share position with regards to its competitors, the firm's future cash flows, and ultimately the firm's value. Economic exposure can affect the present value of future cash flows. Any transaction that exposes the firm to foreign exchange risk also exposes the firm economically, but economic exposure can be caused by other business activities and investments which may not be mere international transactions, such as future cash flows from fixed assets. A shift in exchange rates that influence the demand for a good in some country would also be an economic exposure for a firm that sells that good.

Translation exposure:

A firm's translation exposure is the extent to which its financial reporting is affected by exchange rate movements. As all firms generally must prepare consolidated financial statements for reporting purposes, the consolidation process for multinationals entails translating foreign assets and liabilities or the financial statements of foreign subsidiary subsidiaries from foreign to domestic currency. While translation exposure may not affect a firm's cash flows, it could have a significant impact on a firm's reported earnings and therefore its stock price. Translation exposure is distinguished from transaction risk as a result of income and losses from various types of risk having different accounting treatments.

Contingent exposure:

A firm has contingent exposure when bidding for foreign projects or negotiating other contracts or foreign direct investments. Such an exposure arises from the potential for a firm to suddenly face a transactional or economic foreign exchange risk, contingent on the outcome of some contract or negotiation. For example, a firm could be waiting for a project bid to be accepted by a foreign business or government that if accepted would result in an immediate receivable. While waiting, the firm faces a contingent exposure from the uncertainty as to whether or not that receivable will happen. If the bid is accepted and a receivable is paid the firm then faces a transaction exposure, so a firm may prefer to manage contingent exposures.

Financial risk is most commonly measured in terms of the variance or standard deviation of a variable such as percentage returns or rates of change. In foreign exchange, a relevant factor would be the rate of change of the spot exchange rate between currencies. Variance represents exchange rate risk by the spread of exchange rates, whereas standard deviation represents exchange rate risk by the amount exchange rates deviate, on average, from the mean exchange rate in probability. A higher standard deviation would signal a greater currency risk. Economists have criticized the accuracy of standard deviation as a risk indicator for its uniform treatment of deviations, be they positive or negative, and for automatically squaring deviation values. Alternatives such as average absolute deviation and semi variance have been advanced for measuring financial risk.[4]

Value at Risk:

Practitioners have advanced and regulators have accepted a financial risk management technique called value at risk (VaR), which examines the tail end of a distribution of returns for changes in exchange rates to highlight the outcomes with the worst returns. Banks in Europe have been authorized by the Bank for International Settlements to employ VaR models of their own design in establishing capital requirements for given levels of market risk. Using the VaR model helps risk managers determine the amount that could be lost on an investment portfolio over a certain period of time with a given probability of changes in exchange rates. VaR typically is the risk measure of choice for FX managers and risk departments because it expresses a portfolio's risks in a coherent and logical manner. It is expressed in real profit-andloss terms and can directly tell a risk manager the potential risks inherent in a portfolio based on varying degrees of statistical confidence. VaR traditionally is measured in the following three ways:

1. Historical simulation
2. Variance/covariance (parametric)
3. Monte Carlo simulation

Each method produces a statistical measurement of VaR that is calculated using an historical data assumption to give a level of confidence that is determined from the historical price action. Each method differs in complexity and has advantages and disadvantages.

Historical simulation assumes that the past is a good predictor of the future and that the volatility of the analyzed currencies will remain stable, within the parameters observed in the past. It uses real historical data and therefore importantly does not assume that the returns are normally distributed.

It is, however, computationally intensive and completely dependent on historical price movements, and therefore it can seriously underestimate "tail risk." (Tail risk is a measurement of the probability of an event occurring at the extremes of a given distribution, the reasons for this will be explained later in this article.) Historical simulation is also dependent on the quality and depth of the input data, which can be problematic for emerging market currencies.

Variance/covariance, sometimes known as parametric VaR, is computationally easier because historical data is used to calculate the standard deviation of the changes of risk factors and the correlations between them. It is heavily disadvantaged by an assumption of the linearity of risk (the assumption that risk vs. reward is linear in nature, which is not the case with more-complex financial instruments such as options), that correlations are stable over time, and that returns are distributed normally.

DEALING WITH EXCHANGE RATE RISK:

If your business exports or imports goods or services, you need to consider how you will protect yourself against changes in the exchange rate. Even a tiny variation in the rate could cost your business thousands of pounds.

You'll also need to decide how to make and receive payments in foreign currencies.

This guide is aimed at businesses that regularly deal with customers who are based outside of the UK. It explains how to price goods or services, how to combat the risk of exchange rate changes and the practicalities of dealing in foreign currencies.

Foreign currency issues when importing or exporting

Businesses that import or export goods need to bear in mind a number of key issues when making transactions in foreign currencies:

- Foreign currency transactions are sensitive to fluctuations in the exchange rate. A price you agree with a customer or supplier on one day could rise or fall if the exchange rate changes. This is especially true in the current economic climate where currency is fluctuating on a daily basis, making it more difficult to keep track of exchange rates
- If you're exporting, you must decide whether it's best to price your goods or services in the local currency of the country with which you're trading. The decision will depend on individual circumstances and on factors such as how you want to present yourself in that market and how your competitors set their prices
- If you're importing components priced in a foreign currency that form part of goods you're selling in sterling, you'll need to decide how to price those goods to reflect the exchange rate
- If you're trading with companies in the euro zone (ie the European Union member states that use the euro) there are many practices and standards to make life easier. See the government's guide on trading in the EU(Link opens in a new window)

Identifying foreign exchange risks

When your business deals in a foreign currency you are exposed to certain risks.

If you trade in foreign currency

For example, company might find that after agreeing a price for exported or imported goods, the exchange rate changes before delivery. Clearly, this can work both for and against you.

Some currencies are more volatile than others because of their unstable economies or inflation. However, the current economic climate is also affecting more stable currencies such as the euro and the US dollar. Your bank should be able to advise you about this.

As exchange rates can go both up and down, it can be tempting to gamble that this will work out in your favor. However, this is extremely risky and could land you with a significant financial loss.

It's safer to reduce the risk by using one of the forms of hedging available through a bank.

Hedging:

It means insuring against the price of currency moving against you in the future. There are many different types of currency hedging and your bank should be able to help you with the best solutions for your business.

If company trade in sterling

Company could trade overseas in sterling – effectively transferring the foreign exchange risk to the business you're dealing with. Whether this is appropriate will depend on the product in question and the relative bargaining strength of you and your trading partner.

Company could be affected even if you don't trade overseas
Bear in mind that exchange rates could have an effect on your business' competitiveness even if you don't trade overseas. When a country's currency loses value against the pound, imports from that country into the UK become cheaper, so you may have to respond to aggressive pricing from competitors who source from that country

4.14 STRATEGIC ORIENTATION:

The stages of international marketing involvement described above do not necessarily coincide with managers' thinking and strategic orientations. Often companies are led into international and even global markets by burgeoning consumer or customer demands, and strategic thinking is secondary to "filling the next order". But putting strategic thinking on the back burner has resulted in marketing failures for even the largest companies.

The consensus of the researchers and authors in the area reveals three relatively distinctive approaches that seem to dominate strategic thinking in firms involved in international markets:

1) Domestic market extension concept
2) Multi-domestic market concept
3) Global marketing concept

Differences in the complexity and sophisticated of a company's marketing activity depend on which orientation guides its operations. The ideas expressed in each strategic orientation reflect the philosophical orientation that also should be associated with successive stages in the evolution of the international operations in a company.

The domestic company seeking sales extension of its domestic products into foreign markets illustrates this orientation to international marketing.

It views its international operations as secondary to and an extension of its domestic operations; the primary motive is to market excess domestic production. Domestic business is its priority, and foreign sales are seen as a profitable extension of domestic operations. Even though foreign markets may be vigorously pursued, the firm's orientation remains basically domestic. Its attitude toward international sales is typified by the belief that if it sells in St. Louis, it will sell anywhere else in the world.

If any efforts are made to adapt the marketing mix to foreign markets the firm's orientation is to market to foreign customers in the same manner in which the company markets to domestic customers. It seeks markets where demand is similar to the home market and its domestic product will be acceptable. This domestic market extension strategy can be very profitable; large and small exporting companies approach international, marketing from this perspective. Firms with this marketing approach are classified as ethnocentric. Meter Man discussed earlier could be said to follow this orientation.

Multi domestic Market Orientation:

One a company recognizes the importance of differences in overseas markets and the importance of offshore business to the organization, its orientation toward international business may shift to a multi-domestic market strategy. A company guided by this concept has a strong sense that country markets are vastly different (and they may be, depending on the product) and that market success requires an almost independent program for each country. Firms with this orientation market on a country by country basis, with separate marketing strategies for each country.

Subsidiaries operate independent of one another in establishing marketing objectives and plans, and the domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adapted for each market with little coordination with other country markets; advertising campaigns are localized as are the pricing and distribution decisions. A company with this concept does not look for similarity among elements of the marketing mix that might respond to standardized; rather it aims for adaptation to local country markets. Control is typically decentralized to reflect the belief that the uniqueness of each market requires local marketing input and control. Forms with this orientation would, be classified as polycentric.

Global Market orientation:

A company guided by the global marketing orientation or philosophy is generally referred to as a global company; its marketing activity is global, and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies developing a standardized marketing mix applicable across boundaries. Markets are still segmented, but country or region is considered side by side with a variety of other segmentation variables, such as consumer characteristics (age, income, and language group), usage patterns and legal constraints. The world as a whole is viewed as the market, and the firm develops a global marketing strategy. The global marketing company would fit the region-centric or geocentric classifications. Coca-Cola Company, Ford Motor Company, and Intel are among the companies that can be described as global companies.

4.15 SELECTION OF EXPATRIATE MANAGERS:

An expatriate (often shortened to expat) is a person temporarily or permanently residing in a country other than that of the person's upbringing. The word comes from the Latin terms ex ("out of") and patria ("country, fatherland"). In common usage, the term is often used in the context of professionals or skilled workers sent abroad by their companies, rather than for all 'immigrants' or 'migrant workers'. The differentiation found in common usage usually comes down to socio-economic factors, so skilled professionals working in another country are described as expatriates, whereas a manual laborer who has moved to another country to earn more money might be labeled an 'immigrant' or 'migrant worker'.

There is no set definition and usage varies with context, for example the same person may be seen as an "expatriate" by their home country and a "migrant worker" where they work. Retirement abroad, in contrast, usually makes one an "expatriate".

ROLE OF EXPATRIATE MANAGERS:

The specific role of expatriate managers, and their distinct contribution to TNCs, may be understood in relation to the gap they are considered competent to fill at a particular location in the division of labor in a given geography. The participants were asked to define such a role, identifying why it could not be filled by a local or a third country national.

- Although a wide range of differing reasons and circumstances might necessitate the use of expatriate managers, an understanding that these managers carry special skills is explicit in both the literature on the subject and in all the respondents' accounts. The following are some typical examples. In a lot of emerging markets, where we are mostly engaged in joint venture, the partner company provides country access, markets and we supply technology and management skills. The big things here are technical expertise and management skills.

- Our partners know how to build and operate a company using 35,000 local workers. They do not have any indigenous high quality technologists. So what they want from us is technology. We give them that in return for presence and access to market. Secondly, they want to know how to form and operate a company to modern international standards.

- My skill is to run that factory with 4000 people. That is the skill that the locals do not have. They need a small number of expats, people from the Centre, from the UK who know how to run things. We are going in there to help them develop those skills. (General manger of oil TNC, joint venture, China) I think one aspect is technical skills. Let's say you need a Vietnamese Financial Director. That will be an impossible situation. His technical skills would be quite move up to the job. Based on my experience in Vietnam, one primary purpose of my work is to move technology from one country, one business to another. Secondly, it knows how the business works. You get a local in a senior position; it will be tough for him to understand how the business functions. (Senior strategist of a food TNC)

- One primary reason for expatriation is skill shortages, particularly in markets where there may be no concept of commercialization. Our longer-term strategy is to grow through alliances. Expatriates prepare and develop the locals via ideological spread. (Human resource manager of an airliner) The expat needs two basic skills: one is technical knowledge and expertise, and the other is general business know-how.

- We do not use international assignments to train young lads at this level. If the business is going to be a world class business, it has to be run along our lines; it has to be a recognizable factory, anywhere in the world.

- We will train local workforces to our standards, and by our methods. So as far as we are concerned, it is an extension of our way of doing things. Obviously by putting in an expat, you are importing someone who has up-to-date knowledge of the 9 business, which you cannot get by hiring somebody locally, although it will cost very much more. (Head of international manufacturing of a motor vehicle and parts TNC)

- What seems clear from these accounts is that expatriate managers need specific skills that incorporate product and market-related competence as well as a sound understanding of corporate culture and the corporations' ways of doing business in a global market. The two aspects need separate consideration in order to gain a more detailed understanding of reasons for the importance of expatriates to globalization strategies as well as their potential substitution by factors such as technology and/or host country nationals.

- Managerial expertise defined the part of the paper reflects an attempt to establish more clearly how TNCs define global management skill and expertise. The managers were asked to specify key components of managerial know-how, the expertise that could be distinguished from technical skills.

The participants offer the following explanations:

- These skills are exactly about corporate values and culture. They are about knowing how the business works. We have just acquired a statement about corporate purpose. So before this expats' role was absolutely vital in communicating the unspoken (senior strategist of a food TNC)
- These have to do with our core values, which are the rules wherever you are.
- When senior company people are put in charge, they become its face. We are a global company, and it is these values that matter a great deal to us.
- When we are criticized in a locality, we need sharp people who know these rules and can put things right. If we accept to work with local rules, there are places where we will never do any business. You have to have the skill to adapt these rules to your values and, if need be, to Changed, to shape the agenda. (General Manager of an oil company- joint venture, China)
- We would normally use our experienced managers, who have the necessary experience. We are happy to flavor our production locally, but our senior expats must be able to apply our core alues to day to day decision making. A successful expat is one that combines technical expertise with our core values. (Head of international manufacturing of a motor vehicle TNC) We are a global company, with a set of values, which ensure that we are ultimately the best in the market. These are very important to all our people. They are things like honesty, responsibility and openness.

- There are certain geographies which we do not trust, there we prefer neutral Britons to locals. In these examples, the managers describe the specific expertise required in an expatriate as being the ability to utilize their corporations' core values and philosophies in managing global operations and in shaping the local agenda. The corporate values are seen as a guideline that ensures cohesion between the core and the other geography. The expatriate manager is trusted to be "honest" and "responsible", attributes which the airliner HR manager believes might be rare in certain geographies. The issue of creating consistency in organizational belief systems, particularly in acquisitions, comes up regularly in the managers' accounts.

- The expatriate manager is trusted to ensure that the core values of the parent TNC are12 understood and upheld by the workforces of the firms that it has taken over, as illustrated below. Take my own case as an example. My main marching order was to make sure that I incarnated our values and philosophies, and brought alive these in an organization growing in acquisition. It is a bit like making a melting pot happen.

- We as senior expatriates are charged with the task of taking wide-ranging values and make them consistent. As an expat, you walk in and you are first and foremost an established and protector of the company's values Preliminary Suggestions What these examples illustrate is that notions of skill are commonly defined by criteria that go beyond technical expertise as might be gained via the acquisition of formal qualifications or other training in engineering, or chemistry, for example. This appears to be the case in both manufacturing and services.

- The responses demonstrate that senior expatriates are carriers of more than technical knowledge. They are trusted with the task of managing the restructuring of the global economy. What is also clearly expressed is a trust in their ability to represent, shape and establish the core values and philosophies of a TNC. They 13 are used by TNCs to spread to other geographies, values – documented or informally understood within the organization.

Expatriate Contributions:

- Much research has been conducted among US MNEs and it has revealed "alarmingly high failure rates" (Brewster, 1988). Some expatriate failure rates reported, for example, are shown in Table I (Shen and Edwards, 2004). The complex and ever-changing global environment requires flexibility. The organization's ability to devise strategic responses, however, may be constrained by a lack of suitably trained, internationally oriented personnel. Tung (1981, 1982) and Mendenhall et al. (1987, 1995) identified a negative correlation between the rigor of a company's selection and training processes and its expatriate failure rate.
- The use of more rigorous training programs could significantly improve the expatriate's performance in an overseas environment, thus minimizing the incidence of failure. Earley (1987) has argued that cultural training enables individuals to adjust more rapidly to the new culture and be more effective in their new roles.
- There is an association between met expatriate' expectation and provision of international training. "Highly relevant cross-cultural training created either accurate expectations or expectations of difficulty prior to the assignment" (Caligiuri et al., 2001). Table II indicates some reasons for expatriate failure in US and Japanese MNEs (Tung, 1982; Dowling et al., 1999).
- As Table II shows, expatriate failure is seldom a consequence of a lack of technical skills. The inability of both expatriates and their spouses to adapt is a far more important cause of expatriate failure. Studies have also found that between 16 percent and 40 percent of US managers sent on overseas assignments Order US Japanese

1 The ability of spouse to adjust Inability to cope with larger overseas responsibility
2 Manager's inability to adjust Difficulties with new environment
3 Other family problems Personal or emotional problems
4 Manager's personal or emotional maturity Lack of technical competence 5 Inability to cope

- With larger overseas responsibility the ability of spouse to adjust Table II. Reasons for expatriate failure (in descending order of importance) Expatriate failure rates (%) Origin of MNEs 30-85 US 70 Developing countries 5-15 European 10-30 US 40.2 Swedish 25-

40 US 5-10 European Table I. Expatriate failure rates JMD 24, 7 658return prematurely because of poor performance or an inability to adjust to the foreign environment.

- According to Brewster (1988), the inability of one's spouse to adjust was the only consistent reason given by respondents from European MNEs. Hamill (1989) found that one of the reasons for the low failure rate of UK MNEs was the greater emphasis placed on pre-departure briefing for both expatriates and their families. International management development deals with identifying, fostering, promoting and using international managers. Its major issues include international management development schemes, approaches to international management development, promotion criteria and factors affecting approaches to international management development.

4.16 INTERNATIONAL TRAINING AND DEVELOPMENT:

- International training and management development are always closely associated in the management literature. Gregerson et al. (1998) proposed four strategies for developing global managers: international travel; the formation of diversified teams; international assignments and training.

- These four strategies relate to expatriation management, particularly integrating international training and management development. Training aims to improve current work skills and behavior, whereas development aims to increase abilities in relation to some future position or job, usually a managerial one (Dowling et al., 1999, p. 155). A truly global manager needs a set of context-specific abilities, such as industry-specific knowledge, and a core of certain characteristics, such as cultural sensitivity, ability to handle responsibility, ability to

- Develop subordinates and ability to exhibit and demonstrate (Baumgarten, 1992). These characteristics and skills are considered as important international competencies and all can be developed through effective international training and management development. International training refers to training for international assignments.

There are three broad types of international trainings in MNEs.

They are:

(1) Preparatory training for expatriates: once a person has been appointed for an international assignment, pre-departure training is normally used to ensure the candidate has adequate skills and knowledge that are necessary for working abroad effectively.

(2) Post-arrival training for expatriates: after an expatriate has gone abroad, further on-site training is often used to familiarize the expatriate with the local working environment and procedures.

(3) Training for host-country nationals (HCNs) and third-country nationals (TCNs): Training should be provided to HCNs and TCNs to facilitate understanding of corporate strategy, corporate culture and socialization.

(4) Preparatory training for expatriates has received most attention in the international literature as expatriate failure (i.e. the premature return of an expatriate manager before the period of

assignment is completed) is always regarded as due to a lack of adequate training for expatriates and their spouses.
(5) The expatriate failure rate is an important indicator for measuring the effectiveness of expatriation management.
(6) The costs of expatriate failure are high and involve both direct and indirect elements. In the case of expatriate recalls, the direct costs include salary, training costs and travel and relocation expenses. Mendenhall and Oddou (1985) stated that the average cost per failure to the parent company ranges between US$55,000 and US$80,000, depending on currency exchange rates and location of assignment.
(7) Indirect costs may be considerable and un-quantified, such as damaging relations with the host country government and other local organizations and customers, as well as loss of market share, damage to corporate reputation and lost business opportunities. The literature indicates that expatriate failure is a persistent and recurring problem and failure rates remain high.

- International management development can also be expected to play a central role in MNEs because of its importance in developing a cross-national corporate culture and integrating international operations.
- According to Bartlett and Ghoshal (2000), global firms can enhance their inter-unit linkages by creating a pool of global managers from anywhere in the world. Management development in MNEs is the “glue” bonding together otherwise loose and separate entities.
- Pucik (1984) argued that probably the most formidable task facing many multinational firms is the development of a cadre of managers and executives who have an understanding of the global market environment deep enough to enable them to survive and come out ahead.
- International training provision although many have highlighted the importance of international training, international training is often neglected or poorly handled in MNEs. McEnery and DesHarnais’s (1990) survey shows that between 50 and 60 percent of US companies operating abroad at that time did not provide any pre-departure training. Tung (1981) also observed that only 32 percent of the US companies surveyed provided some international training.
- The 1997-1998 Price Waterhouse survey revealed that only 13 percent of European firms surveyed always provided their expatriates with access to
- cultural awareness courses, though a further 47 percent provided briefings for culturally “challenging” postings.
- To aggravate the situation even further, most training is of very short duration, generally lasting only a few days (Baumgarten, 1995). Torbiorn (1982) and Tung (1982) confirmed that European MNEs provide more training than US companies.
- About half of European corporations provide formal training. Taking China as an example of a developing country, there is generally low awareness of the importance of training for expatriates in Chinese MNEs.
- The majority of Chinese MNEs tend to provide very limited or ad hoc pre-departure training for expatriates. Most Chinese companies provide only irregular briefings or do not provide training programs for expatriates at all. Where training is offered, the training duration is usually short, such as two days or one to two weeks, due to the limited training programs provided.

- Normally, expatriates are often not given adequate preparation time between notification of the posting and relocation. No formal and compulsory policy about post-arrival training for expatriates is made at the corporate level in any the selected Chinese firm.
- Headquarters normally leave local managers to decide if there is a need to provide such post-arrival training. Chinese firms are also very weak in providing training for HCNs, spouses and families. The majority of International training and MD 659Chinese MNEs provide only job briefings for HCN employees instead of proper training. Reasons for not providing adequate training

Scarcity of cross-national comparative research may be attributed to a number of reasons including:

(1) The large quantity of effort, skills, and resources required to develop, translate, and back-translate surveys while achieving functional item equivalence;

(2) The challenge of acquiring multiple-data collection sites in multiple nations;

(3) The high-touch approach required to obtain data sites in many countries reduces sample comparability which contributes to an inability to publish research in the "best" journals;

(4) The issue of expatriate compensation is in debate and has overshadowed issues of the larger workforce;

(5) Ethnocentrism has resulted in the exportation of compensation programs (Hyer, 1993);

(6) Multinationals find it convenient to assume that duplicating local practice will maximally motivate workers (Abdullah & Gallagher, 1995).

Part A

What is global production?

What is meant by global supply chain management?

How would you show your understanding of global supply chain issues?

How would you categorize the quality

Can you identify the threats of globalization markets?

Define global marketing Mix.

List some of the Major Investment Decision International Business.

How would you use PRODUCT strategies in global markets?

What conclusions can you draw on pricing strategies?

What do you think about distribution Management?

What is your opinion about channel management?

Part B

Discuss about the various types of exchange systems and state the factors determining the exchange rate

Elaborate the marketing strategies

Discuss the marketing strategies in detail

What are the reasons for globalization of markets?

Part C

Present the types of FOREX Risk, the internal external hedging strategies for transactions and operating risks.

"Strategic orientation can best be achieved through staffing policy of a firm". Explain the types of staffing policies in international business.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – V - INTERNATIONAL BUSINESS MANAGEMENT- SBA1602

Unit 5

Disadvantages of international business – Conflict in international business- Sources and types of conflict – Conflict resolutions – Negotiation – the role of international agencies –Ethical issues in international business – Ethical decision-making.

Advantages and Disadvantages of International Business

5.1 ADVANTAGES DISADVANTAGES OF INTERNATIONAL BUSINESS:

Though international business are most important for a country's economy but there are some advantages and disadvantages of international business which are described in detail below Following are the advantages of international business:

1. **Earning valuable foreign currency:** A country is able to earn valuable foreign currency by exporting its goods to other countries.
2. **Division of labor:** International business leads to specialization in the production of goods. Thus, quality goods for which it has maximum advantage.
3. **Optimum utilization of available resources:** International business reduces waste of national resources. It helps each country to make optimum use of its natural resources. Every country produces those goods for which it has maximum advantage.
4. **Increase in the standard of living of people:** Sale of surplus production of one country to another country leads to increase in the incomes and savings of the people of the former country. This raises the standard of living of the people of the exporting country.
5. **Benefits to consumers:** Consumers are also benefited from international business. A variety of goods of better quality is available to them at reasonable prices. Hence, consumers of importing countries are benefited as they have a good scope of choice of products.
6. **Encouragement to industrialization:** Exchange of technological know-how enables underdeveloped and developing countries to establish new industries with the assistance of foreign aid. Thus, international business helps in the development of industry.
7. **International peace and harmony:** International business removes rivalry between different countries and promotes international peace and harmony. It creates dependence on each other, improves mutual confidence and good faith.
8. **Cultural development:** International business fosters exchange of culture and ideas between countries having greater diversities. A better way of life, dress, food, etc. can be adopted form other countries.
9. **Economies of large-scale production:** International business leads to production on a large scale because of extensive demand. All the countries of the world can obtain the advantages of large-scale production.
10. **Stability in prices of products:** International business irons out wide fluctuations in the prices of products. It leads to stabilization of prices of products throughout the world.
11. **Widening the market for products:** International business widens the market for products all over the world. With the increase in the scale of operation, the profit of the business increases.
12. **Advantageous in emergencies:** International business enables us to face emergencies. In case of natural calamity, goods can be imported to meet necessaries.
13. **Creating employment opportunities:** International business boosts employment opportunities in an export-oriented market. It raises the standard of living of the countries dealing international business.

14. **Increase in Government revenue:** The Government imposes import and export duties for this trade. Thus, Government is able to earn a great deal of revenue from international business.
15. **Other advantages:**
    - Effective business education
    - Improvement in production systems.
    - Elimination of monopolies, etc.

5.2 DISADVANTAGES OF INTERNATIONAL BUSINESS ARE AS FOLLOWS:

1. **Adverse effects on economy:** One country affects the economy of another country through international business. Moreover, large-scale exports discourage the industrial development of importing country. Consequently, the economy of the importing country suffers.
2. **Competition with developed countries:** Developing countries are unable to compete with developed countries. It hampers the growth and development of developing countries, unless international business is controlled.
3. **Rivalry among nations:** Intense competition and eagerness to export more commodities may lead rivalry among nations. As a consequence, international peace may be hampered.
4. **Colonization:** Sometimes, the importing country is reduced to a colony due to economic and political dependence and industrial backwardness.
5. **Exploitation:** International business leads to exploitation of developing countries the developed countries. The prosperous and dominant countries regulate the economy poor nations.
6. **Legal problems:** Varied laws regulations and customs formalities followed different countries, have a direct b earring on their export and import trade.
7. **Publicity of undesirable fashions:** Cultural values and heritages are not identical in all the countries. There are many aspects, which may not be suitable for our atmosphere, culture, tradition, etc. This, indecency is often found to be created in the name of cultural exchange.
8. **Language problems:** Different languages in different countries create barriers to establish trade relations between various countries.
9. **Dumping policy:** Developed countries often sell their products to developing countries below the cost of production. As a result, industries in developing countries of the close down.
10. **Complicated technical procedure:** International business in highly technical and it has complicated procedure. It involves various uses of important documents. It required expert services to cope with complicate procedures at different stages.
11. **Shortage of goods in the exporting country:** Sometimes, traders prefer to sell their goods to other countries instate of in their own country in order to earn more profits. This results in the shortage of goods within the home country.
12. **Adverse effects on home industry:** International business poses a threat to the survival of infant and nascent industries. Due to foreign competition and unrestricted imports upcoming industries in the home country may collapse.

5.2 CONFLICT IN INTERNATIONAL BUSINESS:

Conflict is actual or perceived opposition of needs, values and interests. A conflict can be internal (within oneself) e individuals). Conflict as a concept can help explain many aspects of social life such as social disagreement, conflicts of interests, and fights between individuals, groups, or organizations. In political terms, "conflict" can refer to wars, revolutions or other struggles, which may involve the use of force as in the term armed conflict.

Conflict Management

Conflict management refers to the long-term management of intractable conflicts. It is the label for the variety of ways by which people handle grievances—standing up for what they consider to be right and against what they consider to be wrong. Those ways include such diverse phenomena as gossip, ridicule, lynching, terrorism, warfare, feuding, genocide, law, mediation, and avoidance. Which forms of conflict management will be used in any given situation can be somewhat predicted and explained by the social structure—or social geometry—of the case.

Types of Conflict

1. Community conflict
2. Diplomatic conflict
3. Environmental resources conflict
4. External conflict
5. Interpersonal conflict
6. Organizational conflict
7. Intra-societal conflict
8. Military conflict
9. Religious-based conflict
10. Workplace conflict
11. Relationship conflict

Conflict also defines as natural disagreement resulting from individuals or groups that differ in beliefs, attitudes, values or needs. It can also originate from past rivalries and personality differences. Other causes of conflict include trying to negotiate before the timing is right or before needed information is available.

5.3 SOURCES OF CONFLICT:

1. Communication failure
2. Personality conflict
3. Value differences
4. Goal differences
5. Methodological differences
6. Substandard performance
7. Lack of cooperation
8. Differences regarding authority
9. Differences regarding responsibility

10. Competition over resources
11. Non-compliance with rules

Ways of addressing conflict

1. **Accommodating**: Individuals who enjoy solving the other party‘s problems and preserving personal relationships. Accommodators are sensitive to the emotional states, body language, and verbal signals of the other parties. They can, however, feel taken advantage of in situations when the other party places little emphasis on the relationship.

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2. **Avoiding**: Individuals who do not like to negotiate and don‘t do it unless warranted. When negotiating, avoiders tend to defer and dodge the confrontational aspects of negotiating; however, they may be perceived as tactful and diplomatic.

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3. **Collaborating**: Individuals who enjoy negotiations that involve solving tough problems in creative ways. Collaborators are good at using negotiations to understand the concerns and interests of the other parties. They can, however, create problems by transforming simple situations into more complex ones.

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4. **Competing**: Individuals who enjoy negotiations because they present an opportunity to win something. Competitive negotiators have strong instincts for all aspects of negotiating and are often strategic. Because their style can dominate the bargaining process, competitive negotiators often neglect the importance of relationships.

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5. **Compromising**: Individuals who are eager to close the deal by doing what is fair and equal for all parties involved in the negotiation. Compromisers can be useful when there is limited time to complete the deal; however, compromisers often unnecessarily rush the negotiation process and make concessions too quickly.

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negotiation process and make concessions too quickly.

Other Negotiation Styles

Shell identified five styles/responses to negotiation. Individuals can often have strong dispositions towards numerous styles; the style used during a negotiation depends on the context and the interests of the other party, among other factors. In addition, styles can change over time.

Counseling

When personal conflict leads to frustration and loss of efficiency, counseling may prove to be a helpful antidote. Although few organizations can afford the luxury of having professional counselors on the staff, given some training, managers may be able to perform this function. Nondirective counseling, or "listening with understanding", is little more than being a good listener—something every manager should be.

Conflict Resolution

Conflict resolution is a range of methods for alleviating or eliminating sources of conflict. The term "conflict resolution" is sometimes used interchangeably with the term dispute resolution or alternative dispute resolution. Processes of conflict resolution generally include negotiation, mediation, and diplomacy. The processes of arbitration, litigation, and formal complaint processes such as ombudsman processes, are usually described with the term dispute resolution, although some refer to them as "conflict resolution." Processes of mediation and arbitration are often referred to as alternative dispute resolution.

Methods of Dispute Resolution include:

1. lawsuits (litigation)
2. arbitration
3. collaborative law
4. mediation
5. conciliation
6. many types of negotiation
7. facilitation

One could theoretically include violence or even war as part of this spectrum, but dispute resolution practitioners do not usually do so; violence rarely ends disputes effectively, and indeed, often only escalates them. Some individuals, notably Joseph Stalin, have stated that all problems emanate from man, and absent man, no problems ensue. Hence, violence could theoretically end disputes, but alongside it, life.

5.4 CONFLICT RESOLUTION PROCESSES:

1. **Adjudicative processes**, such as litigation or arbitration, in which a judge, jury or arbitrator determines the outcome.
2. **Consensual processes**, such as collaborative law, mediation, conciliation, or negotiation, in which the parties attempt to reach agreement.

- A **Lawsuit** is a civil action brought before a court of law in which a plaintiff, a party who claims to have received damages from a defendant's actions, seeks a legal or equitable remedy. The defendant is required to respond to the plaintiff's complaint. If the plaintiff is successful, judgment will be given in the plaintiff's favor, and a range of court orders may be issued to enforce a right, award damages, or impose an injunction to prevent an act or compel an act.

- **Arbitration**, a form of alternative dispute resolution (ADR), is a legal technique for the resolution of disputes outside the courts, wherein the parties to a dispute refer it to one or more persons (the "arbitrators", "arbiters" or "arbitral tribunal"), by whose decision (the "award") they agree to be bound. It is a settlement technique in which a third party reviews the case and imposes a decision that is legally binding for both sides. Other forms of ADR include mediation (a form of settlement negotiation facilitated by a neutral third party) and non-binding resolution by experts.

- **Collaborative Law** (also called Collaborative Practice, Collaborative Divorce, and Collaborative Family Law) was originally a family law procedure in which the two parties agreed that they would not go to court, or threaten to do so.

- **Mediation**, a form of alternative dispute resolution (ADR) or "appropriate dispute resolution", aims to assist two (or more) disputants in reaching an agreement. The parties themselves determine the conditions of any settlements reached— rather than accepting something imposed by a third party. The disputes may involve (as parties) states, organizations, communities, individuals or other representatives with a vested interest in the outcome.

- **Conciliation** is an alternative dispute resolution (ADR) process whereby the parties to a dispute (including future interest disputes) agree to utilize the services of a conciliator, who then meets with the parties separately in an attempt to resolve their differences. He does this by lowering tensions, improving communications, interpreting issues, providing technical assistance, exploring potential solutions and bringing about a negotiated settlement.

5.5 NEGOTIATION

Negotiation is a dialogue intended to resolve disputes, to produce an agreement upon courses of action, to bargain for individual or collective advantage, or to craft outcomes to satisfy various interests. It is the primary method of alternative dispute resolution.

Negotiation occurs in business, non-profit organizations and government branches, legal proceedings, among nations and in personal situations such as marriage, divorce, parenting, and everyday life.

Etymology

The word "negotiation" is from the Latin expression, "negotiatus", past participle of negotiate which means "to carry on business".

Another view of negotiation comprises 4 elements:

Strategy, process and tools, and tactics. Strategy comprises the top level goals - typically including relationship and the final outcome. Processes and tools include the steps that will be followed and the roles taken in both preparing for and negotiating with the other parties. Tactics include more detailed statements and actions and responses to others' statements and actions.

Approaches to negotiation

The advocate's approach

In the advocacy approach, a skilled negotiator usually serves as advocate for one party to the negotiation and attempts to obtain the most favorable outcomes possible for that party. In this process the negotiator attempts to determine the minimum outcome(s) the other party is (or parties are) willing to accept, then adjusts their demands accordingly. A "successful" negotiation in the advocacy approach is when the negotiator is able to obtain all or most of the outcomes their party desires, but without driving the other party to permanently break off negotiations, unless the best alternative to a negotiated agreement (BATNA) is acceptable.

Indeed, the ten new rules for global negotiations advocated by Hernandez and Graham.

1. Accept only creative outcomes
2. Understand cultures, especially your own.
3. Don't just adjust to cultural differences, exploit them.
4. Gather intelligence and reconnoiter the terrain.
5. Design the information flow and process of meetings.
6. Invest in personal relationships.
7. Persuade with questions. Seek information and understanding.
8. Make no concessions until the end.
9. Use techniques of creativity
10. Continue creativity after negotiations

Emotion in negotiation

Emotions play an important part in the negotiation process, although it is only in recent years that their effect is being studied. Emotions have the potential to play either a positive or negative role in negotiation. During negotiations, the decision as to whether or not to settle rests in part on emotional factors. Negative emotions can cause intense and even irrational behavior, and can cause conflicts to escalate and negotiations to break down, while positive emotions facilitate reaching an agreement and help to maximize joint gains.

Positive effect in negotiation

Even before the negotiation process starts, people in a positive mood have more confidence, and higher tendencies to plan to use a cooperative strategy. During the negotiation, negotiators who are in a positive mood tend to enjoy the interaction more, show less contentious behavior, use less aggressive tactics and more cooperative strategies. This in turn increases the likelihood that parties will reach their instrumental goals, and enhance the ability to find integrative gains.

Indeed, compared with negotiators with negative or natural affectivity, negotiators with positive affectivity reached more agreements and tended to honor those agreements more. Those favorable outcomes are due to better Decision Making processes, such as flexible thinking, creative Problem Solving, respect for others' perspectives, willingness to take risks and higher confidence.

Post negotiation positive affect has beneficial consequences as well. It increases satisfaction with achieved outcome and influences one‘s desire for future interactions. The PA aroused by reaching an agreement facilitates the dyadic relationship, which result in affective commitment that sets the stage for subsequent interactions. PA also has its drawbacks: it distorts perception of self performance, such that performance is judged to be relatively better than it actually is. Thus, studies involving self reports on achieved outcomes might be biased.

Negative effect in negotiation

Negative effect has detrimental effects on various stages in the negotiation process. Although various negative emotions affect negotiation outcomes, by far the most researched is anger. Angry negotiators plan to use more competitive strategies and to cooperate less, even before the negotiation starts. These competitive strategies are related to reduce joint outcomes. During negotiations, anger disrupts the process by reducing the level of trust, clouding parties' judgment, narrowing parties' focus of attention and changing their central goal from reaching agreement to retaliating against the other side. Angry negotiators pay less attention to opponent‘s interests and are less accurate in judging their interests, thus achieve lower joint gains.

Moreover, because anger makes negotiators more self-centered in their preferences, it increases the likelihood that they will reject profitable offers. Anger doesn‘t help in achieving negotiation goals either: it reduces joint gains and does not help to boost personal gains, as angry negotiators don‘t succeed in claiming more for themselves. Moreover, negative emotions leads to acceptance of settlements that are not in the positive utility function but rather have a negative utility. However, expression of negative emotions during negotiation can sometimes be beneficial: legitimately expressed anger can be an effective way to show one's commitment, sincerity, and needs.

Moreover, although NA reduces gains in integrative tasks, it is a better strategy than PA in distributive tasks (such as zero-sum). In his work on negative affect arousal and white noise, Seidner found support for the existence of a negative affect arousal mechanism through observations regarding the devaluation of speakers from other ethnic origins." Negotiation may be negatively affected, in turn, by submerged hostility toward an ethnic or gender group.

Conditions for emotion effect in negotiation

Research indicates that negotiator‘s emotions do not necessarily affect the negotiation process. Albarracın et al. (2003) suggested that there are two conditions for emotional effect, both related to the ability (presence of environmental or cognitive disturbances) and the motivation:

1. Identification of the affect: requires high motivation, high ability or both.
2. Determination that the affect is relevant and important for the judgment: requires that either the motivation, the ability or both are low.

According to this model, emotions are expected to affect negotiations only when one is high and the other is low. When both ability and motivation are low the affect will not be identified, and when both are high the affect will be identify but discounted as irrelevant for judgment. A possible implication of this model is, for example, that the positive effects PA has on negotiations (as described above) will be seen only when either motivation or ability are low.

Cultural differences cause four kinds of problems in international business negotiations, at the levels of:

1. Language
2. Nonverbal behaviors
3. Values
4. Thinking and decision-making processes

The order is important; the problems lower on the list are more serious because they are more subtle. For example, two negotiators would notice immediately if one were speaking Japanese and the other German. The solution to the problem may be as simple as hiring an interpreter or talking in a common third language, or it may be as difficult as learning a language. Regardless of the solution, the problem is obvious.

Nonverbal Behaviors

Anthropologist Ray L. Birdwhistell demonstrated that less than 35% of the message in conversations is conveyed by the spoken word while the other 65% is communicated nonverbally. Albert Mehrabian, a UCLA psychologist, also parsed where meaning comes from in face-to-face interactions. He reports:

1. 7% of the meaning is derived from the words spoken
2. 38% from paralinguistic channels, that is, tone of voice, loudness, and other aspects of how things are said
3. 55% from facial expressions

Of course, some might quibble with the exact percentages (and many have), but our work also supports the notion that nonverbal behaviors are crucial – how things are said is often more important than what is said.

Exhibit 2 provides analyses of some linguistic aspects and nonverbal behaviors for the 15 videotaped groups, that is, how things are said. Although these efforts merely scratch the surface of these kinds of behavioral analyses, they still provide indications of substantial cultural differences.

Differences in managerial values as pertinent to negotiations

Four managerial values objectivity, competitiveness, equality, and punctuality that are held strongly and deeply by most Americans seem to frequently cause misunderstandings and bad feelings in international business negotiations.

Objectivity

Americans make decisions based upon the bottom line and on cold, hard facts. Americans don‘t play favorites. Economics and performance count, not people. Business is business. Such statements well reflect American notions of the importance of objectivity.

The single most successful book on the topic of negotiation, Getting to Yes, is highly recommended for both American and foreign readers. The latter will learn not only about negotiations but, perhaps more important, about how Americans think about negotiations. The authors are quite emphatic about separating the people from the problem, and they state, every negotiator has two kinds of interests: in the substance and in the relationship. This advice is probably quite worthwhile in the United States or perhaps in Germany, but in most places in the world such advice is nonsense. In most places in the world, particularly in collectivistic, high-context cultures, personalities and substance are not separate issues and cannot be made so.

Competitiveness and Equality

Simulated negotiations can be viewed as a kind of experimental economics wherein the values of each participating cultural group are roughly reflected in the economic outcomes. The simple simulation used in this part of our work represents the essence of commercial negotiations it has both competitive and cooperative aspects. At least 40 businesspeople from each culture played the same buyer-seller game, negotiating over the prices of three products. Depending on the agreement reached, the ―negotiation pie could be made larger through cooperation (as high as $10,400 in joint profits) before it was divided between the buyer and seller.

Time

Just make them wait. Everyone else in the world knows that no negotiation tactic is more useful with Americans, because no one places more value on time, no one has less patience when things slow down, and no one looks at their wristwatches more than Americans do. Edward T. Hall in his seminal writing is best at explaining how the passage of time is viewed differently across cultures and how these differences most often hurt Americans.

Differences in thinking and decision-making processes

When faced with a complex negotiation task, most Westerners (notice the generalization here) divide the large task up into a series of smaller tasks. Issues such as prices, delivery, warranty, and service contracts may be settled one issue at a time, with the final agreement being the sum of the sequence of smaller agreements. In Asia, however, a different approach is more often taken wherein all the issues are discussed at once, in no apparent order, and concessions are made on all issues at the end of the discussion. The Western sequential approach and the Eastern holistic approach do not mix well.

Negotiation Theory

Common Assumptions of Most Theories

Negotiation is a specialized and formal version of conflict resolution most frequently employed when important issues must be agreed upon. Negotiation is necessary when one party requires the other party's agreement to achieve its aim. The aim of negotiating is to build a shared environment leading to longterm trust and often involves a third, neutral party to extract the issues from the emotions and keep the individuals concerned focused. It is a powerful method for resolving conflict and requires skill and experience. Zartman defines negotiation as "a process of combining conflicting positions into a common position under a decision rule of unanimity, a phenomenon in which the outcome is determined by the process."

However, most theories of negotiations share the notion of negotiations as a process. Yet, they differ in their description of the process. Structural Analysis considers this process to be a power game. Strategic analysis thinks of it as a repetition of games (Game Theory). Integrative Analysis prefers the more intuitive notion of process, in which negotiations undergo successive stages, e.g. pre-negotiation, stalemate, settlement. Especially structural, strategic and procedural analysis build on rational actors, who are able to prioritize clear goals, are able to make trade-offs between conflicting values, are consistent in their behavioral pattern, and are able to take uncertainty into account.

Negotiations differ from mere coercion, in that negotiating parties have the theoretic possibility to withdraw from negotiations. It is easier to study bi-lateral negotiations, as opposed to multilateral negotiations.

Structural Analysis

Structural Analysis is based on a distribution of empowering elements among two negotiating parties. Structural theory moves away from traditional Realist notions of power in that it does not only consider power to be a possession, manifested for example in economic or military resources, but also thinks of power as a relation.

Based on the distribution of elements, in structural analysis we find either power-symmetry between equally strong parties or power-asymmetry between a stronger and a weaker

party. All elements from which the respective parties can draw power constitute
Structure. They may be of material nature, i.e. hard power, (such as weapons) or of social nature, i.e. soft power, (such as norms, contracts or precedents). These instrumental elements of power, are either defined as parties‘relative position (resources position) or as their relative ability to make their options prevail. Structural analysis is easy to criticize, because it predicts that the strongest will always win. This, however, does not always hold true.

Strategic Analysis

According to structural analysis, negotiations can therefore be described with matrices, such as the Prisoner's Dilemma, a concept taken from Game Theory. Another common game is the Chicken Dilemma.

Strategic analysis starts with the assumption that both parties have a veto. Thus, in essence, negotiating parties can cooperate (C) or defect (D). Structural analysis then evaluates possible outcomes of negotiations (C, C; C, D; D, D; D, C), by assigning values to each of the possible outcomes. Often, co-operation of both sides yields the best outcome. The basic problem however is that the parties can never be sure that the other is going to cooperate, mainly because of two reasons: first, decisions are made at the same time or, second, concessions of one side might not be returned. Therefore the parties have contradicting incentives to cooperate or defect. If one party cooperates or makes a concession and the other does not, the defecting party might relatively gain more. Trust may be built only in repetitive games through the emergence of reliable patterns of behavior such as tit-for-tat.

Process Analysis

Process analysis is the theory closest to haggling. Parties start from two points and converge through a series of concessions. As in strategic analysis, both sides have a veto (e.g. sell, not sell; pay, not pay). Process analysis also features structural assumptions, because one side may be weaker or stronger (e.g. more eager to sell, not willing to pay a certain price). Process Analysis focuses on the study of the dynamics of processes. E.g. both Zeuthen and Cross tried to find a formula in order to predict the behaviour of the other party in finding a rate of concession, in order to predict the likely outcome.

The process of negotiation therefore is considered to unfold between fixed points: starting point of discord, end point of convergence. The so called security point, that is the result of optional withdrawal, is also taken into account.

Integrative Analysis

Integrative analysis divides the process into successive stages, rather than talking about fixed points. It extends analysis to pre-negotiations stages, in which parties make first contacts. The outcome is explained as the performance of the actors at different stages. Stages may include pre-negotiations, finding a formula of distribution, crest behavior, settlement

Contents

- Conflict in international business
- Negotiation
- International business ethics

Conflict in Organizations:

Definition

- Opposition
- Incompatible behavior
- Antagonistic interaction
- Block another party from reaching her or his goals

Range of conflict behavior

Doubt or questioning **Annihilation of opponent**

- **Key elements**
  - Interdependence with another party
  - Perception of incompatible goals
- **Conflict events**
  - Disagreements
  - Debates
  - Disputes
  - Preventing someone from reaching valued goals

Functional and Dysfunctional Conflict

Functional conflict: works toward the goals of an organization or group

Dysfunctional conflict: blocks an organization or group from reaching its goals

1. Dysfunctional high conflict: what you typically think about conflict
2. Dysfunctional low conflict: A typical view. Levels vary among groups

Functional conflict

- "Constructive Conflict"--Mary Parker Follett (1925)
- Increases information and ideas

- Encourages innovative thinking
- Unshackles different points of view
- Reduces stagnation

Dysfunctional high conflict

- Tension, anxiety, stress
- Drives out low conflict tolerant people
- Reduced trust
- Poor decisions because of withheld or distorted information
- Excessive management focus on the conflict

Dysfunctional low conflict

- Few new ideas
- Poor decisions from lack of innovation and information
- Stagnation
- Business as usual

Levels and Types of Conflict

Level of conflict	Type of conflict
Organization	Within and between organizations
Group	Within and between groups
Individual	Within and between individuals

Levels and Types of Conflict

Intra-organization conflict

- o Conflict that occurs within an organization
- o At interfaces of organization functions
- o Can occur along the vertical and horizontal dimensions of the organization
  - Vertical conflict: between managers and subordinates
  - Horizontal conflict: between departments and work groups

Intra-group conflict

- Conflict among members of a group
- Early stages of group development
- Ways of doing tasks or reaching group's goals

Intergroup conflict: between two or more groups

Interpersonal conflict

- Between two or more people
- Differences in views about what should be done
- Efforts to get more resources
- Differences in orientation to work and time in different parts of an organization

Intrapersonal conflict - Occurs within an individual

- Threat to a person’s values

- Feeling of unfair treatment
- Multiple and contradictory sources of socialization
- Related to the Theory of Cognitive Dissonance and negative inequity

Inter-organization conflict

- Between two or more organizations
- Not competition
- Examples: suppliers and distributors, especially with the close links now possible

Conflict Episodes

Simple conflict episode

Latent conflict
Manifest conflict
Conflict aftermath
Conflict reduction

Latent conflict: antecedents of conflict behavior that can start conflict episode
Manifest conflict: observable conflict behavior
Conflict aftermath

- End of a conflict episode
- Often the starting point of a related episode
- Becomes the latent conflict for another episode

Conflict reduction: lower the conflict level
Latent conflict
The antecedents of conflict
Example: scarce resources
Some latent conflict in the lives of college students

- Parking spaces
- Library copying machines
- Computer laboratory
- Books in the bookstore
- School and other parts of your life
- University policies

Manifest conflict

- Observable conflict behavior
- Example: disagreement, discussion

Conflict aftermath

- Residue of a conflict episode
- Example: compromise in allocating scarce resources
- leaves both parties with less than they wanted

Perceived conflict

- Become aware that one is in conflict with another party
- Can block out some conflict
- Can perceive conflict when no latent conditions exist

- Example: misunderstanding another person's position on an issue

Felt conflict

- Emotional part of conflict
- Personalizing the conflict
- Oral and physical hostility
- Hard to manage episodes with high felt conflict
- What people likely recall about conflict

Conflict Frames and Orientations

Conflict frame

- Relationship-Task
- Cooperate-Win
- Emotional Intellectual

Conflict frame dimensions

Relationship-Task

- Relationship: focuses on interpersonal relationships
- Task: focuses on material aspects of an episode

Emotional-Intellectual

- Emotional: focuses on feelings in the conflict episode (felt conflict)
- Intellectual: focuses on observed behavior (manifest conflict)

Cooperate-Win

- Cooperate: emphasizes the role of all parties to the conflict
- Win: wants to maximize personal gain

Conflict frames

Limited research results

- End an episode with a relationship or intellectual frame: feel good about relationship with other party
- Cooperation-focused people end with more positive results than those focused on winning

Conflict orientations

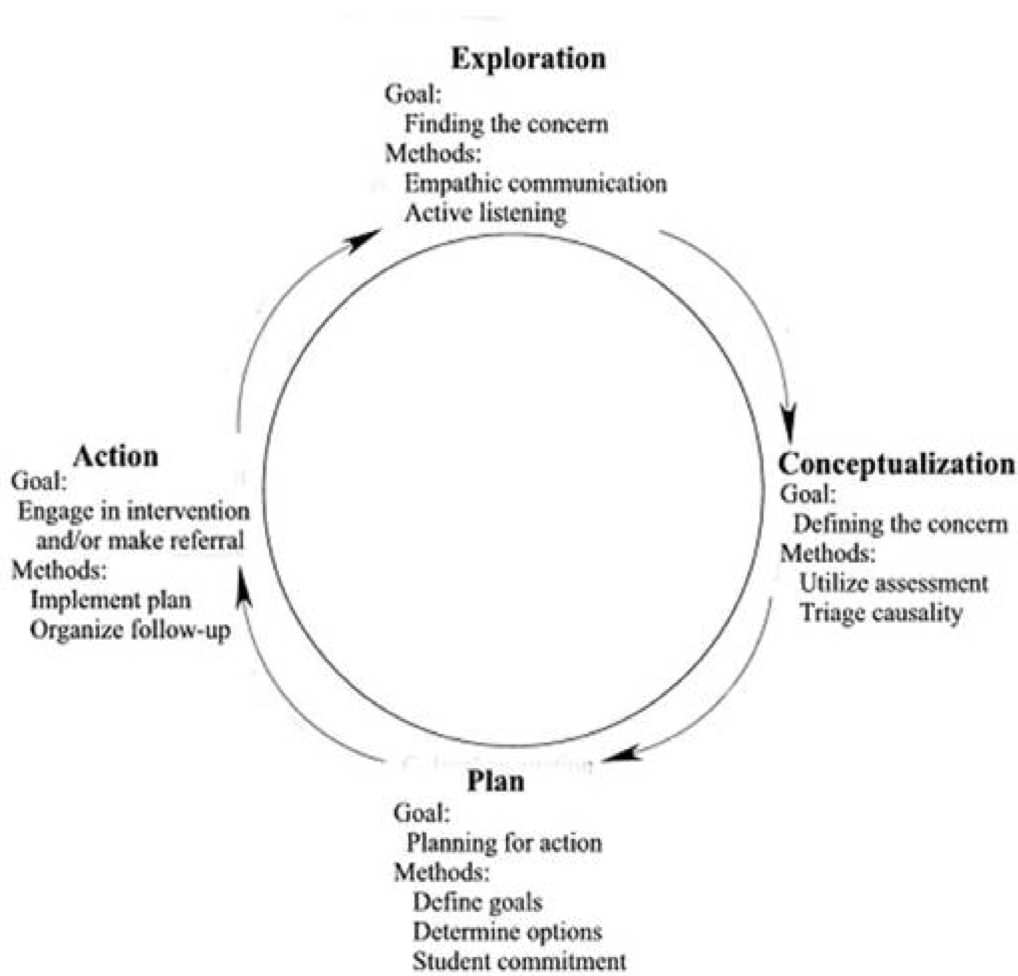
Dominance: wants to win; conflict is a battle
Collaborative: wants to find a solution that satisfies everyone
Compromise: splits the differences
Avoidance: backs away
Accommodative: focuses on desires of other party

Reducing Conflict

Lose-lose methods: parties to the conflict episode do not get what they want
Win-lose methods: one party a clear winner; other party a clear loser
Win-win methods: each party to the conflict episode gets what he or she wants
Summary

Lose-lose methods: compromise
Win-lose methods: dominance

Win-win methods: problem solving



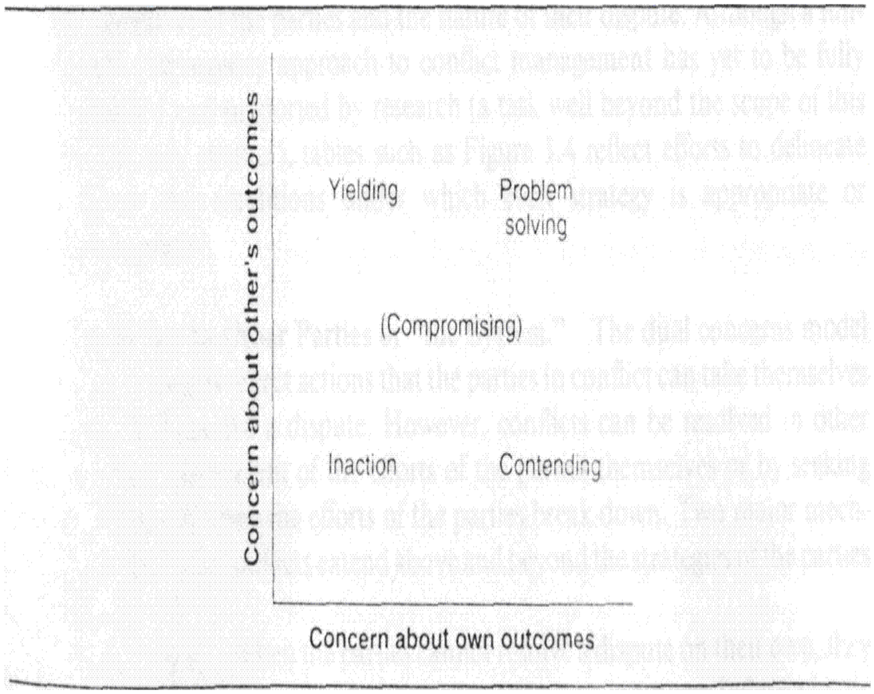
International Business Negotiation

Negotiation is the action and the process of reaching an agreement by means of exchanging ideas with the intention of dispelling conflicts and enhancing relationship to satisfy each other's needs.

Characteristics of negotiation:

(1) Every negotiation involves two or more parties.
(2) The objective of a negotiation must be definite.
(3) Negotiation must be conducted on an equal basis.
(4) A consensus must be built on the basis of mutual concession.
(5) Negotiation involves exchange of ideas, communication, persuasion, compromise and suchlike (process).

The Dual Concerns Model:



Business negotiation is a process of conferring in which the participants of business activities communicate, discuss, and adjust their views, settle differences and finally reach a mutually acceptable agreement in order to close a deal or achieve a proposed financial goal.

Characteristics of Business Negotiation:

(1) The objective of business negotiation is to obtain financial interest
(2) The core of business negotiation is price
(3). Its principle is equality and mutual benefit
(4). Items of contract should keep strictly accurate and rigorous.

Principles of business negotiation:

- Equality principle
- Cooperation principle
- Flexibility principle
- Positions-subjected-to-interests principle
- Depersonalizing principle (Separating the people from the problem)
- Using objective criterion

International Business Negotiation is the business negotiation that takes place between the interest groups from different countries or regions.

Features of International Business Negotiation:

(1) Language barrier
(2) Cultural differences

(3) International laws and domestic laws are both in force
(4) International political factors must be taken into account
(5) The difficulty and the cost are greater than that of domestic business negotiations

Forms of International Business Negotiation:

Classification by chief negotiator
Classification by negotiation object
Classification by form
Classification by procedure

Classification by chief negotiator

(1) Government- to- government's negotiation
(2) Government- to- Business's negotiation
(3) Producer- to- Producer's negotiation
(4) Producer- to- Trader's negotiation
(5) Retailer- to -Producer's negotiation
(6) Business- to- Business's negotiation
(7) Business- to- Consumer's negotiation

Classification by negotiation object

(1)Product trade negotiation
(2)Technology trade negotiation
(3) Service trade negotiation
(4) International project negotiation

Classification by form:

(1) One- to- one negotiation
(2) Team negotiation
(3) Multilateral negotiation

Classification by procedure

(1) Horizontal Negotiation
(2) Vertical Negotiation

The Basic Forms of International Business

Negotiation:

Host Court" negotiation and "Guest Court" negotiation Oral negotiation and written negotiation Formal and informal negotiation

"Host Court" negotiation and "Guest Court" negotiation:

(1) Host- Court negotiation
(2) Guest- Court negotiation
(3) Changing- Court negotiation
(4) Third- place negotiation

Oral negotiation and written negotiation

(1) Oral negotiation
(2) Written negotiation

Formal and Informal negotiation:

(1) Formal negotiation
(2) Informal negotiation

International Negotiation:

- More complex than domestic negotiations
- Differences in national cultures and differences in political, legal, and economic systems often separate potential business partners

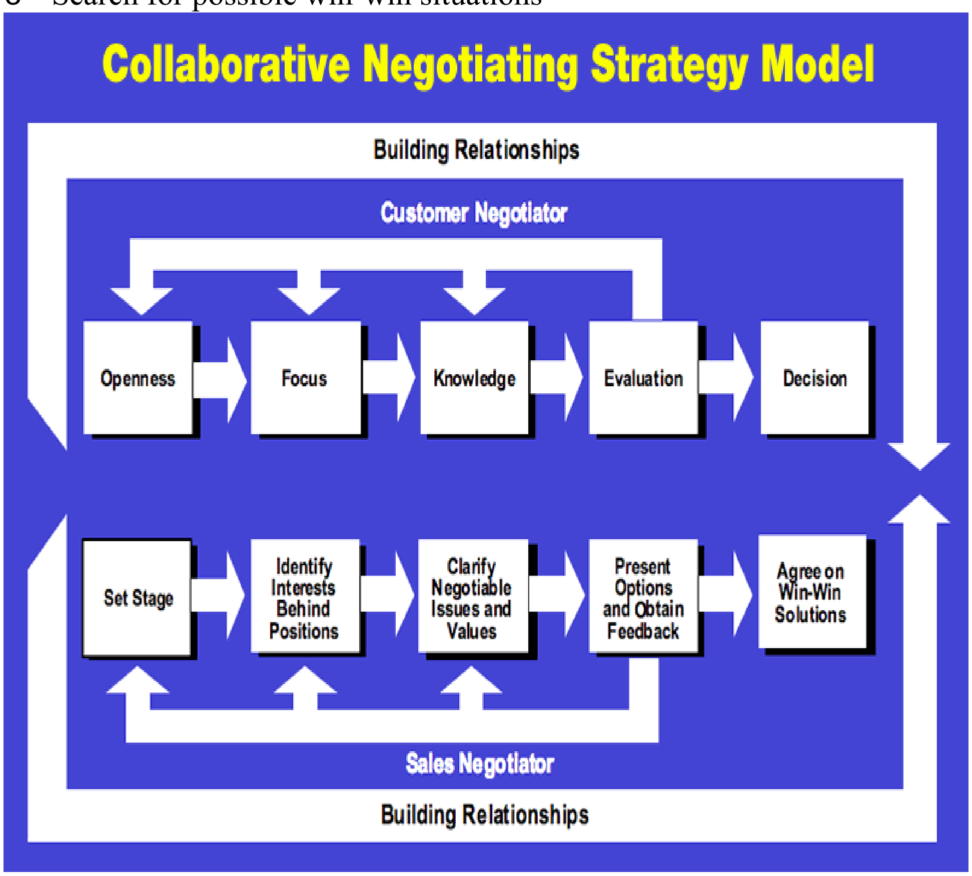
Steps in the International Negotiation process

The successful international negotiator: personal characteristics

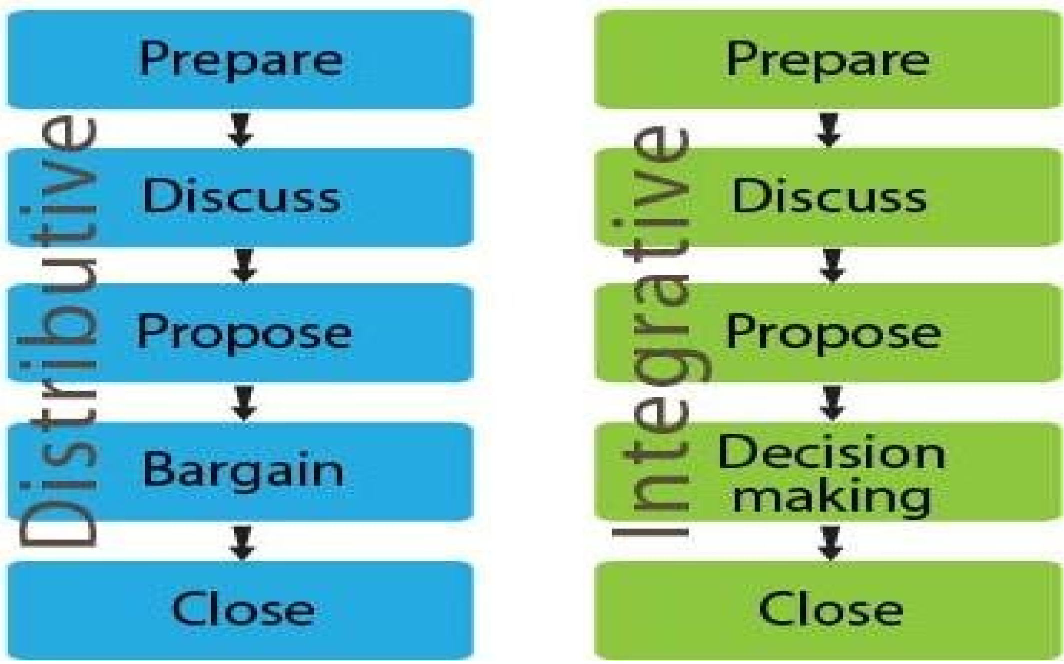
- Tolerance of ambiguous situations
- Flexibility and creativity
- Humor
- Stamina
- Empathy
- Curiosity
- Bilingual

BASIC NEGOTIATION STRATEGIES:

- Competitive
    - The negotiation as a win-lose game
- Problem solving
    - Search for possible win-win situations



	Demand	Offer	Threat
Who?	Who is to make decision	Who benefit if the decision is made	Who get hurt if the decision is not made
What?	Exactly what decision is desired	If the decision is made what benefit / costs can be expected	If the decision is not made what risk / potential benefits can be expected
When?	By what time does the decision have to be made	When if ever will the benefit of making the decision occur?	How soon will the consequences of not making the decision be felt
Why?	What makes this a right, proper & lawful decision?	What makes these consequences fair & legitimate	What make these consequences fair & legitimate



5.6 THE ROLE OF INTERNATIONAL AGENCIES:

1. The 'Hand-Shake'

Many New Zealand exporters confirm their agent or distributor's appointment and the terms of their relationship on the strength of a handshake. New Zealand Trade and Enterprise does not recommend this approach. If there is no written document the relationship can run into difficulties in areas such as measuring performance, sorting out differences of opinion, or terminating the arrangement. It is important to have a written agreement that covers the key components of your relationship.

2. Heads of Agreement/Exchange of Letters

In the majority of cases, a Heads of Agreement or Exchange of Letters is the best starting point in terms of an export and agent/distributor agreement. Such an agreement implies trust and a formal relationship and is a good mechanism to protect your interests. However, it does not involve the time and cost of working through lawyers.

The Heads of Agreement should include the following:

- Products involved – description
- Territory covered by the representative
- The timeframe of the agreement
- Termination clauses – it is important to think about these at the start of the relationship when you and your representative are on good terms.
- Review Clauses – when you want to review the agreement and what you want to review
- Performance targets – these could cover such things as amount of sales, number of customers, number of advertising campaigns etc.

3. Formal Agent/Distributor Agreement

This is a formal agreement that requires the services of a lawyer, as well as considerable time and money on your behalf. Just as too many New Zealand exporters rely on the handshake agreement, too many also jump in at this stage.

While the handshake is too flimsy, the formal agreement at the outset can be a waste of time and money if the relationship only lasts for a few months. It is usually better to start with a Heads of Agreement or Letters of Exchange and progress to this stage once the relationship has proved itself to be ongoing. Be aware, however, that formal agent/distributor agreements should not be seen as legally binding, except perhaps for Australia. It would normally be too expensive for a New Zealand company to sue an offshore partner who breaks such an agreement, despite its legal basis.

The key advantage of a formal agreement is that it is a written statement of intent that ensures everyone understands the rules and is working to the same objectives.

A checklist of items that should be included in an agent/distributor agreement can be found at the end of this document.

4. Joint Venture

Once you have an established and successful relationship with your representative, you could consider entering into a joint venture with them. This is a public show of your commitment to each other and sends good market signals. For information on joint ventures, see the New Zealand Trade and Enterprise

Measure the agent or distributor's performance:

While the sales figures and trends will give you a good indication of how well your product and your distributor or agent is performing, it makes good sense to have a more formal performance arrangement in place so you can quickly and easily identify areas for attention.

- Request regular reports on a monthly, quarterly and annual basis. These reports should cover such things as sales, inventory after-sales service, distribution and warehousing, freight, competitor activity, new products, consumer and audience trends.
- Regular visits to the market should be part of a performance review.
- Encourage open, two-way communication so problems can be highlighted and dealt with quickly and constructively.
- Talk to customers to find out how they think your representative is performing.
- Use your time in the market to ascertain how quickly and accurately your representative is reporting back market trends

5.7 ETHICS IN INTERNATIONAL BUSINESS

Business Ethics:

Business ethics are principles of right or wrong governing the conduct of business people. The text says, “The accepted principles of right and wrong” But there are many differences of opinion among highly ethical business people.

Ethical Issues in International Business

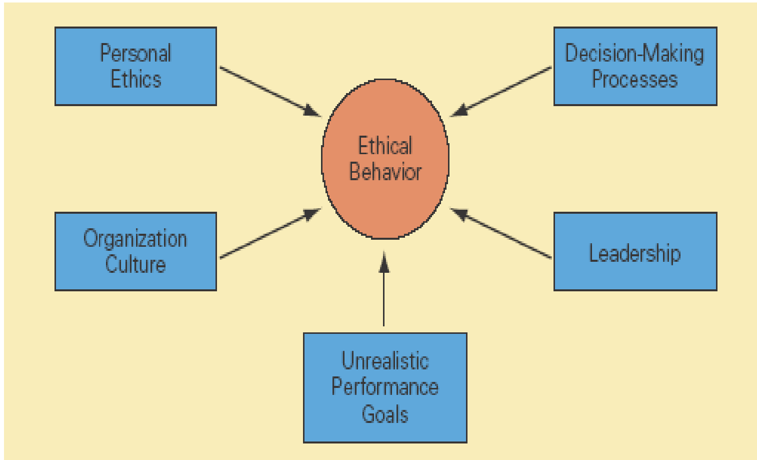
- Many ethical issues and dilemmas are rooted in differences in political systems, law, economic development, and culture. Some key ethical issues in international business
- Employment Practices

When work conditions in a host nation are clearly **inferior** to those in a multinational’s home nation, **what standards should be applied**? **How much divergence is acceptable?**

Determinants of Ethical Behavior:

- Organization culture
- Personal ethics
- Decision making processes
- Leadership
- Unrealistic / realistic performance goals

The Roots of Unethical Behavior:



Ethical Decision Making

Five things that an international business and its managers can **do** to make sure ethical issues are considered

- Favor hiring and promoting people with a well-grounded sense of personal ethics
- Build an organizational culture that places a high value on ethical behavior
- Make sure that leaders within the business not only articulate the rhetoric of ethical behavior, but also act in a manner that is consistent with that rhetoric
- Implement decision-making processes that require people to consider the ethical dimension of business decisions
- Develop moral courage

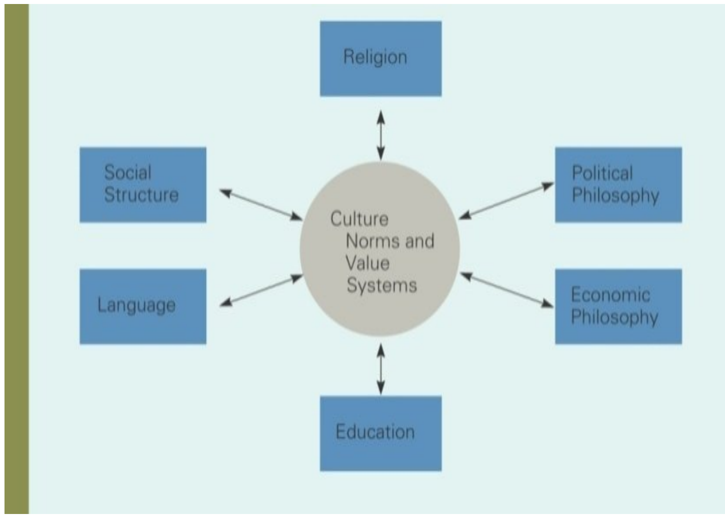
What is culture?

"A system of values and norms that are shared among a group of people and that when taken together constitute a design for living."

Different components of culture:

- Values: Abstract ideas/assumptions about what a group believes to be good, right and desirable
- Norms: social rules and guidelines that prescribe appropriate behavior in particular situations
- Folkways: Routine conventions of everyday life.
  - Little moral significance
  - Generally, social conventions such as dress codes, social manners, and neighborly behavior
- Mores: Norms central to the functioning of society and its social life
  - Greater significance than folkways
  - Violation can bring serious retribution, Theft, adultery, incest and cannibalism

Determinants of culture



Improving Global Business Ethics

Seven Moral Guidelines for MNCs

- Inflict no intentional or direct harm
- Produce more good than bad for the host country
- Contribute to host country's development
- Respect the human rights of their employees
- Pay their fair share of taxes
- Respect local cultural beliefs that do not violate moral norms
- Cooperate with the government to develop and enforce background institutions

The Role of Ethics in International Business

International business ethics has a number of open questions and dilemmas. Today it is characterized by the following elements: Every culture and nation has its own values, history, customs and traditions, thus it has developed own ethical values and understanding of ethical principles; There is no international ethical code of conduct, accepted and followed by all the countries; There is a lack of governments' initiative to create ethical cooperation framework and thus to enhance ethical behavior in international business; It is hard to outline those ethical values which would be understandable, acceptable and important for representatives of all the continents simultaneously within different types of international cooperation projects.

Following approach to international business ethics:

Every individual and every corporate body must outline its ethical values; Every individual and company should ensure understanding of ethical values and belief in their effectiveness and importance;

Employees of every organization must participate in creating a corporate code of conduct, which in this case definitely represents corporate culture, rather than only personal views of a company's leader; Every individual and company must monitor compliance with the outlined values at all times.

All the ethical values must be divided in two categories – rigid and flexible. Rigid are those values which cannot be renounced under any circumstances (honesty, integrity, professionalism), and flexible ones, which are those moral principles which may be interpreted in different ways in different situations (will to understand other cultures' values, remuneration policies).

5.8 ETHICAL DECISIONS IN INTERNATIONAL BUSINESS:

Business Description (What):

Business decision-making tools yield more coherent and justifiable results when used with an understanding of the ethical, social and environmental aspects of the decision-making process. Using a case study approach, this subject is designed to look at such non-financial elements in decisions made within the international business context. Its premise is that to succeed in international business, both corporations and individuals need broad decision-making abilities. This applies in various situations in the international business setting, including business relations with governments, customers, employees and NGOs. This subject considers ethics in terms of Corporate Social Responsibility (CSR) in international business.

The subject provides an experience-based environment where students work on personal application of knowledge. Responsibility for student learning is placed on the students themselves, allowing self-directed choices to be made while at the same time supporting peer learning. Student teams work with nominated industry partners on real-life ethical challenges in international business, as well as providing industry partners with fresh analyses of future challenges. The subject requires an environment where no pre-existing' right' answers exist and where the search for answers is built upon a continuous process rather than any discrete event.

Objectives (Why):

- Equip students to deal with ethical questions arising in everyday professional situations in international business contexts, with international business partnerships encouraging students to improve their employability and gain unique access to real-life corporate decision making
- Support transference of learning from the classroom to the workplace through student interaction with business partners and focusing of assignments on applied topics, the learning journal in particular deepening students' generic ability to learn from experience
- Help students synthesize their theoretical knowledge into a vision of the ethical challenges that may face business in the future, as well as providing tentative solutions to foreseen challenges.

There are mutual and synchronous benefits for all stakeholders, including:

- For the company: a leadership opportunity for those organizations and individuals involved, bringing current CSR issues to curriculum content within a business faculty. On the other hand, partnered organizations have an opportunity to gain academic understanding of business ethics, the Gen Y perspective and to build an on-campus profile.
- For the students: by having actual companies involved students gain an authentic understanding of corporate responsibility and sustainability issues facing business today. The development of their ethical, professional and social understanding will then translate into individual employability.

- For the faculty: a leadership opportunity for business schools in the Australian higher education sector.

Practice (How):

- This subject has no formal lectures. Face-to-face teaching time is organized as workshops where teams, supported by the teaching staff, work through technical and ethical questions and challenges. Students are given an extensive reading list consisting of core ethical texts and their applications. They also have access to podcast lectures. Each team has a nominated industry partner with which it liaises throughout the unit.

- Class time is divided into weekly themes (2x3hr sessions each). In the first session, ethical theory taken from the readings is applied to universal questions in business ethics. In the second session each team applies its knowledge to the particular ethical challenges faced by their dedicated industry partner. At the start of the semester industry partners provide each team with an information pack containing key corporate facts and figures, a CSR report and links for further research. Students can ask questions of the industry partner half-way through the subject during a visit to their office/production facilities. At the end of the semester each team presents its findings to the industry partner and engages in dialogue about them. Presentations are held at the offices of the partner company.

- Direct engagement by student teams with several business operating in an international context. Participating businesses in this subject were sourced through the University's Careers and Employer Relations Office

- Team assignments are the key learning tool. They are designed so that students can work through ethical questions in a structured and focused manner, benefiting from the experience and expertise of their team members. The questions set for teams require all team members to work cohesively and reach decisions in situations where there is no one right answer. In addition to the team assignment, students are assessed in individual and team quizzes, team presentations and an individual reflective journal and report.

Industry Engagement:

- Direct engagement by student teams with several business operating in an international context
- Participating businesses in this subject were sourced through the University's Careers and Employer Relations Office

Enablers:

- Continuity in unit of study 'ownership', facilitating the constitution, development and permanence of the teaching team
- Promotional and annual review decisions that reflect the role of learning and teaching activities (L&T), i.e. L&T career pathways encouraged and rewarded

Impediments:

Part A

Define conflicts

Will you state the sources of conflict in international business?

How would you solve the individual level conflict?

How would you classify the conflict?

What could be done to minimize the problems in resolving conflicts?

How would you evaluate negotiations in international business?

Define organizational conflict?

What is the differentiate between conflict and dispute?

What are the agencies participate in negotiation process?

State the importance of international business ethics.

What facts would you select to show the ethical issues?

Can you list out the importance of international business ethics?

Part B

Explain in detail about the ethics in International business

Explain the role of international agencies in Negotiation.

Discuss the ethical issues in international business.

"The problem of business conflicts is complex in the arena of international marketing primarily for three reasons". What are they?

"It is essential that conflicts in international business be avoided to the extent possible". Explain in view of the steps involved while signing the contracts with opposite parties.

Part C

"Negotiation is defined as the process of bargaining with one or more parties to arrive at a solution that is acceptable to all". Elaborate this statement.

"The decision makers consider the alternatives, make review the action decision, act or implement and finally review the action". Discuss under separate heads in context to ethical decision making.

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