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INSTITUTE OF SCIENCE AND TECHNOLOGY

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SCHOOL OF MANAGEMENT STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

UNIT 1 –GLOBAL BUSINESS MANAGEMENT

SBAA5301

UNIT 1 – INTRODUCTION TO INTERNATIONAL BUSINESS

Introduction to International Business : Evolution- Theories of global trade and investment- Mercantilism—Theories of Absolute Advantage-Theory of Comparative advantage ,Factor Endowment theory- Product Life Cycle theory- Porter's National Competitive advantage.

Introduction to International Marketing:

The term International business has emerged from "International marketing". International business involves transactions across the national boundaries. It includes the transfer of goods, services, technology, managerial knowledge and capital to other countries. International business has gained greater visibility and importance in recent years because of the large multinational corporations.

Meaning

Trade is the concept of exchanging goods and services between two people or entities. *International trade* is then the concept of this exchange between people or entities in two different countries. International trade is a part of total marketing process.

- It refers to the marketing activities carried on by a marketer in more than one nation.
- "Trade carried on across national boundaries"

Definition

- "The Performance of business activities that directs the flow of goods and services to consumers or users in more than one nation" – Hess & Cateor
- International marketing has also been defined as ' the performance of business activities that direct the flow of goods and services to consumers or users in more than in one nation'.
- "It is different from domestic marketing in as much as the exchange takes place beyond the frontiers, thereby involving different markets and consumers who might have different needs, wants and behavioral attributes.

Scope of International Marketing:

- Though international marketing is in essence export marketing, it has a broader connotation in marketing literature. It also means entry into international markets by:
- Opening a branch/ subsidiary abroad for processing, packaging, assembly or even complete manufacturing through direct investment.
- Negotiating licensing/ franching arrangements whereby foreign enterprises are granted the right to

use the exporting company's know-how's, viz., patents, processes or trademarks with or without financial investment.

- Establishing joint ventures in foreign countries for manufacturing and or marketing and offering consultancy services and undertaking turnkey projects broad. Depending upon the degree of firm‟s involvement, there may be several variations of these arrangements.

CHARACTERISTICS (OR) FEATURES OF INTERNATIONAL TRADE

1. **Sovereign Political Entities –** There are more restrictions imposed on the country for importing and exporting the goods and services in order to safeguard their national products. These restrictions include the following.
2. **Imposition of Tariffs & Customs Duties –** These are levied both on import and on export of goods and services in order to make them costly in the importing country and not to ban their entry into the country completely. **GATT** – General Agreement on Tariffs and Trade has reduced significantly in tariff globally and on regional basis due to the emergence of regional economic grouping.
3. **Restrictions on Qualities –** are imposed in order to protect home industries from the competition of the foreign commodities.
4. **Exchange control and quantitative controls –** are put together along with the grant of import license.
5. **Legal Systems** – Presence of various legal systems makes the task of businessmen more difficult. Most of the countries follow English common law as modified from time to time.
6. **Monetary systems –** The exchange rates are fixed under the rules framed by the International Monetary Fund. Some countries follow multiple rates, in which different rates are applicable to different transactions.
7. **Mobility of factors on production –** Recently the movement of labour has increased manifold with the advent of air transport. The development of International banking has also increased the mobility of capital and labour.
8. **Market Considerations –** The demand pattern, channels of distribution, methods of promotion etc, are different from market to market.
9. **Procedures and documentations –** The different laws and customs of trade in each country

demand different procedures and documentary requirements for the import and export of the goods and services

International Marketing vs. Domestic Marketing:

There are a number of similarities and differences between international and domestic marketing.

1. Both in domestic marketing and international marketing success depend upon satisfying the basic requirements of consumers. This necessarily involves finding out what the buyers want and meeting their needs accordingly.
2. It is necessary to build goodwill both in the domestic market and international market. If a firm is able to develop goodwill of consumers or customers, its tasks will be simpler than the one, which has not been able to do so.
3. Research and development for product development and modification is necessary both for international marketing and domestic marketing.

Difference between international marketing and domestic marketing.

1. Sovereign Political Entities:

Each country has is a sovereign political entity and goods and services had to move across national boundaries. As a result, they may have to face a number of restrictions. This may fall in any of the following categories;Tariffs and customs duties Quantitative restrictions Exchange controls Local Taxes.

2. Different Legal Systems:

Each country has its own legal system and it differs from country to country. The existence of different legal systems makes the task of businessmen more difficult as they are not sure as to which particular system will apply to their transactions. In the case of domestic marketing the buyers are aware of the legal systems in their country.

3. **Cultural Differences**:

In domestic marketing there is only one nation, same language and culture where as at international marketing many languages and different cultures.

4. Different Monetary Systems:

Each country has its own monetary system and the exchange value of each country's currency is different from that of the other. The exchange rates between currencies fluctuate every day. In case of domestic marketing there is only one currency prevailing in the country.

5. **Differences in the Marketing infrastructure:**

The availability of the marketing facilities available in different countries may vary widely. For example, an advertisement medium very effective in one market may not be available or may be under developed in another market.

6. **Trade Restrictions:**

Trade restrictions, particularly import controls are a very important problem which an international marketer faces.

7. **Transport Cost:**

In International trade, transport cost is a major marketing expense where as in domestic trade transport cost influences only to certain extent.

8. **Procedures and Documentations:**

Each country has its own procedures and documentary requirements and traders have to comply with these regulations if they want to export or import goods from foreign countries.

9. **Degree of Risk**:

There is a greater degree of ri involved in international marketing than in domestic marketing due to Large volume of transactions

- Higher value of transaction Longer time period
- More time of transit Longer credit period
- Comparatively less knowledge Exchange fluctuations.

10. **Stability in Business Environment:**

In domestic marketing there is relatively stable business environment. At international marketing multiple environments, many of which are likely instable.

11. **Transition from Domestic market to international market**

The Decision to enter foreign markets must be based on strong economic factors. Temperamental decision to export is transient in character and totally unsuitable for export marketing. Success in exporting requires total involvement and determination, which can come only out of basic economic necessity as perceived by the corporate unit.

They grouped as

- Pre-export behaviour
- Motivation to Export.

Pre-Export Behaviour:

Every firm at some point of time starts as a non-exporter. The point to be studied is what made some of these firms get involved in export business. This must give a clue to the question as to whether a present non-exporter will become an exporter and if so why and when. The factors, which influence a non-exporting firm's decision to go in for export business, can be classified under the following categories:

1. Firm characteristics: Firm characteristics include product characteristics; size and growth of the domestic market, optimum scale of production, and potential export markets. If the firm is manufacturing a product, which is internationally marketable, and the present and future market prospects in the domestic market are not much encouraging, the motivation of the firm to get involved in export business will be considerable.
2. Perceived External Export Stimuli: This will include fortuitous order, market opportunity and government's stimulation in the form of incentives and assistance.
3. Perceived Internal Export Stimuli: This refer to the management's expectations about the effects of exports on the firm's business. This covers the level of capacity utilization, the higher level of profits and the growth objectives of the firm.
4. Level of Organizational commitment: The decision makers must agree on the level of commitment. This is crucial because it will determine whether adequate resources will be made available for embarking on international marketing. Resources will be required for hiring new staff specialized in international marketing, hiring of consultants for carrying out overseas market potential studies etc.,

2. Motivation to Export: (Economic reasons)

There are some basic economic reasons which might influence a firm decision regarding export business: These are under:

- Relative Profitability: The rate of profit to be earned from export business may be higher than the corresponding rate on the domestic sales.
- Insufficiency of Domestic Demand: The level of domestic demand may be insufficient for utilizing the installed capacity in full. Export business offers a suitable mechanism for utilizing the unused capacity. This will reduce costs and improve the overall profitability of the firm. Recession in the domestic market often serves as a stimulus to export ventures.
- Reducing business risks: When a firm is selling in a number of markets, the downward fluctuations in sales in one market, which may be the domestic market, may be fully or partly counter balanced by a rise in the sales in other markets. Secondly, geographic diversification also provides the momentum to growth in as much as a single or few markets will have only limited absortive capacity.

- Legal restrictions: Governments may impose certain restrictions on further growth and capacity expansion of some firms within the domestic market in order to achieve certain social objectives. But there may not be any such restrictions, if the additional capacity is utilized for exports. Then the firm may be tempted to export its products abroad.
- Obtaining imported inputs: Nations have to pay for imports of materials, technology or processes not available within their national boundaries. Governments, therefore, may be compelled to impose export obligations on the firms, especially those in need of imported inputs. In other words, in order to import, the firms will have to export.
- Social responsibility: Sometimes businessmen themselves feel a sense of responsibility and contribute towards the national exchequer by increasing their exports. They also build up their image in domestic marketing by their export activities. They also look at exporting to attain status and prestige.
- Increased productivity: Increased productivity is necessary for ultimate survival of a firm. This will lead the firm to increase production and then move to export business. To meet the increased costs of Research and Development, larger markets become a necessity and exports become unavoidable.Technological improvement: Entry to export market may enable a firm to pick up new produce ideas and to add to product line, improve its product, reduce costs and discover new applications for its product.

Special difficulties in international marketing

There are a number of difficulties in undertaking international business. Some of them the special difficulties are as follows:

1. Quantitative restrictions to protect local industries.
2. Government regulations restricting imports by way of import licenses, etc. Exchange controls.
3. Local taxes like sales taxes on imported goods.
4. Different monetary systems like Dollars in USA, Sterling in UK, YEN in Japan.
5. Different legal system regarding import and export of goods.
6. Differences in procedures and documentation.
7. Differences in market characteristics.
8. Lower mobility of factors of production.
9. Cultural dimensions of international marketing.
10. Economic Unions.
11. Trade barriers - Tariff and non tariff barriers.
12. Lack of export incentives to exporters.
13. Lack of adequate export financing especially for small scale industries.

14. Complications of Exporting.
15. Paper work is more in export business.
16. Competition from local exporters, competition from exporters from other countries and competition from producers of goods in the importing countries.
17. Shipping and freight problems.
18. Non-availability of latest information about the market conditions, etc.

METHODS OF ENTERING FOREIGN MARKET

Exporting Surplus Production

a. Most common and simplest way for entering the overseas markets for the first time.
b. Risk element is minimum.
c. By meeting consumers directly in overseas markets.
d. By selling the goods to an import house or buying agents.
e. By selling the goods to an exporting house.

Licensing : Formal and Legitimate entry

A License is issued to a foreign firm to manufacture the product by using the firm‟s name, patent, trademark and technology under certain agreements.

- The license issuing company will get an agreed percentage on the sales as service charge or remuneration.
- This arrangement is possible only
- When there are curbs on imports.
- When a country is sensitive to foreign ownership.
- When a firm wants to protect its patents and trade marks against cancellation or imitation.
- Suitable for small and medium sized industry and does not require huge capital.

Collaboration or Joint Venture : Refers to joining the management and sharing the profit of the firm.

Key Reasons for the popularity of this strategy

1. Insufficient capital or Human Resources
2. Better future for the company in the foreign market
3. Intention of a company to take advantage of the local firm‟s distribution system.
4. Helps to minimize the political and economic risk
5. Implications are no absolute control
6. Loss of freedom of action in production or marketing operations.

Production in a foreign country – A Firm finds that it is not possible to export goods due to

1. High export expenditure
2. The cost of production is low(Material, Labour)
3. Tariff and Non-tariff barriers
4. Planning to manufacture and market the goods locally in order to avoid importing country"s barriers and other restrictions.
5. Suitable when the market is for a special type of goods.

5. Management Contract

1. Not a common method.
2. Entry is due to the external political pressures from the host country government.
3. Normally adopted when the firm"s investments in a foreign country are expropriated by the host government and when no suitable and adequate managerial capacity exists in the host country.
4. The firm gets fees for specific time.

6. Providing Consultancy Services and Undertaking Turnkey Projects

The country which do not have technical field offer facilities to firms from other countries, invite the host countries to participate in their development programmes through their expertise services. The firm with expertise will enter contracts with the host country"s which may include

- Turnkey Project – Includes the provision of services like designing, civil, construction, erection etc.
- Consultancy Service Contract – includes consultation for the commissioning of plant and feasibility report, advice to the project authority etc.
- Engineering Service Contract – includes commissioning of plant or supervision services like designing etc.
- Civil Construction Contract – They are with or without preparation of designs or drawings.

PROBLEMS IN INTERNATIONAL TRADE

- Political and Legal Differences – Generally the political and legal climate of foreign markets are different. The political and Legal environment will not be uniform in all provinces of many home markets.
- Problems due to Cultural Differences – The cultural differences create problems in International marketing.
- Problem due to Economic Differences

- Change by Currency – The currency unit differs from nation to nation, leads to currency convertibility, besides the problems of exchange rate fluctuation.
- Problems relating to language
- Lack of Proper Marketing facilities - Example an advertising medium very effective in one market may not be effective in another market.
- Restriction relating to Trade
- Transport Cost.

THEORIES OF INTERNATIONAL BUSINESS

1. **Theories of Trade Mercantilism**
2. **Theories of Absolute Advantage (Adamsmith)**
3. **Theory of comparative advantage (Ricardo -1817)**
4. **Product Life Cycle Theory**
5. **Porter's National Competitive Advantage Theory**

1. Theories of trade mercantilism:

Developed in the sixteenth century, mercantilism was one of the earliest efforts to develop an economic theory. This theory stated that a country‟s wealth was determined by the amount of its gold and silver holdings. In it‟s simplest sense, mercantilists believed that a country should increase its holdings of gold and silver by promoting exports and discouraging imports. In other words, if people in other countries buy more from you (exports) than they sell to you (imports), then they have to pay you the difference in gold and silver. The objective of each country was to have a trade surplus, or a situation where the value of exports are greater than the value of imports, and to avoid a trade deficit, or a situation where the value of imports is greater than the value of exports.

- Mercantile trade theory emerged in England in the mid of 16 century.
- Gold and silver is the main national wealth and essentials of commerce.
- During 17 century gold and silver became the currency of trade between countries and they tried to earn gold and silver by exporting and importing.
- To discourage imports and to achieve surplus government imposed "Tarriffs and Quotas and subsiding export" came into existence.

Note : A closer look at world history from the 1500s to the late 1800s helps explain why mercantilism flourished. The 1500s marked the rise of new nation-states, whose rulers wanted to strengthen their nations by building larger armies and national institutions. By increasing exports and trade, these

rulers were able to amass more gold and wealth for their countries. One way that many of these new nations promoted exports was to impose restrictions on imports. This strategy is called protectionism and is still used today. Nations expanded their wealth by using their colonies around the world in an effort to control more trade and amass more riches. The British colonial empire was one of the more successful examples; it sought to increase its wealth by using raw materials from places ranging from what are now the Americas and India.

2. Theories of absolute advantage (Adam Smith)

Adam Smith‟s „Absolute Advantage theory‟ stated that a nation‟s wealth shouldn‟t be judged by how much gold and silver it had but rather by the living standards of its people. In 1776, Adam Smith questioned the leading mercantile theory and offered a new trade theory called absolute advantage, which focused on the ability of a country to produce a good more efficiently than another nation. Smith reasoned that trade between countries shouldn‟t be regulated or restricted by government policy or intervention. He stated that trade should flow naturally according to market forces. By specialization, countries would generate efficiencies, because their labour force would become more skilled by doing the same tasks . Production would also become more efficient, because there would be an incentive to create faster and better production methods to increase the specialization.

Example

In a hypothetical two-country world, if Country A could produce a good cheaper or faster (or both) than Country B, then Country A had the advantage and could focus on specializing on producing that good. Similarly, if Country B was better at producing another good, it could focus on specialization as well. Smith reasoned that with increased efficiencies, people in both countries would benefit and trade should be encouraged.

3. Theory of Comparative Advantage (Ricardo -1817)

David Ricardo, an English economist, introduced the theory of comparative advantage in 1817. Ricardo reasoned that even if Country A had the absolute advantage in the production of *both* products, specialization and trade could still occur between two countries. The challenge to the absolute advantage theory was that some countries may be better at producing both goods and, therefore, have an advantage in *many* areas. In contrast, another country may not have *any* useful absolute advantages. To answer this challenge, Comparative advantage occurs when a country cannot produce a product more efficiently than the other country; however, it *can* produce that product better and more efficiently than it does other goods. The difference between these two theories is subtle. Comparative advantage focuses on the relative productivity differences, whereas absolute advantage looks at the absolute productivity.

Example to illustrate the subtle difference between absolute advantage and comparative advantage. Sonu is a singer who charges Rs. 5000 per hour for his services. Sonu can also play guitarist than the Guitarist in his troop who is paid Rs. 500 per hour. Even though Sonu clearly has the absolute advantage in both skill sets, should he do both jobs? The answer is No. For every hour Sonu decides to play keyboard, he would be giving up Rs.4500 per hour income. His productivity and income will be highest if he decides to sing in the troop and hire a skilled guitarist for his troop. Now If both Sonu and his guitarist decide to do their task they will earn more as a team.This is comparative advantage. Hence may be a person or a country it has to specialize in doing what they do relatively better than others.

4. Factor Endowment/ Factor Proportion Theory.

The Hecksher-Ohlin theory of factor endowment in international trade is used to determine comparative advantage of various countries. According to the theory, a country will have a comparative advantage in a good produced by factors it is abundantly endowed with. While dealing with this theory we must keep in mind that factor endowments are meant to be dealt in ratios. The theory states that the differences in the costs of production stems from the differences in the supply of factor endowments

For example, a country may have large amounts of both capital and labour, however, one factor may be proportionally more than the other. This is what makes the difference.

Note: The factors of production in an economy are labour, capital, entrepreneurship and land. Another phrase for factors of production is factor endowment. Factor endowments are essentially factors of production used by an economy to make the most of manufacturing. Abundance of these resources often leads to countries becoming prosperous and wealthy nations.

5. Product Life Cycle Theory

Raymond Vernon, a Harvard Business School professor, developed the product life cycle theory in the 1960s. The theory, originating in the field of marketing, stated that a product life cycle has three distinct stages: (1) new product, (2) maturing product, and (3) standardized product. The theory assumed that production of the new product will occur completely in the home country of its innovation.

- In the 1960s this was a useful theory to explain the manufacturing success of the United States. US manufacturing was the globally dominant producer in many industries after World War II.
- It has also been used to describe how the personal computer (PC) went through its product cycle. The PC was a new product in the 1970s and developed into a mature product during the 1980s and 1990s.
- Today, the PC is in the standardized product stage, and the majority of manufacturing and production process is done in low-cost countries in Asia and Mexico.

The product life cycle theory has been less able to explain current trade patterns where innovation and manufacturing occur around the world. For example, global companies even conduct research and development in developing markets where highly skilled labor and facilities are usually cheaper. Even though research and development is typically associated with the first or new product stage and therefore completed in the home country, these developing or emerging-market countries, such as India and China, offer both highly skilled labor and new research facilities at a substantial cost advantage for global firms.

6. Porter's National Competitive Advantage Theory

In the continuing evolution of international trade theories, Michael Porter of Harvard Business School developed a new model to explain national competitive advantage in 1990. **Porter's theory stated that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade**. It is also called Diamond‟s approach. His theory focused on explaining why some nations are more competitive in certain industries. To explain his theory, Porter identified four determinants that he linked together. The four determinants are (1) local market resources and capabilities, (2) local market demand conditions, (3) local suppliers and complementary industries, and (4) local firm characteristics.

1. **ocal market resources and capabilities (factor conditions).** Porter recognized the value of the factor proportions theory, which considers a nation‟s resources (e.g., natural resources and available labor) as key factors in determining what products a country will import or export. Porter added to these basic factors a new list of advanced factors, which he defined as skilled labor, investments in education, technology, and infrastructure. He perceived these advanced factors as providing a country with a sustainable competitive advantage.
2. **Local market demand conditions.** Porter believed that a sophisticated home market is critical to ensuring ongoing innovation, thereby creating a sustainable competitive advantage. Companies whose domestic markets are sophisticated, trendsetting, and demanding forces continuous innovation and the development of new products and technologies. Many sources credit the demanding US consumer with forcing US software companies to continuously innovate, thus creating a sustainable competitive advantage in software products and services.
3. **Local suppliers and complementary industries.** To remain competitive, large global firms benefit from having strong, efficient supporting and related industries to provide the inputs required by the

industry. Certain industries cluster geographically, which provides efficiencies and productivity.

4. **Local firm characteristics.** Local firm characteristics include firm strategy, industry structure, and industry rivalry. Local strategy affects a firm‟s competitiveness. A healthy level of rivalry between local firms will spur innovation and competitiveness.

In addition to the four determinants of the diamond, Porter also noted that government and chance play a part in the national competitiveness of industries. Governments can, by their actions and policies, increase the competitiveness of firms and occasionally entire industries. Porter‟s theory, along with the other modern, firm-based theories, offers an interesting interpretation of international trade trends. Nevertheless, they remain relatively new and minimally tested theories.

5. Global Strategic Rivalry Theory

Global strategic rivalry theory emerged in the 1980s and was based on the work of economists Paul Krugman and Kelvin Lancaster. Their theory focused on MNCs and their efforts to gain a competitive advantage against other global firms in their industry. Firms will encounter global competition in their industries and in order to prosper, they must develop competitive advantages. The critical ways that firms can obtain a sustainable competitive advantage are called the barriers to entry for that industry. The barriers to entry refer to the obstacles a new firm may face when trying to enter into an industry or new market. The barriers to entry that corporations may seek to optimize include:

- Research and development,
- The ownership of intellectual property rights,
- Economies of scale,
- Unique business processes or methods as well as extensive experience in the industry, and
- The control of resources or favorable access to raw materials

Importance of export business in India

- **Meeting imports of industrial needs:** it is essential to imports capital equipments, raw materials of critical nature, technical know-how for building the industrial base in the country for rapid industrialization and developing the necessary infrastructure.
- **Debt Servicing :** India has been receiving external aid over the years for its industrial development resulting in the need for debt servicing. Therefore, it is essential to concentrate on export earnings to cover both imports and debt servicing.
- **Fast Economic Growth :** The countries that would like it grow economically should create exportable surpluses i.e., surpluses after meeting domestic demands.
- **Optimum Use of Natural Resources :** Foreign exchange can be utilized in establishing industrial unit based on different natural resources availability in the country by making the necessary imports of plant and machinery for the purpose.

- **Meeting Competitions:** To improve the exports, the government announces several concessions and incentives. By utilizing these concessions domestic producers concentrates his mind towards the improvement of quality of goods produced and reduces the cost of production so as to face the acute competitive situation in the foreign markets by making intensive use of latest technology.
- **Increasing Employment Opportunities** : The problem of employment and underemployment can be solved to some extent by increasing the level of export.
- **Increasing in National Income:** A country‟s national income increases to a sizable extent through organized export marketing**.**
- **Increasing the standard of Living:** International trade improves the standard of living of people in a country as it is able to meet the demand of the people and industries in a country.
    - Import of necessary items.
    - Purchasing power increases.
    - Widespread industrialization
    - Competitive quality
- **Develops International Collaboration:** To settle international issues some countries from group or a common platform to discuss various issues concerning their international trade and take decision. OPEC & EEC are such groups.
- **Develops Cultural Relations:** Local representatives and other related persons come into contact with foreign representatives and know their habits and customs.
- **Brings Political Peace:** Various countries with different political ideologies import or export their product, which enhances the chances of peace.

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SCHOOL OF MANAGEMENT STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

UNIT 2 –GLOBAL BUSINESS MANAGEMENT - SBAA5301

UNIT 2

Environment of IB

Political –Legal-Technological- Cultural- Demographic and Economic environment , cultural management- Models to aid international managers- Modes of international business Organizing international business-international designs- factors influencing choice of a design –issues in organization design – conflict management – reconciliation- adjudication and arbitration issues, supporting institutions – negotiation

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International Business Environments

There are numerous types of business environments, however the political, the cultural, and the economic environments are the prime ones. These factors influence the decision-making process of an international business firm. It is important to note that the types of environments we discuss here are interlinked; meaning one's state affects the others in varying dimensions.

The Political Factors

The political environment of a nation affects the legal aspects and government rules which a foreign firm has to experience and follow while doing business in that nation. There are definite legal rules and governance terms in every country in the world. A foreign company that operates within a particular country has to abide by the country's laws for the duration it operates there.

Political environment can affect other environmental factors −

- Political decisions regarding economy can affect economic environment.
- Political decisions may affect the socio-cultural environment of a nation.
- Politicians may affect the rate of emergence of new technologies.
- Politicians can exert influence in the acceptance of emerging technologies.

There are four major effects of political environment on business organizations −

1. **Impact on Economy** − The political conditions of a nation have a bearing on its economic status. For example, Democratic and Republican policies in the US are different and it influences various norms, such as taxes and government spending.

2. **Changes in Regulation** − Governments often alter their decisions related to business control. For example, accounting scandals in the beginning of the 21st century prompted the US SEC turn more mindful on the issues of corporate compliance. Sarbanes-Oxley compliance regulations (2002) were social reactions. The social environment demanded the public companies to be more responsible.
3. **Political Stability** − Political stability effects business operations of international companies. An aggressive takeover overthrowing the government could lead to a disordered environment, disrupting business operations. For example, Sri Lanka's civil war and Egypt and Syria disturbances were overwhelming for businesses operating there.
4. **Mitigation of Risk** − There are political risk insurance policies that can mitigate risk. Companies with international operations leverage such insurances to reduce their risk exposure.

2. The Economic Factors

Economic factors exert a huge impact on international business firms. The economic environment includes the factors that influence a country's attractiveness for international business firms.

1. Business firms seek **predictable, risk-free, and stable mechanisms**. Monetary systems that acknowledge the relative dependence of countries and their economies are good for a firm. If an economy fosters growth, stability, and fairness for prosperity, it has a positive effect on the growth of companies.
2. Inflation contributes hugely to a country's attractiveness. High rate of inflation increases the cost of borrowing and makes the revenue contract in domestic currency. It exposes the international firms to foreign-exchange risks.
3. Absolute purchasing power parity is also an important consideration. The ratio of exchange rate between two particular countries is identical to the ratio of the price levels. The law of one price states that the real price of a product is same across all nations.
4. Relative purchasing power parity (PPP) is valuable for foreign firms. It asks how much money is needed to buy the same goods and services in two particular countries. PPP rates prompt international comparisons of income.

3. The Cultural Factors

Cultural environments include educational, religious, family, and social systems within the marketing system. Knowledge of foreign culture is important for international firms. Marketers who ignore cultural differences risk failure.

- **Language** − There are nearly 3,000 languages in the world. Language differences are important in designing advertising campaigns and product labels. If a country has several languages, it may be problematic.
- **Colors** − It is important to know how people associate with colors. For example, purple is unacceptable in Hispanic nations because it is associated with death.
- **Customs and Taboos** − It is important for marketers to know the customs and taboos to learn what is acceptable and what is not for the marketing programs.
- **Values** − Values stem from moral or religious beliefs and are acquired through experiences. For example, in India, the Hindus don't consume beef, and fast-food restaurants such as McDonald's and Burger King need to modify the offerings.
- **Aesthetics** − There are differences in aesthetics in different cultures. Americans like suntans, the Japanese do not.
- **Time** − Punctuality and deadlines are routine business practices in the U.S. However, Middle East and Latin American people are far less bound by time constraints.
- **Religious Beliefs** − Religion can affect a product's labelling, designs, and items purchased. It also affects the consumers' values.

- Cultural Differences
- Ireland's evening meal is called tea, not dinner.
- If you nod in Bulgaria, it means "no" and moving the head from one side to the other means "yes".
- Pepsodent toothpaste did not sell well in Southeast Asia, as it promised white teeth. Black or yellow teeth are symbols of prestige there.

5.Protectionism: It is a policy of protecting the domestic businesses from foreign competition by applying tariffs, import quotas, or many types of other restrictions attached to the imports of foreign competitors' goods and services.

There are many protectionist policies in place in many nations despite the fact that there is a popular consensus that the world economy, as a whole, benefits from free trade.

5.Government-levied tariffs − The best form of protectionist measure is the government-levied tariffs. The common practice is raising the price of the imported products so that they cost more and hence become less attractive than the domestic products. There are many believers that protectionism is a helpful policy for the emergent industries in the developing nations.

- **Import quotas** − Import quotas are the other forms of protectionism. These quotas limit the amount of products imported into a country. This is considered to be a more effective strategy than protective tariffs. Protective tariffs do not always repel the consumers who are ready to pay higher prices for imported goods.
- **Mercantilism** − Wars and recessions are the major reasons behind protectionism. On the other hand, peace and economic prosperity encourage free trade. In 17th and 18th centuries, the European monarchies used to rely heavily on protectionist policies. This was due to their aim to increase trade and improve the domestic economies. These (currently discredited) policies are called mercantilism.
- **Reciprocal trade agreements** − Reciprocal trade agreements limit the protectionist measures in lieu of eliminating them fully. However, protectionism still exists and is heard when economic hardships or joblessness is aggravated by foreign competition.
- Currently, protectionism is in a unique form. Economists term the form as **administered protection**. Most rich nations have fair trade laws. The announced purpose of Free Trade Laws is twofold −
- First is to make sure that foreign countries do not subsidize exports so that market incentives are not distorted and hence efficient allocation of activity among the countries is not destroyed.
- The second purpose is to assure that international companies do not dump their exports in an aggressive manner.

6. Demographic factors:

Demographic factors such as size of the population, population growth rates, age composition, ethic composition, family size, family life cycle, income levels, have very significant implications for business. The demographic environment differs from country to country and from place to place within the same country or region. Further, it may change significantly over time. Because of the diversity of the demographic environment companies are sometimes compelled to adopt different strategies within the same market

7. Competiton:

Competition will also influence the international marketing. As like domestic marketing the trader always aware of his competitors. But the quantum of competitors is more in international marketing than domestic marketing. Normally by the following ways the international merchant will face the competitors.

- Competition vis-à-vis producers in the importing country.
- Competition vis-à-vis exporter from the competing countries. Competition vis-à-vis other exporters from one's own country.
- The exporters have no control over these types of competition and hence they have to compete with all the three types of competitions.

8. Logistics

Logistics is that part of the supply chain process that plans, implements, and controls the efficient, effective forward and reverses flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers' requirements. The concept of logistics play vital role in international marketing by the ways sense.

The merchant has to seek the availability of required type of transport such as sea, air freezer space, etc.

9. Cost of transportation.

Unless the exporters are in a position to meet the above requirements of transport facilities and costs they cannot export their products to the target markets.

10. Risks

There is a greater degree of risk involved in international marketing than in domestic marketing due to

- Large volume of transactions
- Higher value of transaction
- Longer time period
- More time of transit

- Longer credit period
- Comparatively less knowledge
- Exchange fluctuations.
- Political risks
- Commercial risks
- Act of nature
- Act of enemies

The exporters have to face these risks in the international markets. These risks can be covered by taking insurance policies from the ECGC and General Insurance.

MODERN THEORIES

There are many theories and concepts associated with international trade. When companies want to go international, these theories and concepts can guide them to be careful and prepared.

There are four major modern theories of international trade.

1. The Heckscher and Ohlin Model

The Heckscher–Ohlin theory deals with two countries' trade goods and services with each other, in reference with their difference of resources. This model tells us that the comparative advantage is actually influenced by relative abundance of production factors. That is, the comparative advantage is dependent on the interaction between the resources the countries have.Moreover, this model also shows that comparative advantage also depends on production technology (that influences relative intensity). Production technology is the process by which various production factors are being utilized during the production cycle. The Heckscher–Ohlin theory tells that trade offers the opportunity to each country to specialize. A country will export the product which is most suitable to produce in exchange for other products that are less suitable to produce. Trade benefits both the countries involved in the exchange.The differences and fluctuations in relative prices of products have a strong effect on the relative income gained from the different resources. International trade also affects the distribution of incomes.

2. The Samuelson and Jones Model

According to Samuelson–Jones Model, the two major reasons for which trade influences the income distribution are as follows −

- Resources are non-transferable immediately and without incurring costs from one industry to another.
- Industries use different factors. The change in the production portfolio of a country will reduce the demand for some of the production factors. For other factors, it will increase it.
- There are three factors in this model − Labor (L), Capital (K), and Territory (T).
- Food products are made by using territory (T) and labor (L), while manufactured goods use capital (K) and labor (L). It is easy to see that labor (L) is a mobile factor and it can be used in both sectors. Territory and capital are specific factors.
- A country with abundant capital and a shortage of land will produce more manufactured goods than food products, whatever may the price be. A country with territory abundance will produce more foods.
- Other elements being constant, an increase in capital will increase the marginal productivity from the manufactured sector. Similarly, a rise in territory will increase the production of food and reduce manufacturing.
- During bilateral trade, the countries create an integrated economy where manufactured goods and food production is equal to the sum of the two countries' productions. When a nation does not trade, the production of a product will equal its consumption.
- Trade gains are bigger in the export sector and smaller in the competing import sector.

3. The Krugman and Obsfeld Model

The Krugman–Obsfeld Model is the standard model of trade. It implies two possibilities −

- The presence of the relative global supply curve stemming from the possibilities of production.
- The relative global demand curve arising due to the different preferences for a selected product.
- The exchange rate is obtained by the intersection between the two curves. An improved exchange rate – other elements being constant – implies a substantial rise in the welfare of that country.

4. The Michael Porter Model

Michael Porter identified four stages of development in the evolution of a country. The dependent phases are − Factors, Investments, Innovation, and Prosperity.Porter talked extensively on attributes related to **competitive advantages** which an organization can achieve relative to its rivals which consists of Lower Cost and Differentiation. These advantages derive from factor(s) that permit an organization to outperform its competition, such as superior market position, skills, or resources.In Porter's view, the strategic management of businesses should be concerned with creating and continuing competitive advantages.

GLOBAL COMPETITIVENESS

The International Institute for Management Development defines competitiveness as "a field of economic knowledge which analyzes the facts and policies that shaped the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people." The World Economic Forum defines global competitiveness as "the ability of a country to achieve sustained high rates of growth in gross domestic product (GDP) per capita."

Factors Affecting Global Competitiveness

Business firms abide by the rules and regulations formed by the government. The government assumes a very important role in enhancing competitiveness. Governments must promote trade by reengineering systems and procedures. Governments should be more responsive, reducing bureaucratic red tape.

- **Physical infrastructure** plays a critical role in improving the global competitiveness of a country. This will lead to the smoother movement of people, products, and services, facilitating faster delivery of goods and services.
- The business environment should be as such that it improves **coordination among public-sector agencies**. The best methods include providing support and incentives for R&D activities, HRD and education, encouraging innovativeness and creativity, facilitating the improvement of industrial blocks, and productivity enhancements of SMEs.
- **High total factor productivity** (TFP) is a boon for economic growth. It shows the synergy and efficiency of both capital and HR utilization and promotes national competitiveness.
- **Productivity campaigns** are important because they promote public-awareness and provide mechanisms to use the productivity tools and techniques.
- **Intensifying R&D activities** that contribute to creativity, innovation, and indigenous technological development is also an important factor.

- **Improving the capacities of SMEs** to become increasingly productive suppliers and exporters makes strategic sense.

MODES OF ENTRY IN AN INTERNATIONAL TRADE

The long-term advantages of doing international business in a particular country depend upon the following factors −

- Size of the market demographically
- The purchasing power of the consumers in that market
- Nature of competition

By considering the above-mentioned factors, firms can rank countries in terms of their attractiveness and profitability. The **timing of entry** into a nation is a very important factor. If a firm enters the market ahead of other firms, it may quickly develop a strong customer base for its products.

There are seven major modes of entering an international market. In this chapter, we will take up each mode and discuss their advantages and disadvantages.

The various methods of market entry open to firm in a given country are:

- Exporting
- Licensing
- Franchising
- Joint Venture
- Foreign subsidiaries
- Special Modes

1. Exporting

An item produced in a domestic market can be sold abroad. Storing and processing is mainly done in the supplying firm's home country. Export can increase the sales volume. When a firm receives canvassed items and exports them, it is called **Passive Export**.

Alternately, if a strategic decision is taken to establish proper processes for organizing the export functions and for obtaining foreign sales, it is known as **Active Export**.

- **Advantages** − Low investment; Less risks
- **Disadvantages** − Unknown market; No control over foreign market; Lack of information about external environment

2. Licensing

In this mode of entry, the manufacturer of the home country leases the right of intellectual properties, i.e., technology, copyrights, brand name, etc., to a manufacturer of a foreign country for a predetermined fee. The manufacturer that leases is known as the **licensor** and the manufacturer of the country that gets the license id known as the **licensee**.

- **Advantages** − Low investment of licensor; Low financial risk of licensor; Licensor can investigate the foreign market; Licensee's investment in R&D is low; Licensee does not bear the risk of product failure; Any international location can be chosen to enjoy the advantages; No obligations of ownership, managerial decisions, investment etc.
- **Disadvantages** − Limited opportunities for both parties involved; Both parties have to manage product quality and promotion; One party's dishonesty can affect the other; Chances of misunderstanding; Chances of trade secrets leakage of the licensor.

3. Franchising

In this mode, an independent firm called the **franchisee** does the business using the name of another company called the **franchisor**. In franchising, the franchisee has to pay a fee or a fraction of profit to the franchisor. The franchisor provides the trademarks, operating process, product reputation and marketing, HR and operational support to the franchisee.

Note − The Entrepreneur magazine's top ranker in "The 2015 Franchise 500" is Hampton Hotels. It has 2,000 hotels in 16 countries.

- **Advantages** − Low investment; Low risk; Franchisor understands market culture, customs and environment of the host country; Franchisor learns more from the experience of the franchisees; Franchisee gets the R&D and brand name with low cost; Franchisee has no risk of product failure.
- **Disadvantages** − Franchising can be complicated at times; Difficult to control; Reduced market opportunities for both franchisee and franchisor; Responsibilities of managing product quality and product promotion for both; Leakage of trade secrets

4.Turnkey Project

It is a special mode of carrying out international business. It is a contract under which a firm agrees – for a remuneration – to fully carry out the design, create, and equip the production facility and shift the project over to the purchaser when the facility is operational.

5.Mergers & Acquisitions

In Mergers & Acquisitions, a home company may merge itself with a foreign company to enter an international business. Alternatively, the home company may buy a foreign company and acquire the foreign company's ownership and control. M&A offers quick access to international manufacturing facilities and marketing networks.

- **Advantages** − Immediate ownership and control over the acquired firm's assets; Probability of earning more revenues; The host country may benefit by escaping optimum capacity level or overcapacity level
- **Disadvantages** − Complex process and requires experts from both countries; No addition of capacity to the industry; Government restrictions on acquisition of local companies may disrupt business; Transfer of problems of the host country's to the acquired company.

6. Joint Venture

When two or more firms join together to create a new business entity, it is called a **joint venture**. The uniqueness in a joint venture is its shared ownership. Environmental factors like social, technological, economic and political environments may encourage joint ventures.

- **Advantages** − Joint ventures provide significant funds for major projects; Sharing of risks between or among partners; Provides skills, technology, expertise, marketing to both parties.
- **Disadvantages** − Conflicts may develop; Delay in decision-making of one affects the other party and it may be costly; The venture may collapse due to the entry of competitors and the changes in the partner's strength; Slow decision-making due to the involvement of two or more decision-makers.

7. Wholly Owned Subsidiary

Wholly Owned Subsidiary is a company whose common stock is fully owned by another company, known as the parent company. A wholly owned subsidiary may arise through acquisition or by a spin-off from the parent company A wholly owned subsidiary is a company whose common stock is completely (100%) owned by a parent company.Wholly owned subsidiaries allow the parent company to diversify, manage, and possibly reduce its risk.In general, wholly owned subsidiaries retain legal control over operations, products, and processes.

ORGANIZATIONAL STRUCTURES

Every international business firm has to face various issues related to organizational policies. These organizational issues are to be addressed carefully in order to keep the business healthy and profitable. Although there are numerous issues, both small and big, we will primarily concentrate only on the major issues that need to be addressed.

Centralization vs. Decentralization

Centralization is the systematic and consistent reservation of authority at central points in the organization. In **centralization,** the decision-making capability lies with a few selected employees. The implications of centralization are

- Decision making power is reserved at the top level.
- Operating authority lies with the mid-level managers.
- Operation at lower level is directed by the top level.

Almost every important decision and operational activities at the lower level are taken by the top management.

Decentralization is a systematic distribution of authority at all levels of management. In a decentralized entity, major decisions are taken by the top management to build the policies concerning the entire organization. Remaining authority is delegated to the mid- and lower-level **managers.**

Use of Subsidiary Board of Directors

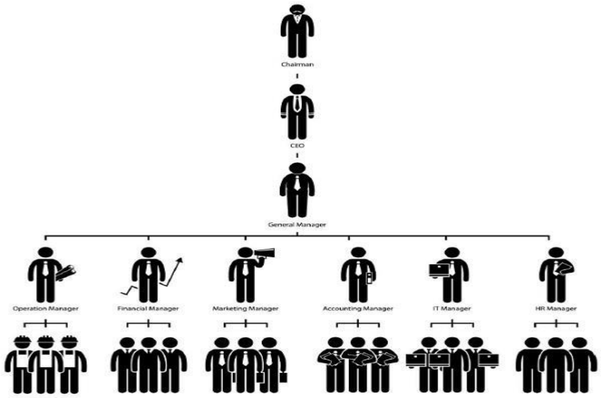
International firms, especially the fully-owned ones, usually have a board of directors to oversee and direct the top-level management. The major responsibilities of board-members are to −

- Advice, approve, and appraise local management.
- Help the management unit in providing response to local conditions.
- Assist the top management in strategic planning.
- Supervise the firm's ethical issues.

ORGANIZATIONAL STRUCTURES

Any international business organization, depending on its requirements and operations, would have an organization structure to streamline all its processes. In this section, we will try to understand some of the major types of organizational structures.

onal structures.



Initial Division Structures

Initial division structures are common in subsidiaries, export firms, and on-site manufacturers. **Subsidiaries** that follow this kind of organization structure include firms where the main export is expertise, for example, consultants and financial firms. **Export firms** include those having technologically advanced products and manufacturing units. Companies having **on-site manufacturing operations** follow this structure to cut down their costs.

International Division Structure

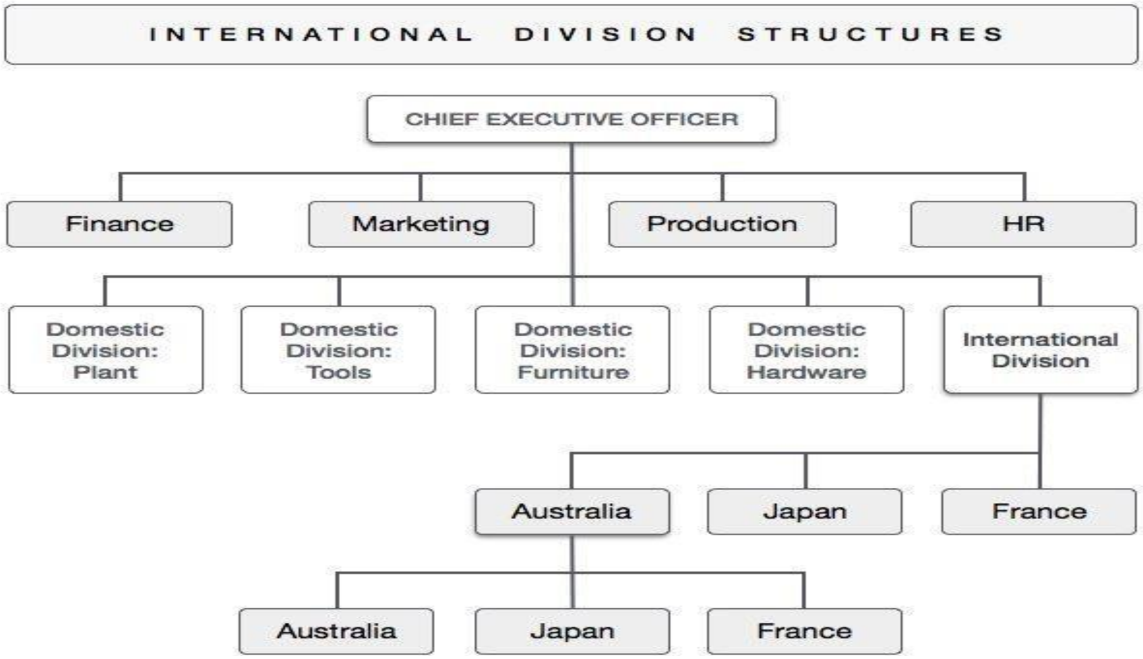
This structure is built to handle all international operations by a division created for control. It is often adopted by firms that are still in the development stages of international business operations.

Advantages

- International attitude gets the attention of top management
- United approach to international operations

Disadvantages

- Separates domestic managers from their international counterparts
- Difficulty in ideating and acting strategically and in allocating resources globally



Global Product Division

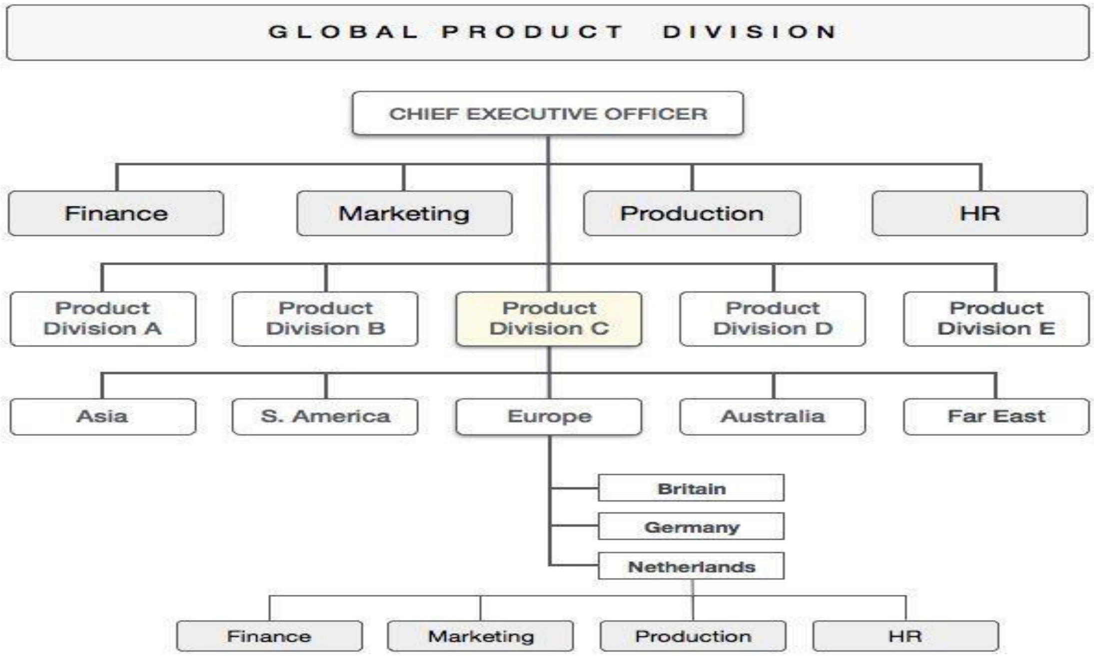
Global product divisions include domestic divisions that are allowed to take global responsibility for product groups. These divisions operate as profit centers.

Advantages

- Helps manage product, technology, customer diversity
- Ability to cater to local needs
- Marketing, production, and finance gets a coordinated approach on a product-by-product, global basis

Disadvantages

- Duplication of facilities and staff personnel within divisions
- Division manager gets attracted to geographic prospects and neglects long-term goals
- Division managers spending huge to tap local, not international markets



Global Area Division

Global area division structure is used for operations that are controlled on a geographic rather than a product basis. Firms in mature businesses with select product lines use it.

Advantages

- International operations and domestic operations remain at the same level
- Global division managers manage business operations in selected geographic area
- Ability to reduce cost per unit and price competitively

Disadvantages

- Difficult to align product emphasis in a geographically oriented manner.
- New R&D efforts are often ignored, as sale in mature market is where the focus is.

Global Functional Division

This structure is to primarily organize global operations based on function; product orientation is secondary for firms using global function division structure.

Advantages

- It emphasizes on functional leadership, centralized-control, and leaner managerial staff
- Favorable for firms that require a tight, centralized coordination and control over integrated production mechanisms
- Helps those firms that need to transport products and raw materials between geographic areas

Disadvantages

- Not suitable for all types of businesses. Applicable to only oil and mining firms
- Difficult to coordinate manufacturing and marketing processes
- Managing multiple product lines can be challenging, as production and marketing are not integrated.

Mixed Matrix

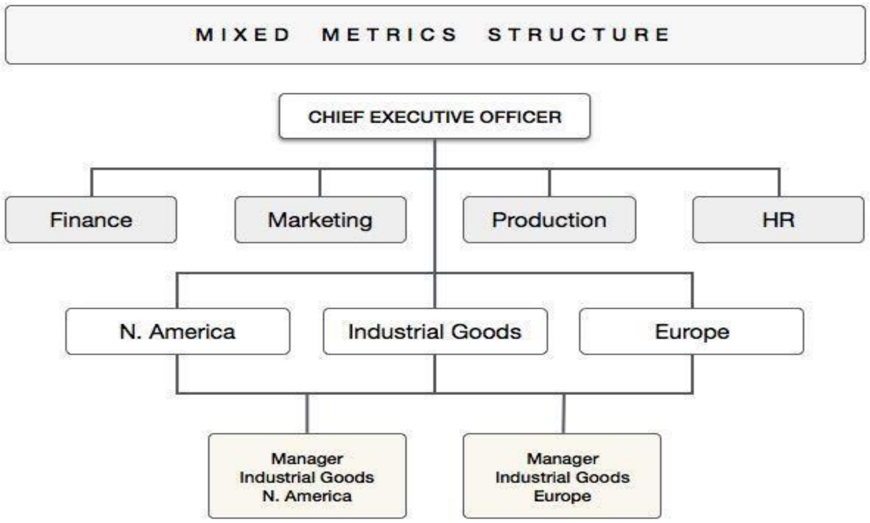
This structure combines global product, area, and functional arrangements and it has a cross-cutting committee structure.

Advantages

- Can be designed to meet individual needs
- Promotes an integrated strategic approach tailored to local needs and priorities

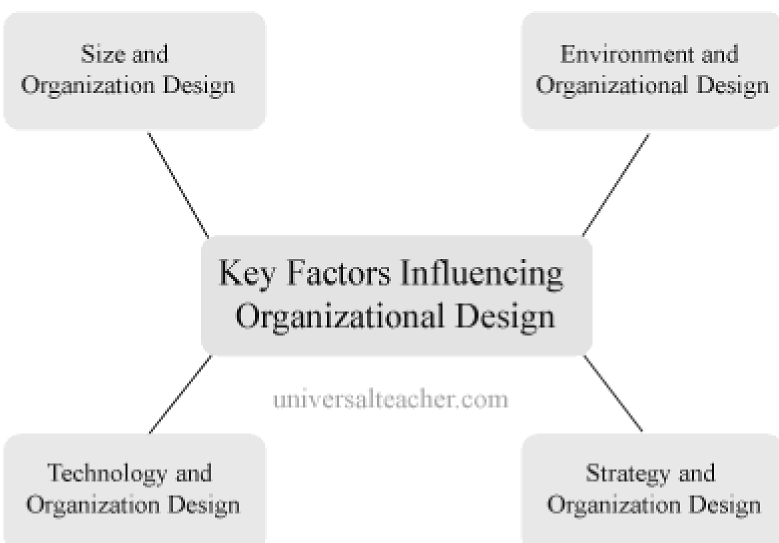
Disadvantages

- Complex structure, coordinating and getting everyone to work toward common goals becomes difficult.
- Too many independent groups in the structure



FACTORS AFFECTING ORGANIZATIONAL DESIGN

The choice of an appropriate organization design is dependent on a number of factors. These factors can be **internal or external**. However the **main factors affecting organizational design** are : size, environment, strategy, and technology. Organizational design is the process of deciding on and executing a business' structure.



Strategy and Organization Design

Organizational strategy means the way the business positions itself in its setting in relation to its stakeholders, given the organization's resources, capabilities, and mission. Of course structure follows strategy due to the fact that organisational structures are designed to accomplish objectives by implementing the strategies. When strategy changes, structures must change. All strategy attempts to fulfill the vision, and the organizational structure needs to support that effort.

For example, a business which has decided to expand to international markets might organize itself into geographical divisions. Basically two kinds of strategies are preferred at present: Generic and Competence-based strategies. To sum up, strategy influences structure and structure influences strategy.

Size and Organization Design

Size is one of the primary **contingency factors** that affect organizational design. The size contingency means the total number of workers who are to be organized. The size and operational scale of a business is crucial to take into consideration when determining the ideal organization structure. It is noticed that giant companies differ structurally from small ones when it comes to division of labour, rules and regulations, performance appraisal and budgeting procedures. The bigger the organization, the higher the requirement for greater complexity and divisions to attain synergy. The organizational structure needs to be created in ways that specifically optimize the effort and input in comparison to output. Bigger organizations with a broad range of operational initiatives need mindful structural considerations to accomplish this optimization.

Environment Affects Organizational Design

Organizations are open systems so they have to receive different inputs from the environment and to sell a variety of outputs to their environment. As a result, it is crucial to comprehend what the external environment is and which elements are likely to be significant. Factors of the external environment – such as uncertainty, level of competition, and resources – are important in figuring out organizational design. The environment of an organization could possibly be described as general or specific. The general environment consists of cultural, economic, legal-political, and societal conditions within the areas where the business functions. The specific environment comprises its owners, company’s market, industry standards, competition, suppliers, distributors and government agencies with which an organization will have to interact to grow and survive. A company usually is a lot more worried over the composition of its specific environment than of its general environment.

Technology Influences Organization Design

Technology affects organizational structure and productivity by improving the efficiency of communication and resource flow. It is a major contingency factor. Two essential technological contingencies which affect the type of organizational structure are the **variety and analyzability** of work activities. Variety indicates the number of exceptions to standard procedure but can occur in the team or work unit. Analyzability means to the extent that the transformation of input resources to outputs could be decreased to a number of standardized steps. Businesses can make use of technological tools to boost productivity and to initiate new and more efficient structural designs for the business, thus adding potential sources of economic value and competitive advantage. Technology consists of the knowledge, machinery, work procedures, and materials which transform the inputs to outputs.

A good example of an organizational structure which has surfaced from newer technological developments is the virtual organization that links a network of organizations via the internet.

Customers and Markets

The organization structure is also influenced by the type of market and customers it serves, and in a customer-responsive environment this will be one of the primary determining factors of structure. If the organization provides services to a wide variety of clients at numerous locations, it will need to have several branch officers, as do Banks, the Post Office and so on.

Age of the organisation

At the outset of a company's life, its small size enables the organic structural qualities which promote flexibility and responsiveness. As it ages and grows, a business starts to mechanize, adding rules, procedures and policies; closely defined tasks; extensive internal systems of control and command chains. In a nutshell, maturity brings about bureaucracy. In the maturity stage, rules, regulations, budgets, a refined division of labour and control systems have established.

Products and Services

The structure could possibly be based on the specific services and products offered. Large and diverse businesses have independent divisions since they are working with very different products and services. In the same way, the Post Office has separate organizations for the different services it offers like mail delivery, parcel delivery and counter services.

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 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.

Factors Causing Conflicts

In an international business, there can be various factors behind a conflict −

- There can be conflicts over control of resource or area.
- Conflicts can arise over the right to participate in decision-making.
- No clear-cut goals of the organization can lead to conflicts.
- No clear-cut agreements and contracts may lead to a legal mess, causing conflict.
- Misleading communication may confuse and create conflicts.
- Corruption may also create conflicts.

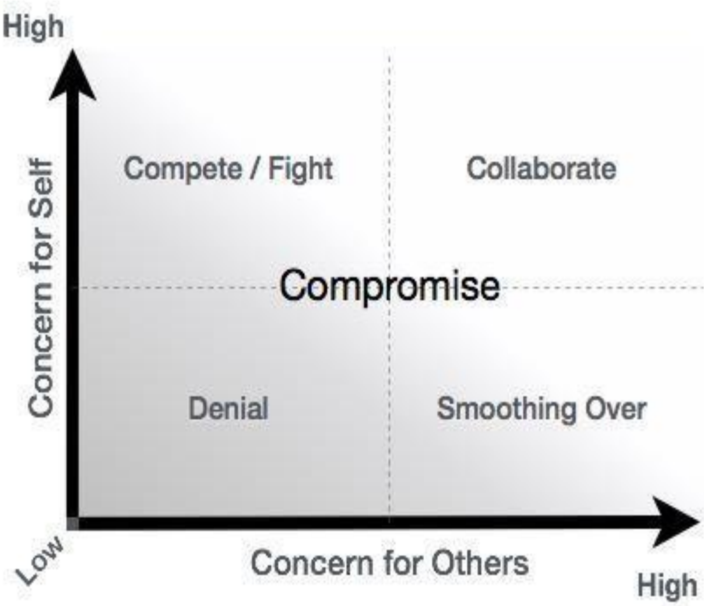
CONFLICT MANAGEMENT

Organizations face a great deal of conflict within and externally while doing business. Experts agree that managing conflicts can be actually quite challenging. International businesses use five distinct forms of solutions to solve conflicts. These are − avoidance, accommodation, competition, compromise, and collaboration.

- The **avoidance strategy** tends to ignore the conflict. Therefore, it provides no resolution to the disagreement. The real source of the conflict is never addressed which leaves the situation unresolved. This ultimately drives the organization away from the work at hand and makes the conflict worse than its initial state.
- The **accommodation strategy** believes in handling a problem as quickly as possible. In such a strategy, one party accepts the other's demands. Since one party usually gets ignored, it causes an ineffective attempt at conflict management. It only shows that the dominant party continues to rule over the compliant party. This strategy leaves the analysis to conclude the reasons and necessity of a mutual resolution.
- **Competition** occurs as both parties attempt to maximize their own agenda. Competition can quickly escalate into greed. It does not offer the parties an opportunity to benefit the organization. This

strategy often becomes ineffective since the two parties are more concerned about winning than arriving at the best possible solution.

- **Compromise** is preferably a good strategy, as both parties involved in the process are willing to give and take. They are concerned about their own ambitions, yet at the same time, they pay heed to the objectives of the organization. Each party involved in a compromise fully understands and works for the best interest of the organization.
- The **collaboration strategy** starts with the manager taking a preliminary initiative step in handling the issue already set. Each party wants to solve the problem by cultivating a pleasing solution leading to a win-win situation. The international managers however must understand the "internal environment in which the organization members function" to make use of this strategy. The collaboration strategy is both assertive and cooperation; yet it smoothly takes the different points of view into consideration. Collaboration is the most effective and efficient form of conflict management.



Five A's Technique

Borisoff and Victor identify five steps in the conflict management process that they called the "five A's" of conflict management − assessment, acknowledgement, attitude, action, and analysis.

- **Assessment** − In the assessment step, the parties involved collect real information about the problem. The parties involved also choose the appropriate conflict-handling modes and decide the central factors of the problem. They also indicate compromise-able areas, and the wants of each party.

- **Acknowledgement** − The acknowledgement step allows each party to hear out the other and both parties to build the empathy needed for the solution. Acknowledgement is more than just responding; it involves actively encouraging the other party to communicate.
- **Attitude** − In the attitude step, parties try to remove pseudo-conflict issues. Stereotypes of different, culturally-based behaviours are unearthed. Similarly, differences in communication of men and women are accepted. Generally, we can analyze problems from the styles of writing, speaking, and other nonverbal cues.
- **Action** − This step includes implementation of the chosen conflict-handling mode. Each individual evaluates the opposite party's behavior to ascertain potential trouble spots. Also, each individual stays aware of his own communication style and general behavior. Finally, all parties become alert to new issues and look for productive solutions.
- **Analysis** − In this last step, participants decide on actions, and find the gist of what they have agreed upon. The analysis step initiates the impetus for approaching conflict management as an ongoing process.

RESOLVING INTERNATIONAL ORGANIZATIONAL CONFLICTS

Reconciliation- Adjudication and Arbitration Issues, Supporting Institutions – Negotiation

In international trade, when drafting international contracts, the parties usually focus on the terms of payment and expense but little attention to terms of dispute settlement. Thus, the parties should be aware that the disagreements and disputes can arise at any time. Therefore, in the process of concluding an international economic agreement, the parties should note the provisions on the selection methods of dispute settlement if a dispute occurs. Currently, there are 4 dispute resolution methods in international trade as follows: negotiation, mediation, commercial arbitration and court.

- **Negotiation**

  Negotiation is a settlement method which is usually applied in international dispute settlement. In particular, the parties discuss together, struggle, compromise and agree to settle the dispute. The result of the negotiation is that the dispute could be resolve or not. Negotiation is conducted in two ways: The two parties directly meet each other to discuss and deal or one party submit complaint to the other party and the other party answers the complaint.

- **Mediation**

  Mediation is the method of resolving dispute between the parties through the role of a third party. Mediation can be accomplished by two ways: One is that the parties agree with each other about mediation, the mediator will be designated and conduct the mediation without following any rules of mediation. The second way is that the parties agree to conduct the mediation under rules of a professional organization or one specific arbitration institution, such as mediation rules of the International Chamber of Commerce (ICC).

- **Commercial arbitration**

  Arbitration is a method of dispute settlement arising in trade activities that are agreed between the parties and carried out according to the order and proceedings. Presently, there are kinds of arbitration such as: ad hoc arbitration and permanent arbitration.

- **Court**

  The 3 dispute settlement methods above are voluntary in nature. They are different from the dispute settlement in accordance with judicial procedures at court. The settlement of dispute by court is to resolve dispute through the activities of the State tribunals. Therefore, litigants in the dispute are often considered as a final solution to protect their legitimate interests. Especially, when there is a conflict, the parties will choose the form of trade negotiation or mediation rather than commercial arbitration or court.

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UNIT 3 –GLOBAL BUSINESS MANAGEMENT SBAA5301

GLOBAL BUSINESS MANAGEMENT

UNIT III

WTO and LPG policies - Its Implications on India - Regional Trade Blocks - Integration between countries - levels of integration and impact of integration - International strategic alliances - nature - benefits - pitfalls - scope - how to make alliances work.

LPG STANDS FOR LIBERALIZATION, PRIVATIZATION, AND GLOBALIZATION.

India under its New Economic Policy approached International Banks for development of the country. These agencies asked Indian Government to open its restrictions on trade done by the private sector and between India and other countries.

Liberalization

The basic aim of liberalization was to put an end to those restrictions which became hindrances in the development and growth of the nation. The loosening of government control in a country and when private sector companies‟ start working without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

Objectives of Liberalization Policy

- To increase competition amongst domestic industries.
- To encourage foreign trade with other countries with regulated imports and exports.
- Enhancement of foreign capital and technology.
- To expand global market frontiers of the country.
- To diminish the debt burden of the country.

IMPACT OF LIBERALIZATION

1. **Privatization**
2. **Globalization**

Privatization

This is the second of the three policies of LPG. It is the increment of the dominating role of private sector companies and the reduced role of public sector companies. In other words, it is the reduction of ownership of the management of a government-owned enterprise. Government companies can be converted into private companies in two ways:

- By disinvestment
- By withdrawal of governmental ownership and management of public sector companies.

Forms of Privatization

1. **Denationalization or Strategic Sale**: When 100% government ownership of productive assets is transferred to the private sector players, the act is called denationalization.
2. **Partial Privatization or Partial Sale**: When private sector owns more than 50% but less than 100% ownership in a previously construed public sector company by transfer of shares, it is called partial privatization. Here the private sector owns the majority of shares. Consequently, the private sector possesses substantial control in the functioning and autonomy of the company.
3. **Deficit Privatization or Token Privatization:** When the government disinvests its share capital to an extent of 5-10% to meet the deficit in the budget is termed as deficit privatization.
4. Crisis of 1991 and Indian Economic Reforms

Objectives of Privatization

- Improve the financial situation of the government.
- Reduce the workload of public sector companies.
- Raise funds from disinvestment.
- Increase the efficiency of government organizations.
- Provide better and improved goods and services to the consumer.
- Create healthy competition in the society.
- Encouraging foreign direct investments (FDI) in India.

Globalization

Globalisation means to integrate the economy of one country with the global economy. During Globalization the main focus is on foreign trade & private and institutional foreign investment. It is the last policy of LPG to be implemented.

Globalization as a term has a very complex phenomenon. The main aim is to transform the world towards independence and integration of the world as a whole by setting various strategic policies. Globalization is attempting to create a borderless world, wherein the need of one country can be driven from across the globe and turning into one large economy.

Outsourcing as an Outcome of Globalization

The most important outcome of the globalization process is Outsourcing. During the outsourcing model, a company of a country hires a professional from some other country to get their work done, which was earlier conducted by their internal resource of their own country.

The best part of outsourcing is that the work can be done at a lower rate and from the superior source available anywhere in the world. Services like legal advice, marketing, technical support, etc. As Information Technology has grown in the past few years, the outsourcing of contractual work from one country to another has grown tremendously. As a mode of communication has widened their reach, all economic activities have expanded globally.

Various Business Process Outsourcing companies or call centres, which have their model of a voice-based business process have developed in India. Activities like accounting and book-keeping services, clinical advice, banking services or even education are been outsourced from developed countries to India.

Benefits of Globalization

The most important advantage of outsourcing is that big multi-national corporate or even small enterprises can avail good services at a cheaper rate as compared to their country‟s standards. The skill set in India is considered most dynamic and effective across the world. Indian professionals are best at their work. The low wage rate and specialized personnel with high skills have made India the most favourable destination for global outsourcing in the later stage of reformation.

EVOLUTION OF WTO

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

The General Agreement on Tariffs and Trade (GATT), the predecessor of WTO was

born in 1948 as a result of the international desire to liberalize trade.

Objectives of GATT

1. To raise standards of living
2. To ensure full employment and large and steadily growing volume of real income
3. Effective demand
4. To develop the full use of the resources of the world
5. To expand production and international trade

Principles of GATT

1. Non-Discrimination
2. Prohibition of quantitative restrictions – limit restrictions on trade to less rigid tariffs
3. Consultation to resolve disagreements

GATT AND THE BIRTH OF WTO

1947: The birth of GATT on 30th October 1947. The GATT was signed by 23 nations

1948: Entry into force on 1st January 1948, GATT entered into force

1949: Second round at Annecy, April to August, exchanged some 5000 Tariff concessions

1950: Third round at Torquay, September 1950 to April 1951, exchanged some 8700 Tariff Concessions, Tariff reduction of about 25%

1956: Fourth round at Geneva completed in May. Produced same $25 billion worth of Tariff reduction

1960: The Dillion round – divided into 2 phase.

Phase 1: Concerned with negotiations with EEC member status Phase 2: General round of Tariff negotiations

1961: The short term arrangement, covering cotton textiles, was agreed as an exception to the GATT rules

1964: The Kennedy round meeting at ministerial level

1965: A new chapter – early 1960‟s marked the accession to the General Agreement of many newly independent developing countries

1973: The Tokyo round – 99 countries participated, covering both Tariff and non-tariff matters

1974: The Agreement regarding international trade in textiles, known as MFA, Multi Fiber Agreements entered on 1st January

1985: The Uruguay round September 20, envisaged to last for 4years and continued for some seven and a half years

1993: Successful conclusion of the Uruguay round on 15th December 1993 in Geneva, Switzerland

1994: The final act of the Uruguay round signed by minister on 15th April 1994, in Marrakesh,

Morocco.The Uruguay round resulted in transformation of multilateral trading system under GATT into the permanent world trade organisation for resolving trade
dispute multilateral

1995: World Trade Organisation enters into force on January 1st 1995. On May 31st 1995, WTO General Council approved the Head Quarters agreement, including the decision to locate the WTO in Geneva

1996: Basic telecommunication negotiations in may 1996. Maritime transport services egotiation in July 1996. First WTO ministerial conference held in Singapore 9th to 13th December- Established 3 working groups 1) Trade and Investment 2) Transparency in government procurement 3) Trade and competition policy, plus a mandate to conduct a study in trade facilitation

1997: Successful conclusion of negotiations on basic telecommunication services. Forty governments agreed to cut customs duty on information technology products, successful conclusion of negotiation on financial services on 12th December 1997

DIFFERENCE BETWEEN GATT AND WTO

GATT	**WTO**
• It is a set of rules and multilateral agreement • It was designed with an attempt to establish International Trade Organization • It was applied on a provisional basis • Its rules are applicable to trade in merchandising • GATT was originally a multilateral instrument, but p lurilateral agreements were added at a later stage • Its disputes settlement systems was not • faster and automatic	• It is a permanent institution • It is established to serve its own purpose • Its activities are full and permanent • Its rules are applicable to trade in merchandise and trade in service and trade in related aspects of intellectual property • Its agreements are almost multilateral • Its dispute settlement system was fast and automatic

WORLD TRADE ORGANISATION

- The WTO was established on Jan 1, 1995
- The WTO is the embodiment of the Urguary Round results and the successor to GATT
- 76 Government became members of the WTO on its first day
- As of September 1999, there are 134 members of the WTO and 34 countries have a
- bserver status
- There is a waiting list of 31 members
- They account for more than 90 percent of the world trade
- The WTO is based in Geneva, Switzerland

Functions of WTO

WTO administers 28 agreements contained in the final act and number of plurilateral agreements and government procurement through various councils and committees

- WTO overseas the implementation of significant tariff cuts and also reduction of non-tariff measures
- WTO examines regularly the trade regimes of individual member countries. It act as a watchdog of international trade
- WTO provides dispute settlement courts
- WTO act as a management consultant for world trade
- Technical co-operations and training divisions are established in WTO"s secretariat in order to help developing countries
- Members countries can use WTO as a forum for continuous negotiation of exchange of trade barriers
- WTO co-operates with other international institutions like IMF, IBRD, ILO
- WTO overseas the national trade policies of member government

WTO AND ANTI-DUMPING MEASURES

Dumping means selling the product at below the on going market price and or at the price below the cost of production.

Haberter defines dumping as “the sale of goods abroad at a price which is lower than the selling price of the same goods at the same time in the same circumstances at home, taking account of difference in transport costs”

Types of Dumping

1. **Intermittent Dumping –** production is more than the demand for the product in the home country. In such cases the producers sells the remaining stock in foreign countries at low prices without reducing the prices in domestic countries
2. **Persistent Dumping –** The monopolistic sells the remaining production in foreign countries at a low price continuously
3. **Predatory Dumping –** The monopolistic sells the product in foreign market at a low price initially with a view to drive away the competitors and increase the price after the competitors leave the market.

Objectives of Dumping

- **To enter the foreign market by eliminating competitors**
- **To sell surplus production**
- **To develop WORLD TRADE ORGANISATION (WTO)**

India and WTO

The WTO was founded in 1995 as the successor organisation to the General Agreement on Trade and Tariff (GATT). GATT was established in 1948 with 23 countries as the global trade organisation to administer all multilateral trade agreements by providing equal opportunities to all countries in the international market for trading purposes. WTO is expected to establish a rule-based trading regime in which nations cannot place arbitrary restrictions on trade. In addition, its purpose is also to enlarge production and trade of services, to ensure optimum utilisation of world resources and to protect the environment. The WTO agreements cover trade in goods as well as services to facilitate international trade (bilateral and multilateral) through removal of tariff as well as non-tariff barriers and providing greater market access to all member countries.

As an important member of WTO, India has been in the forefront of framing fair global rules, regulations and safeguards and advocating the interests of the developing world. India has kept its commitments towards liberalisation of trade, made in the WTO, by removing quantitative restrictions on imports and reducing tariff rates

Some scholars question the usefulness of India being a member of the WTO as a major volume of international trade occurs among the developed nations. They also say that while developed countries file complaints over agricultural subsidies given in their countries, developing countries feel cheated as they are forced to open their markets for developed countries but are not allowed access to the markets of developed countries.

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Growth of GDP and Major sectors (in %)

Sector	980-91	992-2001	002-2007	007-2012	012-2013	013-2014	014-2015
Agriculture	6	3	3	2	5	2	.2*
Industry	1	5	4	4	6		0*
Services	7	2	8	0	1	8	8*
Total	6	4	8	2	6	6	4

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REGIONAL TRADING BLOCS:

A trade bloc is a type of intergovernmental agreement, often part of a regional intergovernmental organization, where regional barriers to trade, (tariffs & non-tariff barriers) are reduced or eliminated among the participating states.

A regional trading bloc is a group of countries within a geographical region that protect themselves from imports from non-members. A trade bloc is basically a free-trade zone, or near-free-trade zone, formed by one or more tax, tariff, & trade agreements between two or more countries. The Trading blocs are a form of economic integration, & increasingly shape the pattern of the world trade. Regional trade blocks promote the trade within the block & defend its members against global competition. Defense against the global competition is obtained through established tariffs on goods produced by member states, import quotas, **government subsidies**, onerous bureaucratic import processes, & technical & other non-tariff barriers. Since trade is not an isolated activity, member states within regional blocks also cooperate in **economic, political, security**, climatic, & other issues affecting the region. Members of successful trade blocs usually share four common traits: similar levels of per capita GNP, geographic proximity, similar or compatible trading regimes, & political commitment to the regional organization. Advocates of the worldwide free trade are usually opposed to the trading blocs, which they argue & encourage regional trade as opposed to the global free trade.

Types of Regional Trading Blocs

Trade blocs can be stand-alone agreements between several states (such as the North American Free Trade Agreement (NAFTA) or part of a regional organization (such as the European Union). Depending on the level of economic integration, the trade blocs can fall into the 6 different categories, such as preferential trading areas, the free trade areas, the customs unions, the common markets, the economic union & the monetary unions, & the political union.

Preferential Trade Area: Preferential Trade Areas (PTAs) exist when countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc.

Free trade area: Free Trade Areas (FTAs) are created when 2 or more countries in a region agree to reduce or eliminate barriers to trade on all the goods coming from other members. This is the most basic form of economic cooperation. Member countries remove all barriers to trade among themselves but are free to independently determine trade policies with nonmember nations. **An example** is the North American Free Trade Agreement (NAFTA).

Customs union: This type provides for economic cooperation as in a free-trade zone. Barriers to trade are removed between member countries. The primary difference from the free trade area is that members agree to treat trade with non-member countries in a similar manner. The customs union involves the removal of the tariff barriers among the members, as well as the acceptance of the common (unified) external tariff in contradiction to the non-members. This means that the members may negotiate as a single bloc with third parties, such as with other trading blocs, or with the WTO. **The Gulf Cooperation Council (GCC)**[1] Cooperation Council for the Arab States of the Gulf is an example.

Common market: A „common market" is the first significant step towards full economic integration, & occurs when member countries trade freely in all economic resources – not just tangible goods. This means that all barriers to trade in goods, services, capital, & labor are removed. In addition, as well as removing tariffs, non-tariff barriers are also reduced & eliminated. For a common market to be successful there must also be a significant level of harmonization of macroeconomic policies, & common rules regarding monopoly power & other anti-competitive practices. There may also be common policies affecting key industries, such as the **Common Agricultural Policy**[2] (CAP) & Common Fisheries Policy (CFP) of the European Single Market (ESM). This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labor & capital between member countries. Like customs unions, there is a common trade policy for trade with nonmember nations. The primary advantage to the workers is that they no longer need the visa or work permit to work in another member country of the common market. **An example is the Common Market for Eastern & Southern Africa (COMESA).**

Economic & monetary union: This type is created when countries enter into an economic agreement to remove barriers to trade & adopt common economic policies. An example is the European Union (EU). Monetary union is a type of trade bloc which is composed of an economic union (common market & customs union) with a monetary union. Monetary union is established through a currency-related trade pact. An intermediate step between pure monetary union & a complete economic integration is the fiscal union. Economic & Monetary Union of the European Union with the Euro for the Euro-zone members is the example of monetary union.

Political union: In order to be successful the more advanced integration steps are typically accompanied by the unification of economic policies (tax, social welfare benefits, etc.), reductions in the rest of the trade barriers, introduction of the supranational bodies, & gradual moves towards the final stage, a "political union". Political union is a final stage in the economic integration with more formal political links among the countries. A limited form of the political union may exist when two or more countries share common decision-making bodies & have common policies. It is the unification of previously separate nations. The unification of West & East Germany in 1990 is **an example** of the total political union.

ADVANTAGES OF REGIONAL TRADING BLOCS

1. **Free trade within the bloc:** Knowing that they have free access to each other"s markets, members are encouraged to specialize. This means that, at a regional level, there is the wider application of the principle of the comparative advantage.

2. **Market access & trade creation:** Easier access to each other"s markets means that trade between members is likely to increase. Trade creation exists when free trade enables high-cost domestic producers to be replaced by lower-cost, & more efficient imports. Because low-cost imports lead to lower-priced imports, there is a „consumption effect", with increased demand resulting from lower prices. These agreements create more opportunities for countries to trade with one another by removing the barriers to trade & **investment**. Due to a reduction or removal of tariffs, cooperation results in cheaper prices for consumers in the bloc countries.

3. **Economies of scale:** Producers can benefit from the application of scale economies, which will lead to lower costs & lower prices for consumers.

4. **Jobs:** Jobs may be created as the consequence of increased trade among the member economies. By removing the restrictions on the labor movement, economic integration can help expand job opportunities.

5. **Protection:** Firms inside the bloc are protected from cheaper imports from outside, such as the protection of the EU shoe industry from cheap imports from China & Vietnam.

6. Consensus & cooperation: Member nations may find it easier to agree with smaller numbers of countries. Regional understanding & similarities may also facilitate closer political cooperation.

DISADVANTAGES OF REGIONAL TRADING BLOCS

1. **Loss of benefits:** The benefits of free trade among the countries in different blocs is lost.

2. **Distortion of trade:** Trading blocs are likely to distort world trade, & reduce the beneficial effects of specialization & the exploitation of comparative advantage.

3. **Inefficiencies & trade diversion:** Inefficient producers within the bloc can be protected from more efficient ones outside the bloc. **For example**, inefficient European farmers could be protected from low-cost imports from developing countries.

4. Trade diversion arises when the trade is diverted away from efficient producers who are based outside the trading area. The flip side to trade creation is trade diversion. The member countries may trade more

with each other than with nonmember nations. This might mean increased trade with less efficient or more expensive producer because it is in a member country. In this sense, weaker companies can be protected inadvertently with the bloc agreement acting as a trade barrier. In essence, the regional agreements have formed new trade barriers with countries outside of the trading block.

5. **Retaliation:** The development of 1 regional trading bloc is likely to stimulate the development of others. This can lead to the trade disputes, such as those between the EU & NAFTA, including the recent Boeing (US)/ Airbus (EU) dispute. The EU & US have a long history of the trade disputes, together with the dispute over US steel tariffs, which were declared illegal by the WTO in 2005.

6. **Employment shifts & reductions:** Countries may move production to cheaper labor markets in member countries. Similarly, workers may move to gain access to better jobs & wages. Sudden shifts in employment can tax the resources of the member countries.

TRADE INTEGRATION

Tradebetween a number of countries with the aim of securing the benefits of international specialization a nd international trade.

There are four main forms of trade integration, ranging from a loose association of trade partners to a fully integrated group of nation states:

1. A free trade area,

Where members eliminate trade barriers between themselves but each continues to operate its own particular barriers against non members.

2. A customsunion, where members eliminate trade barriers between themselves and establish uniform barriers against nonmembers, in particular a common external tariff.

3. A commonmarket, that is, a customs union that also provides for the free movement of labour and capital across national boundaries.

4. An economic union, that is, a common market that also provides for the unification of members' general objectives in respect of economic growth, etc, and the harmonization of monetary, fiscal and other policies.

Examples of „free trade areas" are the

- EUROPEAN FREE TRADE ASSOCIATION (EFTA),
- THE **NORTH AMERICAN FREE TRADE AGREEMENT** (NAFTA),
- THE **ASSOCIATION OF SOUTHEAST ASIAN NATIONS** (ASEAN),

- **ASIA PACIFIC ECONOMIC COOPERATION** (APEC),
- **LATIN AMERICAN FREE TRADE ASSOCIATION** (LAFTA).

Examples

- A splinter-group from **LAFTA**, **MERCOSUR**, is an example of a „customs union‟;
- the **ANDEAN PACT**, another **LAFTA** splintergroup, is an example of a „common market‟;
- while the **EUROPEAN UNION** is rapidly transforming itself from a common market into a full-blown economic union' (see ECONOMIC AND MONETARY UNION).
- Partial trade integration as exemplified by the above arrangements are beneficial insofar as they create additional trade between members, but they also involve discrimination against non members, which may reduce trade with these countries.
- Thus, many economists view the promotion of free trade on a multilateral basis through the auspices of the World trade Organisation as generally preferable to limited regional alliances

INTERNATIONAL STRATEGIC ALLIANCES

A strategic alliance is a business arrangement whereby two or more firms choose to cooperate for their mutual benefit.

- Strategic alliance is an important mode of doing international business. An alliance is an inter-firm collaboration over a given economic space and time for the attainment of the participating companies‟ goals.
- Strategic alliances are partnerships in which two or more companies work together to achieve objectives that are mutually beneficial while parties remaining independent. Companies may share resources, information, capabilities and risks to achieve this.

International Strategic Alliance is the combination of two or more firm’s agreed upon future objective, which achieved by together practices of the MNCs.

Characteristics of international strategic alliances

According to the **YOSHINO AND KANGAN** there are three necessary and sufficient characteristics :-

- Two or more firms unit to pursue a set of agreed upon goals but remain independent subsequent to the formation of the Alliance.
- The partner firm share the benefits of the Alliance and control over the performances and the one that makes them so difficult to manage.
- The partner firms contribute on a continuing basis in one or more key strategic areas, for example , technology, product, and so forth.

Scope of international strategic alliances

The scope of cooperation among firms may vary significantly.

Comprehensive alliances arise when the participating firms agree to perform together multiple stages of the process by which goods or services are brought to the market: R&D, design, production, marketing, and distribution. Because of the broad scope of such alliances, the firms must establish procedures for meshing such functional areas as finance, production, and marketing for the alliance to succeed. Yet integrating the different operating procedures of the parents over a broad range of functional activities is difficult in the absence of a formal organizational structure. As a result, most comprehensive alliances are organized as joint ventures.

Functionally based alliances Strategic alliances may also be narrow in scope, involving only a single functional area of the business. In such cases, integrating the needs of the parent firms is less complex. Thus, **functionally based alliances** often do not take the form of a joint venture, although joint ventures are still the morecommon form of organization. Types of functional alliances include production alliances, marketing alliances, financial alliances, and R&D alliances

Examples of International strategic alliances

Apple

According to "An Overview of Strategic Alliances," Apple has partnered with Sony, Motorola, Phillips, and AT&T in the past. Apple has also partnered more recently with Clearwell in order to jointly develop Clearwell's E-Discovery platform for the Apple iPad. E-Discovery is used by enterprises and legal entities to obtain documents and information in a "legally defensible" manner,..

Starbucks

According to Rebecca Larson, assistant Professor of Business at Liberty University, Starbucks partnered with Barnes and Nobles bookstores in 1993 to provide inhouse coffee shops, benefiting both retailers. In 1996, Starbucks partnered with Pepsico to bottle, distribute and sell the popular coffee-based drink, Frappacino. A Starbucks-United Airlines alliance has resulted in their coffee being offered on flights with the Starbucks logo on the cups and a partnership with Kraft foods has resulted in Starbucks coffee being marketed in grocery stores. In 2006, Starbucks formed an alliance with the NAACP, the sole purpose of which was to advance the company's and the NAACP's goals of social and economic justice.

Types of strategic alliances

1. **1.Functional alliance:**

   A functional alliance integrates certain basic “functions”between the two parties by pooling efforts to attain specific objectives.

   There are four types of functional alliances. These are –

   Production alliances: Firms each manufacturer products or provide services in shared facility.

   Marketing alliances: Firms share marketing services or expertise.

   Financial alliances: Partners of firms share equally in contributing financial resources to the project or one partner may provides the majority financing while the other provides expertise.

   R & D alliances: Partners agree to undertake joint research to develop new product or services

2. **Joint Ventures**

   Joint Ventures are agreements between parties or firms for a particular purpose or venture. Their formation may be very informal, such as a handshake and an agreement for two firms to share a booth at a trade show. Other arrangements can be extremely complex, such as theconsortium of major U.S. electronics firms to develop new microchips,”says Charles P. Lickson in A Legal Guide for Small Business.

3. **Outsourcing**

   Outsourcing and globalization of manufacturing allows companies to reduce costs, benefits consumers with lower cost goods and services, causes economic expansion that reduces unemployment, and increases productivity and job creation.

4. **Affiliate Marketing**

Affiliate marketing has exploded over recent years, with the most successful online retailers using it to great effect. The nature of the internet means that referrals can be accurately tracked right through the order process.

5. **Technology Licensing**

This is a contractual arrangement whereby trade marks, intellectual property and trade secrets are licensed to an external firm. It‟s used mainly as a low cost way to enter foreign markets.

Steps in the formation of a Strategic Alliance

Forming a Strategic Alliance is a process which usually implies some major steps that are mentioned below:

1. **Strategy Development**: In this stage the possibility of a Strategic Alliance is examined with respect to objectives, major issues, resource strategies for production, technology and people. It is necessary that objectives of the company and of the alliance are compatible. Here, the international rules and regulations of business should be kept in mind.
2. **Partner Assessment**: In this phase potential partners for the Strategic Alliance are analyzed, in order to find an appropriate company to cooperate with. A company must know the weaknesses and strengths and the motivation for joining an alliance of another company. Besides that appropriate criteria for the partner selection are defined and strategies are developed how to accommodate the partner´s management style. The legal and cultural environment of Potential partner‟s needs to be assessed.
3. **Contract Negotiations**: After having selected the right partner for a Strategic Alliance the contract negotiations start. At first all parties involved discuss if their goals and objectives are realistic and feasible. Dedicated negotiation teams are formed which determine each partner´s role in the alliance like contribution and reward, penalties and retaining companies´ interests.
4. **Operation :**In this phase in the life of a Strategic Alliance, an internal structure occurs under which its functions develop. While operating it, the alliance becomes an own new organization itself with members from the origin companies with the aim of meeting all previously set objectives and improving the overall performance of the alliance which requires effective structures and processes and a good, strong and reliable leadership. Budges have to be linked, as

well as resources which are strategically most important and the performance of the alliance has to be measured and assessed.

4. **End/ Development :** In this stage the strategic alliances among partner organizations comes to an end .There are several ways how a Strategic Alliance can come to an end:
5. **Natural End**: When the objectives, the Strategic Alliance was founded for have been achieved, and no further cooperation is necessary or beneficial for the involved enterprises the alliance can come to a natural end. An example for such a natural end is the alliance between Dassault and British Aerospace which was founded to manufacture the Jaguar fighter aircraft. After the end of the program no further jets were ordered so the involved companies ended their cooperation.
6. **Extension**: After the end of the actual reason for the alliance, the cooperating enterprises decide to extend the cooperation for following generations of a respective product or expand the allianceto new products or projects. Renault for example worked together with Matra on three successive generations of their space minivan, whereas Airbus expanded its cooperation to include a complete family of airplanes.
7. **Premature Termination**: In this case the Strategic Alliance is ended before the actual objectives of its existence have been achieved. In1987 Matra-Harris and Intel broke up their Cimatel partnership beforeone of the planned VLSI chips was manufactured.
8. **Exclusive Continuation**: If one partner decides to get out of the alliance before the common goals have been achieved, the other partner can decide to continue the project on its own. This happened when Saab decided to continue with the designing of a commuteraircraft (SF-340), after the partner Fairchild had to cancel the alliancebecause of internal problems. After Fairchild left the project it wasnamed Saab 340.
9. **Takeover of Partner**: Strong companies sometimes have the opportunity to take over smaller partners. If one firm acquires another the strategic alliance comes to an end. After almost ten years of cooperation in the field of mainframe computers a British computer manufacturer, named ICL, was taken over by Fujitsu in 1990.

Key Issues in Implementation Of Strategic Alliances

1. **Partner Selection**: The success of any cooperative undertaking depends on choosing the appropriate partner(s). Strategic alliances are more likely to be successful if the skills and resources of the partners are complementary—each must bring to thealliance some organizational strength the

other lacks. A firm contemplating a strategic alliance should consider at least four factors in selecting a partner (or partners):

- compatibility,
- the nature of the potential partner's products or services,
- the relative safeness of the alliance, and
- the learning potential of the alliance..

2. **Joint Management** : A joint venture almost always takes the form of a corporation, usually incorporated in the country in which it will be doing business. The corporate form enables the partners to arrange a beneficial tax structure, implement novel ownership arrangements, and better protect their other assets. It allows the joint venture to create its own identity apart from those of the partners. Further issues and questions are associated with how a strategic alliance will be managed. Three standard approaches are often used to jointly manage a strategic alliance : shared management agreements, assigned arrangements, and delegated arrangements.

   Approaches to Joint Management

- **Shared Management Agreements:**Under a **shared management agreement**, each partner fully andactively participates in managing the alliance. The partners run the alliance, and their managers regularly pass on instructions and details to the alliance's managers. The alliance managers have limited authority of their own and must defer most decisions to managers from the parent firms. This type of agreement requires a high level of coordination and near-perfect agreement between the participating partners. Thus, it is the most difficult to maintain and the one most prone to conflict among the partners.
- **Assigned Arrangements :**Under an **assigned arrangement**, one partner assumes primaryresponsibility for the operations of the strategic alliance.
- **Delegated Arrangements :**Under a **delegated arrangement**, which is reserved for joint ventures,the partners agree not to get involved in ongoing operations and so delegate management control to the executives of the joint venture itself. These executives may be specifically hired to run the new operation or may be transferred from the participating firms. They are responsible for the day-to-day decision making and management of the venture and for implementing its strategy.

Thus, they have real power and the autonomy to make significant decisions themselves and are much less accountable to managers in the partner firms

- **Other success factors**

1. The success of any alliance very much depends on how effective the capabilities of the involved enterprises are matched and weather the full commitment of each partner to the alliance is achieved. Some key factors that have to be considered to be able to manage a successful alliance include:
2. **Understanding**: The cooperating companies need a clear understanding ofthe potential partner´s resources and interests and this understanding should be the base of set the alliance goals.
3. **No time pressure**: During negotiations time pressure must not have an influence on the outcome of the process. Managers need time to establish a working relationship with each other, develop a time plan, set milestones, and design communication channels.
4. **Limited alliances**: Some incompatibilities between enterprises might not be avoidable, so the number of alliances should be limited to a necessary amount, which enables the companies to achieve their goals.
5. **Good connection**: Negotiations need experienced managers. The managers from large firms need to be connected very well so they have the possibility to integrate different departments and business areas over internal borders, and they need legitimating and support from the top management.
6. **Creation of trust and goodwill**: The best basis for a profit-yielding cooperation between enterprises is the creation of trust and goodwill, because it increases tolerance, intensity and openness of communication and makes the common work easier. Further it leads to equal and satisfied partners.
7. **Intense Relationship**: Intensifying the partnership leads to the fact that partners get to know each other better, each other's interests and operating styles and increases trust.

Risks Associated With International Alliances

1. Using and operating strategic alliances does not only bring chances and benefits. There are also risks and limitations that have to be taken in consideration. Failures are often attributed to unrealistic expectations, lack of commitment, cultural differences, strategic goal divergence and insufficient trust. Some of the risks are listed below:[

- Partner experiences financial difficulties
- Hidden costs

- Inefficient management
- Activities outside scope of original agreement
- Information leakage
- Loss of competencies
- Loss of operational control
- Partner lock-in
- Partner product or service failure
- Partner unable or unwilling to supply key resources
- Partner's quality performance
- Partner takes advantage of its position

Advantages

1. **Shared risk**: The partnerships allow the involved companies to offset their market exposure. Strategic Alliances probably work best if the companies´ portfolio complement each other, but do not directly compete.
2. **Shared knowledge**: Sharing skills (distribution, marketing, management), brands, market knowledge, technical know-how and assets leads to synergistic effects, which result in pool of resources which is more valuable than the separated single resources in the particular company.
3. **Opportunities for growth**: Using the partner´s distribution networks in combination with taking advantage of a good brand image can help a company to grow faster than it would on its own. The organic growth of a company might often not be sufficient enough to satisfy the strategic requirements of a company, that means that a firm often cannot grow and extend itself fast enough without expertise and support from partners
4. Access to new technology, intellectual property rights,
5. Create critical mass, common standards, new businesses,
6. Diversification, Improve agility, R&D, material flow, speed to market,
7. Reduce administrative costs, R&D costs, cycle time
8. Allowing each partner to concentrate on their competitive advantage.

- Learning from partners and developing competencies that may be more widely exploited elsewhere.
- To reduce political risk while entering into a new Market

Disadvantages of strategic alliances include:

1. **Sharing of profit**: In a Strategic Alliance the partners must share resourcesand profits and often skills and know-how. This can be critical if businesssecrets are included in this knowledge. Agreements can protect these secretsbut the partner might not be willing to stick to such an agreement.
2. **Creating a Competitor**: The partner in a strategic alliance might become acompetitor one day, if it profited enough from the alliance and grew enough toend the partnership and then is able to operate on its own in the same marketsegment.
3. **Opportunity Costs**: Focusing and committing is necessary to run a StrategicAlliance successfully but might discourage from taking other opportunities,which might be benefitial as well.
4. **Uneven Alliances**: When the decision powers are distributed very uneven, the weaker partner might be forced to act according to the will of the more powerful partners even if it is actually not willing to do so.
5. **Foreign confiscation**: If a company is engaged in a foreign country, there isthe risk that the government of this country might try to seize this local business so that the domestic company can have all the market on its own.
6. **Risk of losing control** over proprietary information, especially regardingcomplex transactions requiring extensive coordination and intensiveinformation sharing.
7. **Coordination difficulties** due to informal cooperation settings and highly costly dispute resolution. Ex

SCHOOL OF MANAGEMENT STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

UNIT4

GLOBAL BUSINESS MANAGEMENT SBAA5301

UNIT 4
GLOBAL INVESTMENTS

Introduction , understanding payment mechanism, documentation in international trade, financing techniques, export promotion schemes- export and import finance – global sourcing and Indian industries structure- reasons for global sourcing – advantage and disadvantage – challenges for Indian business.

Introduction

International Trade Mechanisms involves inter disciplinary processes including Finance, Logistics, Taxation and Supply Chain disciplines. Every Business Manager would need to know the nuances of the trade even though he may or may not be involved in the micro management of the processes.

Any Import or Export entails commercial transaction and payment. When an import is made into the US, the foreign supplier would have to be paid in the currency in which he has raised the invoice. Normally international transactions are made using USD as the currency. However in many cases of transactions with Europe, the Euro Dollar is used as the currency too.

When an Export originates out of US to another country, the Exporter would have to receive payment from the End Customer.

EXPORT PAYMENT MECHANISM

In Exports we have several types of trade or export transactions and the nature of the business determines the payment terms.

Advance Payment : When a new customer approaches and places an order on the Exporter, normally might insist on advance payment for executing the order. This method normally continues for a few times until mutual trust is built between the two parties and they get to know each other.

Letters of Credit : An Exporter if dealing with an unknown customer at the other end may not have any prior exposure to the credit worthiness of the Customer and would normally insist on Confirmed Letter of Credit to be opened by the Customer before shipping the goods. In such cases the Exporter may not be extending any credit. Also in case of high value transactions with known customers too; exporters prefer to get paid through Letter of Credit.

While dealing with a customer, the Exporter can check seek a credit worthiness rating from the customer's bank to be able to ascertain the authenticity and credibility of the Customer. Normally Large Multi Nationals demand such credit worthiness reports as a part of their policy.

Bill of Exchange of Documentary Drafts:When there has been sufficient relation between an Exporter and the Customer (Importer) and the customer's credit worthiness is known through previous records, the Exporter might decide to extend credit and accept payment on bill of exchange basis. This system is also called as Documentary Drafts. Documentary drafts are of two types namely Sight Drafts and Date and Time Drafts.

Open or Ongoing Account : When there is a huge volume of continuous business transactions between the Exporter and Importer and exports continue to happen on ongoing basis, the Exporter can simply export on the basis of a purchase order and expect the Importer to pay promptly on due date. This is the usual method adopted by most of the Multi National Companies as well as the large organizations that have sufficient import volumes spread across various countries and are dealing with multiple vendors on ongoing basis. In such cases they just determine the annual volumes to be supplied by each vendor, issue an open purchase order and keep reviewing only the delivery schedule. They offer standard payment commitment on a particular date to all vendors as a global policy. The payment process **will be set and determined as a part of their business agreement.**

Other Types of Trade and Related Payment Mechanisms

Besides the above types of payment mechanisms based on normal Exports and Imports, there are other types of business models which work on various other modes of payment terms too.

Consignment Sale: An exporter might sign up a contractor with a distributor overseas to import, hold stock and sell the goods on his behalf. In such a situation, the distributor may not own the stocks and the ownership might continue to lie with the exporter. The distributor would only be an intermediary to sell the stocks and repatriate the money realized back to the exporter and get remunerated in terms of service charges or commission. In such cases there may be a business agreement in place but no fixed payment mechanism may be adopted.

Counter Trade / Counter Purchase / Barter Trade:In yet another case of business arrangement called counter trade, exports may be linked with return purchase of some other items from the importer or from another source in the country. The payment may also involve services other than products. This kind of trade becomes a necessity while dealing with countries that do not have sufficient foreign currency. There is also another system of international barter which is not very ommonly practiced in the commercial world.

DOCUMENTS REQUIRED FOR PAYMENTS IN INTERNATIONAL BUSINESS.

LETTER OF CREDIT

A letter of credit is a document containing the guarantee of a bank to honour drafts drawn on it by an exporter, under certain conditions and up to certain amounts, provided that the beneficiary fulfils the stipulated conditions. The letter of credit offers advantages to both the seller and buyer. As far as the seller is concerned, a letter of credit ensures him payment for the goods he sells, provided, of course, that he follows the instructions. Though the buyer has to have the botheration of arranging for the letter of credit, it may enable him to obtain more liberal discounts and a lower price from the seller. Further, the buyer is assured that the shipment will be made by the date specified in the letter of credit, or else the credit will expire.**Letter** of credit: A letter of credit is a document containing the guarantee of a bank to honour drafts drawn on it by an exporter, under certain conditions and up to certain amounts , provided that the beneficiary fulfills the stipulated conditions

Bill of exchange: The negotiable instruments act, 1881, defines the bill of exchange as " an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money ony to, or t the order of, a certain person or the bearer of the instrument. There are five important parties to a bill of exchange:The drawer the drawee the payee the endorser the endorsee

Trust receipt: If the importer is unable to take possession of the documents by making the payment on the d/p bill following the arrival of the goods, the merchandise may be made available to the importer by his bank under an arrangement whereby the importer signs a trust receipt. Under this arrangement, the importer is allowed to sell the imported goods by acting as an agent of the bank; but the retains ownership of the merchandise until the importer has made full settlement; all sums received from the sale of goods must be credited to the bank until such settlement is made.

Letter of hypothecation: A letter of hypothecation is a document signed by the customer conveying to a banker the full ownership of goods at the port of destination in respect of which he has made advances either by loan or by acceptance or negotiation of bills of exchange. This is a sort of blanket document which shipping documents, demands from a customer to give him recourse son the bills and control of the documents.

Bank certificate of payment:It is a certificate issued by the negotiating bank of the exporter certifying that the bill covering particular consignments has been negotiated and that the proceeds received in accordance with exchange control regulation in the approved manner.

Marine insurance::Insurance granted to cover loss or damage to ships or goods in transit either by sea, air or land is called marine insurance. Insurance of ships is called " hull insurance" while cover provided in rspect of goods sis termed as cargo insurance.

PARTIES TO THE LETTER OF CREDIT:

The Opener: The opener is the buyer(importer). The letter of credit is opened at the initiative and request of the buyer.

1. The Issuer: The issuer, also called the opening or issuing bank, is the bank in the importer's country issuing the letter of credit at the request of the importer.
2. The Beneficiary: The beneficiary is the party in whose favour the credit is issued; that is the beneficiary is the seller or exporter.
3. The confirming Bank: The confirming bank is a bank in the exporter's country, which guarantees the credit at the request of the issuing bank. The confirming bank undertakes all the obligations of the issuing bank as a primary party to the credit, and even if the issuing bank fails during the currency of the credit, the confirming bank is

obliged to honour its commitment.

4. The Notifying Bank: The notifying bank is the bank, which, at the request of the issuing bank, notifies the beneficiary that the credit has been opened in his favour. If the letter of credit is confirmed, the confirming the bank advises the beneficiary accordingly.
5. The Paying Bank: The paying bank is the bank on which the draft or bill of the exchange is to be drawn under the commercial credit. The paying bank may be the issuing bank, the confirming bank or the notifying bank.
6. The Negotiating Bank: The negotiating bank is the bank, which pays or accepts the drafts of the exporter. If no paying bank is specified in the credit, the beneficiary may go the any bank and present the draft and related documents under the credit; and if the bank agrees to negotiate the documents, it becomes the negotiating bank.

KINDS OF LETTER OF CREDIT

1. **Clean Letter of Credit**: This kind of letter of credit may be negotiated against a clean draft. A clean draft is a draft without any documents attached to it.
2. **Documentary Letter of Credit:** Under this, the draft must be accompanied by the documents specified in the letter of credit.
3. **Assignable Credit;** Under this kind of L/C, the beneficiary may assign his rights to another beneficiary, either within a stated period or before the expiry date of the credit.
4. **Non-Assignable Credit:** As opposed to the assignable credit, the named beneficiary of a non-assignable L/C cannot transfer his rights to another party.
5. **Cash credit;** under the cash credit, the exporter may draw a sight draft on the bank. The great advantage of this type of credit, therefore, is that the beneficiary will receive cash for his draft as soon as the goods are ready for shipment and the relevant documents in proper order are represented to the bank.
6. **Acceptance Credit:** Under this arrangement, the bank merely 'accepts' the drafts drawn by the exporter. After the bank has accepted it, the draft becomes a bank acceptance, which may be readily discounted or sold by the exporter to the accepting bank, to other banks or to exchange dealers.
7. **Revocable credit:** The revocable letter of credit may be revoked or cancelled at any time without the consent of, and without notice to, the beneficiary. As the revocable

L/C does not adequately protect the beneficiary on the basis of this type of L/C are not common.

8. **Irrevocable Credit:** An irrevocable L/C is one, which cannot be revoked, amended or modified by the issuing bank without the express consent of all the parties concerned.
9. **Confirmed Credit**: If a bank in the beneficiary country confirms the L/C, it becomes a confirmed credit. In this case, the bank issuing the L/C sends it through its branch or correspondent bank located in the beneficiary's country with the request to add its confirmation to the credit.
10. **Back-to-Back Credit**: A back-to back credit is essentially a secondary credit, opened by a bank on behalf of the beneficiary of an original credit, in favour of a domestic supplier. The original credit backs another credit and facilitates the purchase of the goods from a local supplier by the beneficiary of the original L/C.Revolving Credit: A revolving credit is designed to obviate the need for establishing new credit for each shipment when the transactions are more or less continuous. Under the revolving credit, provision may be made for making available the credit again as soon as the importer reimburses the issuing bank with the drafts already negotiated by the paying bank.
11. **Red Clause Credit:** The red clause L/C enables the beneficiary to draw a predetermined value of the L/C as its established. The red clause is an authority to the negotiating bank to make advances to the beneficiary for the purpose of purchasing the relevant merchandise. The conditions on which such advances may be made are incorporated in the L/C.

STEPS IN THE OPERATION OF LETTER OF CREDIT:

In Letter of credit, normally four parties are involved,

- the applicant for the credit (importer),
- the beneficiary of the credit (exporter),
- the issuing bank and the advising bank incase of unconfirmed credit or the confirming bank in case of confirmed credit.

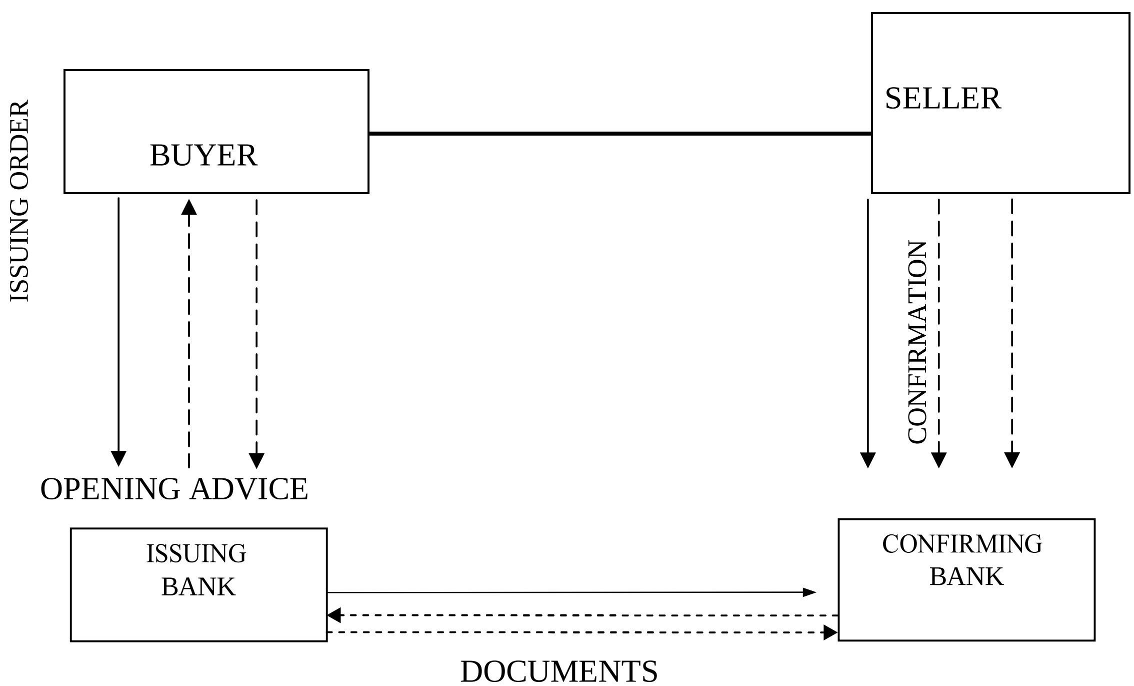
The step-by-step procedure

M/S Rainbow limited. Chennai has secured a contract for the supply of 200 ceiling fans to a Nigerian importer. It has been decided that the terms of payment will be a confirmed irrevocable letter of credit.

The total value of the contract is Rs.2, 00,000. Once the contract is duly signed the Nigerian bank then sends instructions to its correspondent bank to the credit and the advice the Rainbow limited accordingly. On receipt of this advice from the local correspondent bank in India, the Rainbow limited., makes the shipment of he cling fns and gets the shipping documents and other related documents. He presents these to the correspondent bank, which scrutinizes the documents. If these are in full conformity with the terms of the credit, it will accept the documents and make the payment to the exporter. The documents are then forwarded to the issuing bank, which reimburses the amount to the correspondent bank. The issuing bank in turn presents the documents to the importer and debits his account for the corresponding amount.

The steps involved, therefore, relate to three distinct activities, viz., opening of credit, presentation of documents and the process of payment. The entire scheme of operation can be easily visualized with reference to the Flow chart given below.

SALES CONTRACT



The straight lines show the flow of the credit. The dashed lines shows the flow of the documents and the dotted lines show the process of payment.

ADVANTAGES OF LETTER OF CREDIT:

1. Purchase without cash: The importer can purchase goods on credit from foreign merchants, who do not know him and may rely upon his standing, on the banker's credit issuing the letter of credit.
2. Payment after satisfying conditions: The importer is assured in case of documentary letter of credit that the exporter cannot obtain any benefit under the letter of credit without actually shipping the merchandise and handing over the documents to the bank.
3. Better terms of trade: The issuing banker lends the advantage of his own credit to the importer, who is able to secure terms of trade from the foreign supplier, which is otherwise not possible.
4. Release against trust receipt: When banks are willing to assume credit risk of the importer, shipping documents are surrendered to him in return for his trust receipt, and the goods released.
5. Certainty of Payment: Though the importer and the exporter are not known each other, the letter of credit provides an absolute assurance that the bills of exchange drawn under the letter of credit will be honoured.
6. Credit facilities: The exporter can secure loans from his bank to buy or manufacture the goods to be supplied on the strength of the letter of credit.
7. Discount facilities: The bills of exchange drawn under the letter of credit are readily discounted with the advising/confirming banker or any other banker, because of the firm undertaking given by the opening banker.

EXPORT PROMOTION SCHEMES

Promotional Measures in Foreign Trade Policy

Exports are regarded as an engine of economic growth in the wake of liberalization and structural reforms in the economy. In recent times India is witnessing slowdown in exports with its traditional partners. Under these circumstances, we need to set in motion strategies and policy measures which catalyze growth of exports in several different sectors as well as in newer markets.

Export Promotion Schemes

Foreign Trade Policy 2015-20 and other schemes provide promotional measures to boost India's exports with the objective to offset infrastructural inefficiencies and associated costs involved to provide exporters a level playing field. Brief of these measures are as under:

Exports from India Scheme

(i) Merchandise Exports from India Scheme (MEIS)

Under this scheme, exports of notified goods/ products to notified markets as listed in Appendix 3B of Handbook of Procedures, are granted freely transferable duty credit scrips on realized FOB value of exports in free foreign exchange at specified rate (2-5%).

Duty Credit Scrips are provided for exports to diversify markets and offset the disadvantage faced by exporters with regard to freight costs, transport hurdles and other disabilities.They are like debit notes which can be used to pay import duties.

Such duty credit scrips can be used for payment of custom duties for import of inputs or goods, payment of excise duty on domestic procurement, payment of service tax and payment of custom duties in case of EO default.

Exports of notified goods of FOB value uptoRs 25, 000 per consignment, through courier or foreign post office using e-commerce shall be entitled for MEIS benefit.

(ii) Service Exports from India Scheme (SEIS)

Service providers of notified services as per Appendix 3E are eligible for freely transferable duty credit scrip @ 5% of net foreign exchange earned.

2. Duty exemption & remission schemes

An exporter must take Advance Authorization (AA) from the regional DGFT offices if he uses his imported product as an input to manufacture his resultant exported product. No Advance Authorization can obviously be given for import of prohibited items. Advance Authorization can however be given for import of restricted items with certain conditions. Items reserved for import through State Trading Enterprises (STEs) can be imported against Advance

Authorization/ DFIA provided the item of import is canalized/ bought through STEs or after obtaining No Objection Certificate from STEs.

(i) Advance Authorization Scheme

Under this scheme, duty free import of inputs are allowed, that are physically incorporated in the export product (after making normal allowance for wastage) with minimum 15% value addition. Advance Authorization (AA) is issued for inputs in relation to resultant products as per SION (Standard Input Output Norms prescribed in Handbook of Procedures Vol. II) or on the basis of self- declaration, as per procedures of FTP. AA normally has a validity period of 12 months for the purpose of making imports and a period of 18 months for fulfilment of Export Obligation (EO) from the date of issue. AA is issued either to a manufacturer exporter or merchant exporter tied to a supporting manufacturer(s).

(ii) Advance Authorization for annual requirement

Authorization holders who have been exporting for at least 2 years can get annual Advance Authorization.This gives them the flexibility to export any product throughout the year falling under an export product group using the duty exempted imports.However specific inputs have to be tallied with the resultant exports as per SION/ prescribed ad hoc norms.

(iii) Duty Free Import Authorization (DFIA) Scheme

DFIA is a variant to Advance Authorization scheme. It is different from Advance Authorization as a higher minimum value addition of 20% is required, as compared to only 15% in Advance Authorization. It has enabling provision for transferability of authorization or materials imported against it. DFIA can be applied and obtained on post export basis as well. It is popular with exporters who export first and then obtain the Authorization, which can be sold freely.

(iv) Duty Drawback of Customs/Central Excise Duties/Service Tax

The scheme is administered by Department of Revenue. Under this scheme products made out of duty paid inputs are first exported and thereafter refund of duty is claimed in two ways:

i) All Industry Rates : As per Schedule

ii) Brand Rate : As per application on the basis of data/documents

(v) Rebate of Service tax through all industry rates

Refund of service tax paid on specified output services used for export of goods is available at specified all industry rates.

3. EPCG SCHEME

(i) Zero duty EPCG scheme

Zero duty EPCG scheme allows import of capital goods for preproduction, production and post production (including Completely Knocked Down/ Semi Knocked Downthereof as well as computer software systems) at zero Customs duty, subject to an export obligation equivalent to 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from Authorization issue-date (para 5.1 a of FTP).

The scheme can be taken both post exports and pre exports. The export obligation discharged would require fulfilment of specific export obligation in addition to the existing Average export performance over a period of three years.

Period of import would be 9 months. Exporters availing benefit under Technology Up gradation Fund Scheme ("TUFS") can also avail benefit of Zero duty EPCG Scheme. Import of motor cars, SUV's, all purpose vehicles by hotels, travel agents, or tour or transport operators and companies owning/ operating golf resorts not allowed. Export Obligation for domestic sourcing of capital goods under EPCG schemes has been reduced by 10% to encourage import substitution.

(ii) Post Export EPCG Duty Credit Scrip Scheme

A Post Export EPCG Duty Credit Scrip Scheme shall be available for exporters who intend to import capital goods on full payment of applicable duty in cash.

4. EOU/EHTP/STP & BTP SCHEMES

Units undertaking to export their entire production of goods and services may be set up under this scheme for import/ procurement domestically without payment of duties. For details of the scheme and benefits available therein FTP may be required.

5. OTHER SCHEMES

(i) Towns of Export Excellence (TEE)

Selected towns producing goods of Rs. 750 crores or more are notified as TEE on potential for growth in exports and provide financial assistance under MAI Scheme to recognized Associations.

(ii) Rebate of duty on "export goods" and "material" used in manufacture of such goods

Rebate of duty paid on excisable goods exported or duty paid on the material used in manufacture of such export goods may be claimed under Rule of 18 of Central Excise Rules, 2002.

(iii) Export of goods under Bond i.e. without payment of excise duty

Rule 19 of Central Excise Rules 2002 provides clearance of excisable goods for exports without payment of central excise duty from the approved factory, warehouse and other premises.

(iv) Market Access Initiative (MAI) Scheme

Under this Scheme, financial assistance is provided for export promotion activities on focus country, focus product basis to EPCs, Industry & Trade Associations, State Government Agencies and Indian Commercial Missions abroad to do market surveys, publicity campaigns, participate in International Trade Fairs, set showrooms/ warehouses etc.

Details of the Scheme is available at www.commerce.nic.in

(v) Status Holder Scheme

Upon achieving prescribed export performance, status recognition as one star Export House, two Star Export House, three star export house, four star export house and five star export house is accorded to the eligible applicants as per their export performance. Such Status Holders are eligible for various non-fiscal privileges as prescribed in the Foreign Trade Policy.

EXPORT FINANCE

Businessmen, industrialists and others require finance for their day-to-day activities. In export business finance plays an important roles. An exporter needs finance for processing or manufacturing or assembling or procuring or packing the goods for export, pre-shipment finance is provided to the exporter to meet such requirements. After the shipment is made exporter will have to give credit the exporter has to wait till the documents reach the importer and he makes the payment. It will take some more time before the advice of payment is finally, communicated to the exporter. Post-shipment finance is therefore provided to the exporter to meet his needs for funds during the intervening period between the shipment of the goods and the receipt of payment therefore

1) Pre-shipment credit or packing credit – export packing credit is a loan or any other credit given by a bank to an exporter for financing procuring raw materials and components to manufacture the product or processing or assembling or packing the goods for exports. The banks on the basis of the following give the packing credit

2) A letter of credit (l/c) opened in favor of the exporter by the importer's bank. A confirmed irrevocable order for the export of goods from india having been placed on the exporter, or any other evidence of order for exports of goods from india having been placed on the exporter or relevant policy issued by the ecgc, or personal bond in the case of party's already known to the exporter.

Cost covered by pre-shipment finance

- Cost of purchase or production
- Packing including any special packing for export
- Cost of special inspection or tests required by the importer
- Internal transport costs
- Port, customs and shipping agents charges
- Freight and insurance charges if the contract is either cif contract or c&f contract
- Export duty or tax if an

Post-shipment credit

- Post shipment finance is required by the exporter to bridge the gap between the time of shipment of goods and the actual payment for the goods exported
- Post shipment credits are given by commercial banks against the security of approved shipping documents tendered against letter of credit or otherwise
- It is also provided at concessional rate of interest
- The banks normally finance the post shipment credit in one of the following ways
- Negotiating export bills under letter of credit
- Discounting of bills drawn against shipment of goods – discounting of bills (d/a bills) drawn against shipment of goods is usually done under limited sanctioned to different

customers

- An advance against bills under collection

Types of post-shipment credit

- Short term credit is usually for 6 months and provided by banks
- Medium term loans are offered for a period beyond 6 months and up to 5years. These loans are also provided by commercial banks in collaboration with exim bank of india. Medium term loans are provided for in the caseof durable consumer goods and light capital goods
- Long term loans are provided in the case of sale of capital goods, complete plants and turnkey jobs. The period of credit is usually more than 5 years
- Bank enjoy certain benefits they are as follows
- Reinforce by exim bank of india
- Guarantees provided by ecgc where a substantial part of the risk is covered by ecgc
- Forfeiting enables an exporter to convert an overseas credit sale into a cash sale through the process of discounting of export receivables. The bill of exchange accepted by the importer is surrendered to the forfeiting agency, which pays him in cash after deducting fee. The understanding is that the agency will collect the dues from the importer on expiry of the said period
- Finance for export on deferred payment terms – our exchange control regulations stipulate that exporters should realize the foreign exchange for their exports within 180 days from
- The date of shipment. Contracts for export of goods against payment to be received fully or partly after the expiry of the stipulated period for the realization of export proceeds are treated as deferred payment export contract. Extension of long term export market strategy and therefore provision has been made for the extension of medium and long term credit to finance the sale of indian capital goods and related services

Free trade zone (100% export processing zones)

These are also referred to as epz's, are set up with the intension of providing an internationally competitive duty free environment for export production, at low cost. This enables the products of epz to be competitive, both quality wise and price wise, in the international market.

India has seven epz at different parts of our country. Epz operating units broadly under the product groups of electronics, engineering items, chemicals and allied products, gems and jewellery, textiles, garments, plastics and rubber products.

The objectives of these units are

- To earn foreign exchange
- To generate employment opportunities
- To facilitate transfer of technology by foreign investment and other means
- To contribute to the overall development of the country

Entitlement for epz units

1. Each of the zones provides basic infrastructure such as developed land for construction of factory shed, standard design factory buildings, roads, power, water supply and drainage. In addition, customs clearance is arranged within the zone at no extra charge. Provision is made for locating banking or post office facilities and offices by clearing agents in the service centers located in each of the zones
2. Foreign equity up to 100% is permissible in the cost of epz units
3. Procurement of raw materials, components and consumables and export of finished products shall be exempt from central levies
4. Exemption from industrial licensing for manufacturing of items reserved for ssi sector
5. The government provides for import of raw materials components and spares by registered exporters
6. The government provides incentives for import of capital goods for export units
7. Incentives are provided for import of essential raw materials for major exporting industries under the open general licenses
8. Provision on indigenous raw materials to export units
9. Provision of cash subsidies
10. Drawback of duties

11. Concessional railway freight

INCENTIVES IN INDIA

Duty exemption or drawback

i. Reduced commodity taxes such as excise duty and customs duty

ii. Exporters are either exempted from payment or refunded

Income tax concessions

i. Earnings from exports are either partially exempted from income tax or taxes at a lower rate

ii. Awards – separate awards are given for different categories of exporters

iii. Market development assistance (mda) – the mda provides assistance to the following

- Market and commodity researchers
- Trade delegations and study terms
- Participation in trade fairs and exhibitions etc

Foreign exchange

i. For participation in trade fair

ii. Foreign travel

iii. Procurement of samples and technical information from abroad

iv. Export risk insurance – export credit risk cover, ecgc

v. Quality control and pre-shipment inspection

Institutional assistance

i. ITPO

ii. EPC'S

iii. Export development authorities

Procedure for executing an export order

The following the parties and agencies involved in executing an export order:

1) Exporter

2) Importer.

3) The negotiating bank

4) Shipping company

5) Insurance company

6) Reserve bank of india

7) ECGC

8) Directorate general of foreign trade

9) Customs house

10) Port trust

11) Inspection agency

12) Clearing agents

The exporter has to process the export order in the following manner.

The exporter should scrutinize the export order with reference to the terms and conditions of the contract. The order should specify the mode of payment such as letter of credit, document against acceptance or document against payment, and the terms of conditions as specified in the letter of credit. The following documents have to be prepared.

1. Bill of exchange (if d/a or d/p bill)
2. Commercial invoice
3. Bill of lading
4. Marine insurance
5. Packing list
6. Certificate of origin
7. Export inspection certificate
8. A delivery note (in duplicate) is to sent to the works manager or factory manage

   giving the description of goods to be exported along with the copy of the instruction given by the importer.

9. As soon as the goods are manufactured and kept ready for shipment the following have to be done:

Clearance of the excise authority has to be obtained. Export inspection agency should be approached.

Goods should be dispatched to the port of shipment. Ar-4 form has to be prepared.

Thereafter the works manager sends a dispatch advice to the export department.

They will obtain the marine insurance cover for the goods.

10. Then the exports department sends the following documents to its clearing and forwarding agents along with detailed instructions:
    - Commercial invoice original export order original l/c packing list
    - Certificate of inspection endorsement regarding floor price
11. The clearing and forwarding agent takes delivery of the consignment and arranges its storage in the warehouse. Thereafter he prepares requisite copies of shipping bill and submits them to the export department of the customs house along with necessary documents mentioned above.
12. After the shipping ill has been passed by the customs, the clearing and forwarding agents presents the port trust copy of the shipping bill to the respective authorities. Thereafter, in the case of shed cargo, the dock challan is prepared. Where the ship loads overside, the dock charges are indicated in the shipping bill itself and therefore, no dock challan is prepared.
13. The passed shipping bill including dock challan will be submitted to the port commissioners.
14. In response to that the ship's export clerk calls for cargo from shed or boat and after loading prepares the mate receipt. A mate receipt is a receipt issued by the commanding office of the ship when the cargo is loaded on the ship and contains information about the name of the vessel, berth, date of shipment, description of packages, marks and numbers, condition of the cargo at the time of receipt on board the ship etc.
15. The mate receipt is first handed over to the port trust authorities so that the exporter may pay all the port dues. After paying all the port dues, the clearing agent collect the mate receipt from the port trust authorities.
16. The clearing and forwarding agent forwards the following documents to the exporter: full set of bill of lading, export promotion copy of the bill, copies of customs invoice, original export order.
17. As soon as the exporter receives the above documents from the clearing and forwarding agent, he completes the remaining formalities. He will present the following documents to the negotiating bank. (gr form, customs invoice, certificate of origin, packing list, marine insurance

policy and bank certificate)

18. The negotiating bank transmits duplicate copy of the gr form to the exchange control department of the reserve bank of india after receipt of the export proceeds.
19. The original copy of the bank certificate along with attested copies of the commercial invoice are returned to the exporter. The duplicate copy of the bank certificate is forwarded to the office of the dgft in the area.
20. Finally the exporter will get the value of the value of export consignment against the above-mentioned documents.

Export procedure for sending goods

An outline of the important steps in exporting the goods is as follows:

IEC NUMBER:

Every person importing or exporting goods require and importer-exporter code number. The regional licensing authorities normally allot the iec number. This code number is required to be incorporated in the various export documents submitted to the authorities for purposes of export.

Membership cum registration:

Membership of certain bodies will help the exporters in a number of ways. There are specified export promotion councils , commodity boards and export development authorities for various products. Members of epc will receive different kind of assistance and services in respect of the export business.

Exporters are advised to become members of local chamber of commerce, productivity council or any other trade promotion organization recognized by the ministry of commerce. Membership of such bodies will help the exporters in different ways, including obtaining the certificate of orgin, which is necessary document required for export to certain countries.

Inquiry and offer:

An inquiry is a request from a perspective importer to be informed of the terms and conditions of sale. It may contain full details of the goods required, their description, catalogue numbers or grades, sizes, weights or other distinguishing features, time and method of delivery etc.

As soon as the exporter receives a business inquiry from party abroad, it should be promptly attended to. The exporter should bear in mind that the foreign buyer have a large number of prospective suppliers in a number of countries and thus he is in a very competitive situation.

Serious and sincere care should, therefore, be exercised in dealings with foreign country customers.

As a starting point of the negotiations, the exporter would have to make an offer to the foreign customer. An offer is a proposal in which an exporter submits, may be in the form of a letter, his quotation and other relevant information. The offer, when accepted by the foreign buyer, becomes an order.

Confirmation of order:

Once the negotiations are completed and the terms and conditions are acceptable to the buyer and seller, the buyer may place an order with the exporter. The exporter should immediately confirm the order by sending this acceptance. For the confirmation of the order, the proforma invoice is generally sent in triplicate to the buyer, and the buyer is asked to return two copies signed by him. The exporter should again send once copy to the importer with the exporter's signature to confirm the acceptance of the order. The confirmation of the order usually takes the form of a contract.

Export license:

These exports of some items are banned and of some items controlled by means of licenses, though many items are permitted to be exported freely. Needless to say, the exporter should make sure that the item sought to be exported is not one, which falls in the banned list. If the item to be exported requires a license, it is necessary to obtain it before finalizing the contract.

Finance:

If the exporter requires pre-shipment financial assistance, he should take the necessary steps to obtain it.

Production/procrument of goods:

Once the order is confirmed, the exporter should take necessary steps to ensure the timely availability of the goods of the specifications required and execute the export order promptly. If the exporter is not a manufacturer, he should contract with his suppliers and ensure timely availability of the goods of the buyer's specifications.

Shipping space:

As soon as the export order is confirmed, the exporter should contract the shipping companies which have sailings for the port to which goods have be sent and book the required shipping space. On the exporter's application or on the application of the freight broker on the exporter's behalf, the shipping company issues sits acceptance if the space applied for is given.

Packing and marking:

Once the goods re ready, they are marked and marked properly. If the buyer has given instructions about packing and marking, they should be followed accordingly. If there are no such instructions, it should be ensured that the packing and marking are of the standards recommended or specified.

Quality control and pre-shipment inspection:

Thereafter get the goods inspected by the inspecting authorities under the compulsory quality control and pre-shipment inspection. They are as follows:

- Export inspection agency
- Agmark authorities
- Textile committee - for textile goods.
- Any other authorities authorized for this purpose.

Excise clearance:

As a matter of policy, the government has granted excise duty exemption for the export products. Excisable goods may be exported either under claim for rebate of excise duty or in bond. In the case of export under claim for refund of excise duty, the duty is first paid and its refund is claimed. Some times with specification the goods are allowed to export without payment of duty on execution of a bond with sufficient surety and security in the prescribed bond.

Customs formalities:

Goods may be shipped out of india only after the customs clearance has been obtained. For this purpose, the exporter (or the clearing and forwarding agent on behalf of the exporter) should present the following documents to the customs authorities.

- Shipping bill
- Declaration regarding truth of statement made in the shipping bill
- Invoice
- GR form
- Export license (if required)
- Quality control

- Original contract
- Letter of credit (if applicable)
- Certificate from quality control authorities
- Marine insurance policy
- Certificate of orgin
- Mate receipt or bill of lading
- Packing list
- AR-4 form
- Any other documents

The customs authorities scrutinize the shipping bill and other requisite documents, and if, prima-facie, satisfied, they pass it for export, subject to a physical examination by the staff of the customs. The shipping bill passed by the exporter department has to presented to the cargo supervisor or the steamship company or the shed manager, who is the port official, for permission to bring in the cargo for export.

i. **Send the shipping advice to the importer**:

Once all the said above process are over and as and when goods are loaded into cargo or ship, the exporter will inform the importer about the dispatch of goods and departure of the ship. So that the importer get ready for his actions.

ii. Negotiation of documents:

After shipping the goods, the exporter should arrange to obtain payment for the exports by negotiation with the relevant documents through the bank.

iii. Applying for refund (if any)

Then appropriate steps to be taken by way of applying to get the duty draw bank from customs and other assistance, if any from government.

GLOBAL SOURCING

Global product sourcing refers to a procurement strategy through which an enterprise works to identify the most cost-effective location for product manufacturing, even if that location may be in a foreign country.

For instance, a cement manufacturing company may find that the costs of raw materials and manufacturing are lower in some foreign country because manpower is cheaper there. The company would therefore opt to shut down its domestic operations and set up a plant in that foreign country.

The mentioned strategy patterns for global sourcing make the direction for global sourcing clearer. Supply management has to observe the dimensions of the pre-portfolio mentioned above carefully before they can formulate an adequate global sourcing strategy, and especially in case of bimodal companies.

The general sourcing process can be divided into the following 5 stages, explained below.

Stage 1: Preliminary Research – Investigation and Tendering

At this stage, the enterprise identifies the core and non-core operational activities, analyzes customer and market requirements and identifies competitors. The idea is to develop the firm's business objectives, prospective markets and brand positioning.

The strategic sourcing scope is also outlined through a business plan developed by the executive and the sourcing specialist, and the preliminary work strategy and baseline for measuring performance is established and documented as a procurement process plan.

Stage 2: Market and Supplier Evaluation

At this stage, the enterprise develops a detailed list of supplier selection benchmarks, which is used to select the most appropriate suppliers that fit the requirements. Based on the findings of the process, the sourcing strategy may be tweaked further and a final costing model is released. The operational and economic benefits of the project will then be estimated. RFIs will then be sent out to the shortlisted suppliers.

Stage 3: Selection of the Supplier (Sourcing Event)

Based on the results of the RFI dispatch, a final list of suppliers is selected and negotiation for products is carried out, culminating in a supply agreement. Technical assessment of final supply candidates is conducted to come up with the savings estimates for each. Finally, an implementation schedule outlining timelines for various suppliers is developed.

Stage 4: Implementation

A performance analysis schedule should be developed, outlining all activities in the implementation process. The implementation team should be constituted by the procurement agent and the schedule and strategy should be published. Agreements related to shared supply, resources and logistical arrangements are developed.

At this stage, expected internal and external results from the suppliers should be documented. Periodic measurement and reporting of actual performance should be carried out.

Stage 5: Performance Monitoring

Performance of suppliers is measured, both independently and in relation to the resources and processes applied by supply partners. This should be carried out routinely and reported accordingly. In-depth evaluation of the efficacy of collaborative efforts with each supplier is obtained, and the partners involved continuously isolate problems and find out ways these can be solved for improved performance

SOURCING STRATEGY PATTERNS

Technology oriented sourcing

This strategy is closely connected with high-tech sourcing outside domestic markets. Sometimes, companies are forced to buy from abroad as there is not much domestic alternative.

Cost oriented global sourcing

It is the strategy pattern that helps to increase competition. The major goal is not to get ahead in technology but to save cost. It can prove to be useful for standardized products where suppliers are easily available in domestic and international markets.

Competition oriented global sourcing

Although the goal of competition oriented global sourcing is also to reinforce competition. But unlike cost oriented sourcing, it does not have a single cost reduction focus. It tries to gain new product ideas and developments in uncritical market situations by addressing foreign suppliers or it looks for wider range of supply markets and suppliers for less critical products.

A Good Global Sourcing Strategy Addresses

i. Cost – the main purpose of product sourcing strategy is to take advantage of lower labor costs in foreign countries. However, the procuring organization will face additional costs that don't factor into domestic transactional costs. These include broker fees, freight charges, taxes called, insurance, duties and bank fees.

ii. Laws – the sourcing specialist together with the supplier should consider what body of law shall be applied to their contractual agreement, i.e., the buyer's country's law, the supplier's country's law or the law applicable through a signed treaty between the 2 countries.

iii. Currency – some buyers may insist on transactions in their own currency for the sake of simplicity. However, a prudent buyer will consider the possibility of using the supplier's currency where the buying country's currency may become stronger in the period between agreement and supply and eventual payment

iv. Lead time – global purchases have a significantly longer lead time than domestic sources. The reason is that overseas travel is slower, unless air travel is used. In addition, there is time taken in the custom clearance process, which does not apply for domestic sources

v. Culture and language – where the procurement agent is unfamiliar with the culture and language of the supplier, the risks of misunderstanding, miscommunication and offensive/awkward encounters significantly increases.

vi. Transportation – whereas domestic sourcing necessitates the use of a single mode of transportation, global sourcing frequently includes multiple modes of transport, e.g., combining air or water transportation with road transport to bring goods from the supplier to the supplier's port, to your own port and finally to your place of business.

vii. Methods of payment – in global sourcing, a letter of credit is used for payment, which necessitates the cooperation of the banks of the supplier and buyer.

Global Sourcing: Challenges and Solutions

Nowadays, a large number of organizations consider sourcing as a viable option for cutting down their expenses. However, the procurement journey of organizations is not so simple as it may seem. Large-size business firms especially MNCs face numerous hardships when they try to customize their cross-border sourcing activities. The four pillars of global sourcing, namely, people, process, technology, and supply chain play a great hand when it comes to internal procurement operations for an organization.

Challenges Relating to Global Procurement

The challenges that most business firms face while outsourcing their services are listed as follows:

1. Non-adherence to quality standards.
2. The difference in time zones.

3. Long-range logistics.
4. Accountability problems.
5. Compliance issues.
6. Delays in supply.
7. Language barriers.

How Companies Should Combat these Challenges

Effective planning is needed before implementation of procurement strategies. If there are issues relating to logistics, companies must focus on their operations and thereby, delivering the required technologies to every location consistently. When organizations select a sourcing destination whose infrastructure and

transportation is not up to the mark, delays in supply are a common phenomenon. Sometimes, the lack of a professional mindset among workers also leads to supply delays.

There may be other factors in the form of customs inspections, missing paperwork, and local regulatory compliances. More often, companies fail to identify appropriate suppliers while operating in foreign markets. Under such circumstances, organizations may resort to procurement agencies for assistance. Global Procurement Services help business firms in formulating their sourcing strategies.

In some cases, the growth strategies of business firms also have a direct impact on their procurement policies. There are instances when mergers and acquisitions delay the supply procedures while creating an intricate web of vendors. It is because of mergers and acquisitions organizations are ready to accept redundant technologies while drifting from corporate technology standards. Business firms have to pay increased prices for products and services insome cases. They have no other option apart from doing so. There are times when companies feel it is better to control costs rather than exploring sourcing opportunities.

CHALLENGES IN FOUR PILLARS OF GLOBAL SOURCING

No doubt, there are various challenges involved in the sourcing operations of companies. But, when it comes to international sourcing, it is the four pillars, i.e., people, process, technology, and supply chain that makes all the difference.

These four pillars are discussed in detail as follows:

People:

In this age of perfect market competition, organizations have to scrutinize the intricacies of global logistics and supply chain management. Both these aspects will become even more complex in the forthcoming days. The supplier management team of business firms must be competent enough to handle all vendors in the respective countries. When operating in foreign markets, differences in language and culture are bound to occur. Service delivery management team must present the objectives of an organization in the global arena.

Process:

In this digital age, automation is the new buzz. A large number of companies are implementing automated technologies in their operations. It facilitates their systems and processes at large. Agencies that provide Global Procurement Services make organizations aware of the latest sourcing trends and advanced technologies. According to experts, automation will drive global procurement processes shortly. Automation accelerates the speed and efficiency of operations while benefiting organizations at large.

Technology:

Business firms should select a procurement agency whose services run on innovative technologies. This will enable companies to buy goods from multiple OEMs in various currencies.

Supply Chain:

Companies need to ponder upon the supply chain before initiating their sourcing operations. It will be a better decision to go with procurement agencies that have numerous supplier contracts. A small-size or mid-size firm can't get access to appropriate suppliers across the world. Reputed sourcing agencies have enough experience while operating in various countries. With their assistance, companies can channelize their procurement operations.

Business firms need to handle sourcing challenges strategically. If they are unable to manage, they can take help from sourcing agencies. However, the aspects of people, process, technology, and supply chain must be taken into account under all circumstances.

Advantages of Global Sourcing

If you run a business, you must have thought about global contract manufacturing to minimize your manufacturing costs. Outsourcing your firm's production operations to low-cost countries like China, India, or Taiwan could save your business plenty of money. The advantages of conducting sourcing activities in a foreign destination are listed as follows:

Cheaper Cost:

No doubt, the labor costs in countries like China, India, and Taiwan are significantly cheaper than labor charges in the U.S. and the U.K. Every marketer wants to get hold of quality products while spending the minimum. This is increasingly possible with global sourcing activities of organizations. Most marketers look for optimum utilization of manufacturing labor in these countries. Added to this, marketers can also be assured of the quality standards of these products. This is indeed an added advantage for organizations. By cutting down labor costs, you have the option to allocate that money elsewhere.

A Skilled Workforce:

Every marketer wants skilled professionals to manufacture their products. Hiring an experienced professional will keep marketers free from all sorts of headaches. The workforce in countries like China, India, Taiwan, Vietnam, Indonesia, etc. are aware of the latest trends in production techniques. They also know how to implement these advanced manufacturing techniques in their operations. This enables them to manufacture products that conform to global quality standards. The presence of a skilled workforce and low labor charges in certain countries intrigue marketers to engage in sourcing activities in these nations.

Increased Production Capacity:

This is another major benefit of global sourcing. Because of huge investments in the manufacturing sectors in countries like China and India, the production capacity of these countries has increased manifold. Most of the sourcing destinations that organizations select have dedicated huge portions of their economy and investments towards manufacturing. These countries also have the technical labor force needed to run the manufacturing plants. The technical labor force of these countries also has a higher skill set when compared to the U.S.

By conducting sourcing activities in these nations, organizations can also increase their production capacity quite smoothly. This is particularly helpful in times of increasing consumer demand. Procurement outsourcing firms give effective suggestions to organizations regarding how to align their production operations with the spikes in consumer demand.

Infrastructure:

Countries with excellent infrastructure and superior transportation options catch the eyes of marketers. If a company decides to conduct its procurement activities in a destination that has excellent infrastructure, it is very likely to be benefited from shorter lead times. Marketers can get hold of the finished products within a short period.

Technology:

Huge investments are being made ensuring production plants are equipped with the most up-to-date technology in the world. Technology also has an important role to play when it comes to the quality standards of products. It is always recommended to select a sourcing destination where the condition of factories is good. Most factories in China, India, and Taiwan have dirt floors and leaking roofs. If this is the case, it is bound to affect the manufacturing operations of organizations. Though these countries are sourcing hotspots, they need to consider this aspect for staying ahead of the technology curve.

Disadvantages of Global Sourcing

Global sourcing is not without disadvantages. Companies have to face several challenges while engaging in global sourcing activities. The disadvantages of conducting sourcing operations in a foreign destination are listed as follows:

Language Barrier:

It is undoubtedly the biggest obstacle when it comes to conducting sourcing activities in a different destination. For example, if a U.S. based firm wants to operate in China, it has to be familiar with the Chinese language and the local codes. There are hardly any similarities between Chinese and English languages. If there are gaps in communication, organizations cannot carry out their manufacturing operations smoothly. Marketers will also face difficulty in communicating with suppliers. However, with the assistance of sourcing agents, organizations are minimizing this problem.

If you want to maintain positive relationships with your business partners, you need to have quality customer support as well as an effective channel for communications. Before operating in a challenging environment, organizations need to adopt all the necessary measures for its effective functioning.

Local Tariff And Tax:

Most organizations are not aware of the local tariff and tax structures relating to their sourcing destination. To combat this problem, most companies take suggestions from local sourcing agencies. If you are not familiar with the tariff and tax structure of your sourcing destination, you may not be saving on your production costs.

Political Instability:

Political instability, both internal and external, can halt supply lines. When there are instances of protests, riots, pirate activity, or airport closures in a particular destination, the sourcing activities of organizations are very likely to be affected. Political instability also causes disruptions in the supply chain in more ways than one.

Shipping Costs:

No doubt, shipping can be a fairly economical method but it can also prove to be costly sometimes. Organizations need to perform the overall cost analysis of low-cost country sourcing and domestic sourcing to the overall cost equation.

Organizations need to consider both sides before engaging themselves in global sourcing activities. Agencies that provide services of procurement outsourcing address the needs of their clients precisely. Conduct your organization's sourcing activities in a different destination to reap increasing benefits.

(i) Shipping Bill

The shipping bill is the main document on the basis of which the customs permission is given. Under manual processing of export documents, the exporter is required to file the appropriate type of shipping bill to seek the order for customs clearance of the export shipment. Under computerized processing, the exporter does not prepare the shipping bill; instead it is computer generated. The customs order is called "LET EXPORT Order". After the shipping bill is stamped by the customs, then only the goods are allowed to be carted to the docks.

The shipping bill contains the following particulars:

1. Nature of goods exported,
2. Name of vessel, master or agents,
3. Flag,
4. Country of destination, the port at which the goods are to be discharged,
5. Exporter's address,
6. Importer's address,

7. Details of the packages, such as numbers and marks,
8. Quantity details of each case, total number of cases and aggregate weight,
9. F.O.B. prices and real value as defined in the Sea Customs Act and
10. Whether the merchandise is Indian or foreign origin which is re-exported.

The shipping bill is prepared in five copies:

1. Customs copy
2. Drawback copy
3. Export Promotion copy
4. Port Trust copy and
5. Exporters copy

Importance of Shipping Bill

- It is an important document required by the customs authorities for clearance of goods. The customs authorities endorses the duplicate copy of the shipping bill with "Let Export Order" and "Let Ship Order".
- After the clearance of customs, exporter can load the goods on ship.
- Shipping bill endorsed by the customs authorities facilitates the exporter to claim incentives such as excise duty refund and duty drawback.

Types of Shipping Bills

- **Free Shipping Bill:** It is used in case of goods which neither attract any export duty nor entitled for duty drawback. It is printed on simple white paper.
- **Dutiable Shipping Bill:** It is used in case of goods, which attract export duty. It may or may not be entitled to duty drawback. It is printed on yellow paper.
- **Drawback Shipping Bill:** It is used in case when refund of duties is allowed on the goods exported. Generally, it is printed on green paper, but when the drawback claim is paid to a bank, then it is printed on yellow paper.
- **Shipping bill for Shipment Ex-Bond:** It is used in case of imported goods for re- export and which are kept in bond. It is printed on yellow paper.
- **Coastal Shipping Bill:** It is used in case of shipment that is moved from one port

to another port, by sea, within India. It is not an export document.

When goods are sent by sea, it is called Shipping Bill and it is Airway bill when goods are sent by Air.

(ii) Mate's Receipt

A mate's receipt is issued by the mate (assistant to the captain of the ship) after the cargo is loaded into the ship. It is an acknowledgment that the goods have been received on board the ship.

Contents of Mate's Receipt

Mate' receipt contains the details about

- Name of the vessel,
- Date of shipment,
- Berth,
- Marks,
- Numbers,

Description and condition of goods at the time they are shipped, port of loading,

- Name and address of the shipper,
- Name and address of the importer(consignee) and
- Other required details.

Types of Mate's Receipts

Mate's receipt can be clean or qualified.

1. **Clean Mate's Receipt:** Mate of the ship issues a clean mate's receipt if the condition, quality of the goods and their packing are proper and free from defects.
2. **Qualified Mate's Receipt:** If the mate's receipt contains any adverse remarks as to the quality or condition of the goods/packing, it is known as 'Qualified Mate's Receipt'. If the goods are not packed properly and the mate's receipt contains any adverse remarks about the packing such as "Poor Packing', the shipping company

does not assume any responsibility in respect of the goods during transit. It is necessary for the exporter to secure the mate's receipt without any adverse remarks. On the basis of the mate's receipt, the Bill of Lading is prepared by the shipping agent. If there are adverse remarks in the mate's receipt, the same will be incorporated in the Bill of Lading, which may turn to become a claused Bill of Lading, and this may not be acceptable for negotiation.

3. Mate's receipt is first handed to the Port Trust Authorities who hands over to the exporter soon after he clears their dues. This procedure is adopted to facilitate for collection of port dues from the exporter.

Significance of Mate's Receipt

- Mate's receipt is an acknowledgment of goods. It is not a document of title.
- It is issued to enable the exporter or his agent to secure bill of lading from the shipping company.
- Bill of Lading, which is the title to the goods, is prepared on the basis of Mate's receipt so it should be obtained without any adverse remarks.
- Port Trust Authorities are enabled to collect their dues as it is routed through them.

CART TICKET

A cart ticket is also known as cart chit. This is prepared by the exporter, which contains the details of the vehicle number, description of goods, quantity, name of the shipper, shipping bill number and port of destination. The driver of the vehicle carries the cart ticket. At the time of entry into Port, the cart ticket is verified by the Port Authorities to satisfy that the vehicle is carrying only those goods, which are mentioned in the cart ticket. After being satisfied, the gatekeeper/warden/inspector issues the gate pass to the driver and allows entry of the vehicle into the premises of the port.

- Certificate of Measurement :Freight is charged either on the basis of weight or measurement. When weight is the basis of measurement, the shipping company for the purpose of calculation of freight may accept the weight declared by the exporter. However, when measurement is the basis for calculation of freight, the shipping company may insist on a certificate issued by Chamber of Commerce or other approved organization in respect of goods. The certificate of measurement contains the details in respect of description of goods, quantity, length, breadth and depth of the packages, name of the vessel and port of destination of the cargo etc.

BILL OF LADING

Bill of Lading is a document issued by the shipping company or his agent acknowledging the receipt of cargo on board. This is an undertaking to deliver the goods in the same order and condition as received to the consignee or his agent on receipt of freight, the shipping company is entitled to. It is a very important document to the exporter as it constitutes document of title to the goods. Each shipping company has its own bill of lading. The exporter prepares the bill of lading in the form obtained from the shipping company or agents of shipping company.The goods can be consigned to order of the exporter, which means the exporter can authorize someone else to receive the goods on his behalf. In such a case, the exporter would discharge the bill of lading on its reverse. When the bill of lading is negotiated through the bank, it would be endorsed in favour of the bank that would endorse further to the importer, on receipt of payment. Bill of Lading is made in signed set of 2 originals, any one of which can give title to the goods. The shipping company also issues non-negotiable copies (unsigned) which are not documents of title to goods but serves the purpose of record only.The reverse side of Bill of Lading contains the terms and conditions of the contract of carriage. The clauses on most of the bills of lading are common. A Bill of lading should be clean to facilitate the exporter to obtain the proceeds of export without difficulty.

Main Purposes

It serves three main purposes.

- As a document of title to the goods
- As a receipt from the shipping company and
- As a contract of affreightment (transportation) of goods.

Types of Bill of Lading

1. Received for Shipment B/L: A shipping company issues it when goods have been given to the custody of the shipping company, but they have not been placed on board.
2. On Board Shipped B/L: The shipping company certifies that the cargo has been received

on board the ship.

3. Clean B/L: It indicates a clean receipt. In other words, it implies that there has been no defect in the apparent order or condition of goods at the time of receipt or shipment of goods by the shipping company.

4. Claused or Dirty B/L: It shows that the B/L is qualified which expressly declares a defective condition of goods. The clause may state “bale number 5 hook-damaged” or “package number 10 broken”. By superimposing this type of clause, the shipping company is limiting its responsibility at the time of delivery of goods, at the destination. It is very important to note that bank accepts only a clean B/L at the time of negotiation.

5. **Transshipment or Through B/L:** When the journey covers several modes of transport from the place of starting to the place of destination, this type of B/L is taken. It indicates that transshipment would be en route. For example, part of the journey is by ship and the rest of journey may be by road, rail and air

6. **Stale B/L:** According to international commercial practice, B/L along with other documents must be presented to the bank not later than twenty one days of the date of shipment as given in the B/L. In some cases, the importer may indicate the number of days within which the documents are to be presented from the date of shipment. Exporter has to comply with the stipulation indicated. Otherwise, the B/L becomes stale and is not accepted by the bank for payment. A stale bill is one which is tendered to the presenting bank so late a date that it is impossible for the bank to dispatch to the consignee’s place, in time, before the goods arrive at the destination port. In other words, bank finds it impossible to see the documents reach before the ship reaches the destination.

7. **To Order B/L:** In this case, the B/L is issued to the order of a specified person.

8. **Charter Party B/L:** It covers shipment on a chartered ship.

9. **Freight paid B/L:** When the shipper pays the freight, then this type of B/L is issued with the words “Freight paid”.

10. **Freight Collect B/L:** When the freight on the B/L is not paid and to be collected at the point of destination, it is marked “Freight Collect” and this B/L is known as “Freight Collect B/L”.Generally, the importer insists on the “clean on-board shipped” bill of lading with the prohibition of transshipment of goods as goods can suffer damage during

transshipment. If transshipment is allowed, even period of journey may take longer.

11. **B/L is a non-negotiable document:** A bill of lading is not a negotiable document while it is a transferable document. Transferability enables the exporter to claim payment from the bank even before the goods reach the destination. Similarly, it enables the importer to sell the goods even before they reach the destination.

12. **Parties mentioned in B/L:** There are three main columns in B/L. These are shipper (consignor), consignee or order of and notifying party. Notifying party is party to whom notice is to be sent on the arrival of goods at the place of destination. When the B/L is made to the order of, the person, in whose name it is ade to the order of, has the right to endorse further.

    To illustrate:

    Consignor: Cherry & Co, BhopalConsignee or to the order of: Dimpy & Co, Newjersey, U.S.A. Notifying Bank: Bank of America, Newjersey In this case, Dimpy & co has the total right for the cargo as the consignee. So, Cherry & Co can not transfer title to the goods to the third party. If payment of the goods is not received, consignor loses title to the goods and so B/L is not to be made in this way. However, where advance payment has been received or goods are shipped under irrevocable letter of credit, bill of lading can be made in the name of the consignee. In the normal circumstances, exporter takes the bill of lading to his order and endorses to the bank at the time of negotiation and in this way his interests are fully protected.

Who can lodge claim: B/L is the only evidence to file claim against the shipping company in the event of non-delivery, defective delivery or short delivery. If the importer makes payment, he can lodge the claim, as he will be in possession of negotiable copy of B/L. Otherwise, exporter can lodge the claim and receive the value of goods.

Contents of B/L

- Name and address of the shipper.
- 2 Name and address of the vessel.
- Name of port of loading.
- Date of loading of goods.

- Name of port of discharge and place of delivery.
- Quantity, quality, marks and other description.
- Number of packages.
- Freight paid or payable.
- Number of originals issued.
- Name of the shipping company.
- 11 Voyage number and date.
- Signature of the issuing authority.

Importance to the Exporter

- It is an acknowledgment from the shipping company that the goods have been received for the purpose of shipment.
- After receipt of B/L, it helps him to send the shipping advice to the importer.
- If any damage occurs to the cargo during transit, he can hold the shipping company responsible, if he has received clean bill of lading.
- A copy of bill of lading is required to be attached to the application form to claim the incentives
- It is a contract of carriage between the exporter (shipper) and the shipping company.

Importance to the Importer

- It is a document of title to the goods, which enables him to transfer the tittle by endorsement and delivery.
- The exporter can send a non-negotiable copy of B/L as advance intimation of shipment to the importer.
- 3 It enables him to pay the freight amount as the B/L contains freight details.

Importance to the Shipping Company

- It helps the shipping company to collect the freight amount from the exporter (CIF contract) or importer (FOB contract).

- Shipping company can protect itself from the wrongful claims of exporter/importer by incorporating condition of goods/packaging, at the time of receipt. In case the shipping company, inadvertantly, omits to mention the advesrse conditon, at the time of receipt, advantage can be claimed by exporter/importer, by submitting wrongful claim.

Airway Bill

- Airway Bill is also called Air consignment Note. It is a receipt issued by an airline for the carriage of goods. As each shipping company has its own Bill of Lading, so each airline has its own airway bill.
- Airway Bill or Air consignment note is not treated as a document of title to goods and is not issued in negotiable form. Delivery of the goods is made to the consignee without the production of airway bill.

Importance of Airway Bill

- It is a contract of carriage of goods between the consignor and airlines or his agent.
- It acts as a customs declaration form.
- It contains details of freight and so works as a freight bill.

Bill of Entry

Bill of Entry is a declaration form made by the importer or his clearing agent in the prescribed form under Bill of Entry Regulations, 1971 on the strength of which clearance of imported goods can be made.

- When goods are imported into a country, customs duty has to be paid by the importer. For this purpose, importer prepares the Bill of Entry declaring the value of goods, quantity and description. This is prepared in triplicate. Customs authorities may ask the importer to produce the invoice of the exporter, broker’s note and insurance policy to satisfy about the correctness of value of goods declared.
- For the purpose of giving information, goods are classified into three categories.
- Free Goods: These goods are not subjected to any customs duty.
- Goods for Home Consumption: These goods are imported for self-consumption.

- Bonded Goods: Where goods are subject to customs duty, till duty is paid, goods are kept in Bond.

Contents of Bill of Entry

- Name and address of importer.
- Name and address of exporter.
- Import licence number.
- Name of port where goods are to be cleared.
- Desription of goods.
- Value of goods.
- Rate and value of import duty payable.

DOCUMENT RELATED TO PAYMENT

Letter of Credit

A letter of credit is a document-containing guarantee of a bank to make payment to the exporter, under certain conditions and up to a certain amount, provided the conditions contained in the letter of credit are complied with. For a detailed presentation, reader may refer to the chapter on Export Financing.

Bill of Exchange

The Negotiable Instruments Act, 1881 defines a Bill of Exchange as " an instrument in writing containing an unconditional undertaking, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument".

There are five important parties to a Bill of Exchange:

The Draw**er:** The drawer is the person who has issued the bill. In an export transaction, exporter draws the bill as money is owed to him.

The Drawee: The drawee is the person on whom the bill is drawn. Exporter draws the bill on the importer who is the drawee. Drawee is the debtor who owes money to the exporter (creditor).

The Payee: The payee is the person to whom the money is payable. The bill can be drawn by the exporter payable to the drawer (himself) or his banker.

The Endorser: The endorser is the person who has placed his signature on the back of the bill signifying that he has obtained the title for the bill on his own account or on account of the original payee.

The Endorsee: The endorsee is the person to whom the bill is endorsed. The endorsee can obtain the payment from the drawer.

Types of Bills of Exchange

Sight Bill of Exchange: In this Bill of Exchange, also known as demand Bill of Exchange, the drawee has to make the payment, on presentation.

Usance Bill of Exchange: In case of Usance or Time Bill of Exchange, payment is to be made on the maturity date, after a certain period, known as tenor. When the calculation of period is made with reference to the sight of bill, the bill is known as 'after sight usance bill'. Sometimes, the maturity date is calculated with reference to the date of bill of exchange, it is known as 'after date usance bill'.

Clean Bill of Exchange: A clean Bill of Exchange is one when the relative shipping documents do not accompany with it. In this case, the relative shipping documents i.e. Bill of Lading is sent directly to the importer to enable him to take delivery of the cargo.

Documentary Bill of Exchange: A documentary Bill of Exchange is one where the relative shipping documents such as Bill of Lading, marine insurance policy, invoice and other documents are sent along with the Bill of Exchange. This is the common form in export trade.

The documents are given to the bank either for collection or negotiation. In case the importer gets the documents on acceptance, it is called Documents against Acceptance. If the importer gets the documents only on payment, it is called Documents against Payment.

After shipment of goods, the exporter draws the bill on the importer or, more frequently, on bank acting for the importer, as agreed between the exporter and importer. The exporter usually draws the bill to his own order or that of his bank. Later, he endorses the bill in favour of his bank. Exporter may request his bank to collect or purchase the bill. In case of purchase of bill, exporter receives the export proceeds immediately. In any case, the exporter's bank sends the documents to its branch or correspondent's bank in importer's place. The bank at that end sends the intimation of receipt of documents to the importer either for acceptance or payment, dependant on the nature of bill drawn. In case of Documents against acceptance, importer accepts the bill and then only gets title to goods. In case of Documents against payment, importer has to make the payment for securing delivery of documents.

Trust Receipt: In case of D/P bill, the importer has to make the payment to take delivery of goods. If the importer is unable to make the payment, on arrival of the shipment, and take possession of goods, he executes a Trust Receipt to take delivery of goods. Importer will have the right to sell the goods and would be acting as agent of the bank. Importer will be depositing the sale proceeds with the bank, as and when sales are made. Till the importer makes the final settlement, bank retains ownership for the merchandise and the role of the importer is not that of owner but that of agent to the bank. This arrangement facilitates the importer to take delivery of goods when sufficient funds are not available with him. This facility provides the flexibility to the importer while the interests of bank are protected, at all times.

Bank Certificate of Payment: It is a certificate issued by the negotiating bank to the exporter that the bill covering the shipment has been negotiated through it and export proceeds have been received from the importer. The certificate indicates the details of the merchandise exported. Exporter submits this certificate of payment for establishing that the export transaction has been completed totally by him. This certificate is required to comply with the requirements for the discharge of export obligation.

DOCUMENTS RELATING TO INSPECTION

Certificate of Inspection

It is a certificate issued by the Export Inspection Agency certifying that the consignment has been inspected under the Export (Quality Control and Inspection) Act, 1963 and found that the requirements relating to quality control and inspection have been complied with, as applicable, and the goods are export worthy.

DOCUMENTS RELATED TO EXCISABLE GOODS

GP Forms

GP stands for Gate Pass. A GP form, gate pass, is issued for the removal of excisable goods from the factory or warehouse. Form GP1 is issued for the removal of excisable goods on payment of duty. GP2 is issued for the removal of excisable goods without payment of duty.

Form C

It is not to be confused with C form. Form C is used for applying for rebate of duty on excisable goods (other than vegetable, non-essential oils and tea) exported by sea. It is to be submitted, in triplicate, to the Collector of Central Excise.

Forms AR4/AR4A

These forms are meant for removal of excisable goods for export by sea/post. Now, in their place, ARE-1 form is used.

DOCUMENTS RELATED TO FOREIGN EXCHANGE REGULATIONS-LEGAL REGULATED DOCUMENTS

Foreign Exchange Regulations require that all exports other than exports to Nepal and Bhutan shall be declared on the following forms:

GR Form

GR is an exchange control document required by Reserve Bank of India. It is required to be filled, in duplicate, for all exports in physical form other than by post. An exporter has to realize the export proceeds within a period of 180 days from the date of shipment, in India. To ensure control on realization, RBI has introduced this procedure.

GR form, in duplicate, is to be submitted by the exporter to the customs along with the Shipping Bill. Customs will give their running serial number on both the copies. After admitting the customs shipping bill, customs will certify the value of goods declared by the exporter in the space earmarked and also record their assessment of value. Customs retains the original copy and return the duplicate to the exporter. Customs sends the original GR form to RBI, which will be an indication of the goods, which are to be exported. Exporter has to submit the duplicate of GR form to the authorized dealer, named in GR form, along with other shipping documents within a period of 21 days of shipment for the purpose of negotiation. After the negotiation of bill, the authorized dealer will report the transaction of negotiation to RBI. On receipt of the original, RBI is apprised of the developments in respect of the export transaction.

Once the export proceeds are received from the importer, the authorized dealer has to forward the duplicate copy of GR form together with the copy of invoice to RBI. RBI recognizes that the export transaction has been concluded and export proceeds have been fully realized. At certain customs offices, shipping bills are processed electronically. So, at those offices,

GR form has been replaced by SDF (Statutory Declaration Form).

PP Form

It is required to be filled in for all export transactions, in duplicate, for all countries to be made by post parcel, except when made on “value payable” or “cash on delivery basis”.

VP/COD Form

It is required to be filled for all export transactions to all countries by post where the export proceeds are realized on “value payable” or “cash on delivery basis”.

SOFTEX Form

It is required to be prepared, in triplicate, for export of computer software in non- physical form.

All the above documents serve the purpose of monitoring the realization of export proceeds in the stipulated manner

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SCHOOL OF MANAGEMENT STUDIES

UNIT 5 GLOBAL BUSINESS MANAGEMENT - SBAA5301

UNIT 5 GLOBAL OPERATIONS MANAGEMENT

Strategic issues in operations management – Manufacturing Management , logistics Management and procuring –technology transfers- issues Marketing Management – benefits of international markets- Major activities in international marketing-Human Resource Management- Approaches- Expatriation and Repatriation Process, Training – Compensation – Industrial Relations.

Introduction to Strategies in Operations Management

The term 'globalization' describes businesses' deployment of facilities and operations around the world. Globalization can be defined as a process in which geographic distance becomes a factor of diminishing importance in the establishment and maintenance of cross border economic, political and socio-cultural relations. It can also be defined as worldwide drive toward a globalized economic system dominated by supranational corporate trade and banking institutions that are not accountable to democratic processes or national governments.

There are four developments, which have spurred the trend toward globalization. These are:

- Improved transportation and communication technologies;
- Opened financial systems;
- Increased demand for imports;
- Reduced import quotas and other trade barriers.

When a firm sets up facilities abroad it involves some added complexities in its operation. Global markets impose new standards on quality and time. Managers should not think about domestic markets first and then global markets later, rather it could be think globally and act locally. Also, they must have a good understanding of their competitors. Some other important challenges of managing multinational operations include other languages and customs, different management style, unfamiliar laws and regulations, and different costs.

OPERATIONS MANAGEMENT

Operation Management is the management process that transform inputs into goods and services which adds value for customer.

GLOBAL OPERATIONS MANAGEMENTS

Global Operations Management (GOM) concentration prepares graduates with state-of-the-art knowledge of managing operations in a global context. The focus will be on contemporary issues related to operations function which are of relevance in a firm's ability to effectively collaborate with its supply chain partners in order to remain competitive in a global economy. The GOM concentration prepares students for careers with global manufacturing, service, and consulting organizations by offering a variety of courses in management of materials, quality, supply chains, services, global projects, and operations strategy.

Key issues to be considered for managing Global Operations Management

Managing global operations would focus on the following key issues:

- To acquire and properly utilize the following concepts and those related to global operations, supply chain, logistics, etc.
- To associate global historical events to key drivers in global operations from different perspectives.
- To develop criteria for conceptualization and evaluation of different global operations.
- To associate success and failure cases of global operations to political, social, economical and technological environments.
- To envision trends in global operations.
- To develop an understanding of the world vision regardless of their country of origin, residence or studies in a respectful way of perspectives of people from different races, studies, preferences, religion, politic affiliation, place of origin, etc.

Strategic issue in Operation Management

When an international company possesses a particular technology and decides to begin manufacturing, it needs to adopt a sound operation strategy so as to enjoy competitive advantage. Manufacturing involves transformation or conversion of new materials and inputs into good and services. It is therefore associated with activities or decisions related with manufacturing. The operation strategy in a manufacturing company involves many issues.

The more important among them are:

1. Manufacturing management
2. Procuring
3. Logistics management
4. Other issues in managing global operations

Manufacturing management

International manufacturing management provides an unparalleled opportunity for companies to grow into new markets while at the same time boosting their competitiveness. However, most of today's networks are legacy structures only a fraction was strategically planned. As a result, there is huge potential to be captured from rethinking traditional structures, approaches and supply relations, and huge potential for getting it wrong.

Forces accelerating global manufacturing

1. Huge factor cost differences
2. High growth in emerging markets
3. Lower transaction cost

GLOBAL MANUFACTURING STRATEGIES

The success of a global manufacturing strategy depends on four key factors:
compatibility, (ii) configuration, (iii) coordination and (iv) control.

Virtual manufacturing describes the situation in which a firm subcontracts the manufacturing process to another company, i.e., the firm chooses to outsource.

1.Manufacturing Compatibility

Compatibility refers to the degree of consistency between a firm's foreign direct investment decisions and its competitive strategy. Cost-minimization and the drive for globalization force MNEs to pursue economies of scale in manufacturing, often by producing at low labor-cost sites. Other key variables include dependability, quality, flexibility and innovation. Offshore manufacturing refers to manufacturing activities that occur beyond the borders of a firm's home country.

2.Manufacturing Configuration

MNEs consider three basic configurations en route to developing their global manufacturing strategies. They are:

- centralized manufacturing in a single country (a global export approach)
- Regionalized manufacturing in the specific (a regionalized marketing and manufacturing approach)
- Local manufacturing in each country market served (a multidomestic marketing and manufacturing approach).
- Rationalization represents the specialization of production by product or process in different parts of the world in order to take advantage of varying costs of labor, capital and raw materials.

3. Coordination:Coordination represents the linking or integrating of participants all along the global supply chain into a unified system.

4 .Control : Control embraces systems, such as organizational structure and performance measurement, which are designed to help ensure strategies are implemented, monitored and revised, when appropriate.

Key issues in international manufacturing management

1. Geographical dimension
2. Regulatory regimes dimension
3. Working issues for labour force
4. Location issues
5. Increase in cost of production

Case study – How Toyota lost its way (manufacturing scenario)

Management accountants are well placed to advise on the benefits of pursuing ‘lean’ manufacturing techniques, but some might argue that the credibility of those techniques has been undermined by Toyota’s recent quality problems. Rather, the conclusion seems to be that commercial pressures diverted Toyota from the lean principles they formerly valued. The lean manufacturing approach pioneered by Toyota concentrated on the identification and minimisation of waste in production, supply chains and management processes. Seven types of waste were targeted, including over processing, waiting times, and unnecessary transportation; so the approach was credited with improving quality, speeding up production and reducing costs. Strategies included getting suppliers to design cheaper and lighter components, and making productivity gains. Toyota’s recent growth has been significant. It has added 17 new manufacturing sites to the 58 it had in 2000, and expanded the product range significantly in a bid to rapidly increase market share. In 2000, Toyota produced 5.2m cars; by 2009 its capacity was 10m. Yet Toyota was able to cut more than $10bn from global operating costs in the period 2000-2006. The relentless pursuit of growth, the rapid expansion of supply chains, the pressure for ever-more productivity gains all combined to apparently undercut the commitment to quality which used to be part of the Toyota tradition. ‘The company was hijacked by financially oriented pirates’ commented former top US executive Jim Press who left Toyota in 2007. In 2009/2010 the quality problems came to a head when Toyota had to recall 5.3 million vehicles in the US, in relation to five separate issues affecting various models: accelerator entrapment by floor mats; unintended acceleration caused by ‘sticky’ pedals; issues with software relating to braking systems, power steering, and front drive shafts. US regulators linked the problems to 51 deaths, and had reports of unintended acceleration dating from 2003.

LOGISTICS MANAGEMENT

Logistics is increasing its impact on business, as it creates value for companies and assistsin delivering improved profits. The application of logistics varies across continents. Modern logistics is generally a new concept in Asia, with the focus on the basic transport processes of road, rail, air and sea. These processes have in some areas been integrated into what is known as multimodal transport.

- Logistic is the function that enables the flow of materials from suppliers into an organization through operations within the organization out to the customers.
- It is derived from the Greek word "logistikos' which means 'to reason logically'
- It basically consists of all operations required for goods (both tangible and intangible) to be made available in markets or at specific destinations.
- International marketing is becoming more important to companies as the world shifts from distinct national markets to linked global markets.
- Logistics management is that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption to meet customers' requirements.
- The Transport and Logistics Industry is the back bone of any economy, and the driving force behind all sectors, be it agriculture, manufacturing or services.
- However, like all industries, it is confronting tremendous change in present times – driven by tech innovations, changing consumer expectations and stringent regulations. Although the global outlook for the industry is optimistic (estimated at about US$ 4 trillion in 2018, It is slated to grow to US$ 6.3 trillion, at a CAGR of 4.9%), the road ahead is challenging, especially for small and medium enterprises.

Functions in Logistics management

- Logistics management activities typically include inbound and outbound transportation management, fleet management, warehousing, materials handling, order fulfillment, logistics network design, inventory management, supply/demand planning, and management of third-party logistics services providers.

- Logistics function also includes sourcing and procurement, production planning and scheduling, packaging and assembly, and customer service.
- It is involved in all levels of planning and execution--strategic, operational and tactical.
- Logistics management is an integrating function, which coordinates and optimizes all logistics activities, as well as integrates logistics activities with other functions including marketing, sales manufacturing, finance, and information technology.
- Physical conveyance or coordinations framework ought to have a key introduction, i.e., linkages with internal and external environs. The following is displayed a model of key coordinations framework with information sources, process, yields, exercises and activities,
- A key coordinations framework should most importantly be arranged, sorted out, executed and gathered. The administrative capacities should be directed as to the fundamental strategic capacities like request handling warehousing, and so on, concerning crude materials, in-process stock just as definite products. For this to happen inputs-physical assets, HR, budgetary assets and data assets must be focused on the framework. The yields of the framework are utility creation, viable development, focused edge in coordinations administration and coming about consumer loyalty.

Advantages of an efficient logistics system

1.Reducing Transportation Costs: This is the single biggest challenge for the industry, since transportation constitutes a major chunk, about 30% of total expenses. But with rising fuel prices, this can go up to 50%.Reducing Carriers: Companies can redistribute their business among fewer carriers and negotiate for lower rates. However, this increases the risk of over dependency on few carriers.

1. **Consolidating Shipments:** They could consolidate shipments and get bulk rates, but this could be at the risk of delayed deliveries which would impact consumer satisfaction.

2. **Reducing Fuel Expenses:** Logistics companies may not be able to control the fuel prices, but controlling fuel expenses is definitely within their reach.

3. **Fleet management routing software** can help to ensure that freight carriers ply on the shortest, most efficient routes – avoiding traffic congestions, taking into account road restrictions by vehicle type and time of day This not only reduces the total miles driven, wear and tear and maintenance costs, but also lowers violations and safety risks, which can result in reduced insurance premiums.

2. Improving Business Processes: A research by Inboundlogistics.com cited that 36% of the enterprises polled strongly agreed that they relied on their 3PL partners to drive cost reductions and business process improvements. This means logistics partners are expected to have the knowledge and experience to look beyond supply chain and logistics operations to drive changes within the overall operations framework. They also need to be financially stable, flexible and open to taking reasonable risks for long term gains.

At the end of the day, the logistics business is highly competitive; hence industry benchmarking plays a key role in business process improvements. It's like the proverbial rat race – to be the best and the fastest.

3. Enhancing Customer Service: Nowadays, the markets are dynamic, supply chains have become longer and more complex, and customer expectations have changed, both in terms of delivery times and service quality. Now customers also expect their logistics partners to solve problems and help them grow in a competitive environment.This means logistics partners must recruit the right people with the right skills and attitude. They must also focus on enhancing and standardizing the customer experience across all geographies, channels and touch-points, be it in-person interactions, phones, online chats, emails or social media.

4. Improving Supply Chain Visibility:

In order to have accurate, on time deliveries every time, logistic companies need to have full visibility on all aspects of the supply chain:

Shipments ought to be tracked, to ensure they are following the prescribed route and schedule, and in case of disruptions, notifications and alerts be activated so that prompt action can be taken. Customers need to get updates, viz., shipping notifications, ETAs, as well as be able to track shipments on a web portal.

Logistics companies need to have visibility on the entire work flow in a warehouse – receipt of inventory, storage, order management and completion, and shipment. Plus – visibility on what is headed towards them, so that they can plan their workforce accordingly.

5.Supply Chain Finance: Access to supply chain finance is critical for shippers / logistic companies to ensure smooth business operations and optimization of cash flow, especially in today's uncertain times of geopolitical tensions, unexpected custom duties, exchange rate fluctuations, natural disasters etc.

Typically, finance is required for letters of credit, open accounts, freight audit payments etc. While there are many more options for finance now than before, checking freight invoices has never been easy – rates are diverse and complicated, and carrier references may not always be correct.

Moreover, transportation is a cash intensive business. Delays in payment could adversely affect the shippers.

6.Impact of the Economy: Political instability, decline in manufacturing sector performance, increase in consumer price index, inflation etc. adversely impacts demands for products and services, which also impacts freight demand. Conversely, government investments in infrastructure projects increases wages and demand for products.

7.Driver Shortage: Anywhere in the world, truck drivers have difficult and demanding jobs. With increased government regulations, companies tend to be more selective in recruitment. Candidate's driving records are scrutinized for traffic violations or inspection discrepancies, lest it have a negative impact on the company's Compliance Safety and Accountability (CSA) score.

8.**Government Regulations:**

Governments wield a tremendous power over global shipments. So many companies are involved in the trade shipments, and more than a dozen have release and hold authority. Even after the shipments clear the ports, the US Consumer Product and Safety Commission, FDA, EPA and Dept of Agriculture need to give their approval.

In addition, zoning permit laws and taxation on international and domestic shipping also impact logistics.

10 . Sustainability:

There is a considerable focus on reducing emissions, primarily due to anti idling and emission reduction regulations by governments, but also on account of public perceptions and cost savings.

Companies can comply by adopting route and load optimization, tracking and reporting emissions, upgrading engines and choosing alternative fuels.

The latest truck models come with the best engine performance, emission compliance and much better mileage. These offer great savings in the long run, but require steep upfront costs.

MAJOR PROBLEMS THE GLOBAL LOGISTICS INDUSTRY IS FACING

Logistics is a huge industry. There are many challenges facing this industry today. Here are some of the major issues mentioned below.

1. Changing customer needs

Now logistics solutions must be tailored to the customers' needs. There should be full transparency in orders and all stages from raw material stage to the final sale must be visible. Reverse logistics is used by many. It is a challenge to keep up with the good quality services as there are so many factors involved.

2. **On time delivery**

It is a challenge to provide on time delivery in the logistics industry. In the case of vessels, it takes months to discharge. Air cargo takes less time, but they are expensive.

3. **Infrastructure**

There is a lack of infrastructure. Many terminals are trying to make room for large vessels. This is causing congestion problems. If these infrastructure issues are not resolved fast, we will continue to have congestion problems.

4. **Capacity**

The freight rates will increase or decrease based on over capacity and tightening capacity of the airships or conatianerused for shipping,. The strength of the workforce and the import and export regulations also influence the tranpostation cost.

5. **Security**

Security is a major concern in this industry. Goods are passed from one provider to the other. They are kept in local warehouses and then delivered by truck. So, security is a big problem.

PROCUREMENT:

Procurement management is a strategic approach to optimizing organizational spend. It invoices sourcing, requisitioning, ordering, inspection, and reconciliation. It means acquiring your goods and services from preferred vendors, within your determined budget, either on or before the deadline.”.

GLOBAL PROCUREMENT:

Global procuring or sourcing occurs when buyers purchase goods and services from sellers located anywhere in the in the world. Global sourcing of goods, crops and other commodities has been common for many years in industries such as manufacturing and agriculture, used as appositive strategy to reap economic advantage.

ENABLING FACTORS OF GLOBAL PROCURING

1. Growing pools of highly skilled resources
2. State-of-the-art facilities
3. Advances in telecommunications
4. Improvement in collaborative tools and platforms
5. Maturing delivery models

MODES OF GLOBAL PROCCURING

- Importation
- Establishment of international procurement offices (IPOs)
- Sourcing through direct investment

Overcoming Procurement Challenges

Modern procurement teams have evolved beyond their traditional role of simply obtaining goods and services for their company while seeking to reduce total spend to generate cost savings. In addition to managing spend analysis and planning for their entire organization, procurement professionals manage supplier relationships, partner with their counterparts in finance, marketing, production, and sales to perform complex initiatives that bring together strategic sourcing, risk management, support for promotional efforts, and process optimization in order to build value across all levels of the business.

The procurement challenges these teams face have grown in scope and gravity along with their responsibilities—and so has the team's potential impact on the company's bottom line. As a result, when the procurement function faces a major challenge, solving it quickly and efficiently protects not just the department's efficacy, but the financial and competitive health of the company as a whole

Challenges Faced by Procurement Teams

Procurement managers (and their teams) at companies of all sizes face a variety of procurement challenges every day. But the most common challenges seem to crop up at just about every business now and then.

Savvy procurement leaders plan ahead, building effective workflows and processes to deal with a familiar set of problems, including:

1. **Maverick Spend :**Maverick spend is also called invisible spend or rogue spend. Is is a purchase made outside your company's established procurement procedures. Items purchased with rogue spend can't readily be accounted for in inventory and financial records. This complicates procurement strategy and financial planning, as well as departmental budgets, inventory management, and records for internal, external, and financial audits.
2. **Process Inefficiencies:** In a well-planned and efficient procurement system, buying is a manageable mix of urgent purchases and planned ones. However in a adequate process development and attention to workflows (including things like approval hierarchies, contingency plans, etc.), buying may look a little, well, higgledy-piggledy. When spend priorities shift away from strategic spend and toward last-minute buys at the cheapest available price, procurement processes begin to suffer. For example:The

overall procurement schedule is thrown into disarray, sacrificing potentially significant savings and value from negotiated discounts, vendor incentives, and early payment on scheduled buys.

- Production, marketing, and sales timelines suffer, complicated by extended bidding periods or requests for proposals (RFPs) on big projects and inconsistent delivery schedules and uncertain vendor reliability for small ones.
- Supplier-related issues, such as inadequate capacity, policy and process-related risk exposure, etc. may be overlooked in the name of simply obtaining the required goods and services as quickly and cheaply as possible, creating more expense and damaging existing supplier relationships and contract negotiation.

3. Supplier Management

Supplier management is a key role in ensuring goods and services are supplied at the right price, at the right time, and the right quality, suppliers are more than just vendors .Managing supplier relationships is very important aspect of procurement . It concentrates on pairing those preferred vendors who have the skill, capacity, and reliability to handle your most critical demands at your quality and price points. If supplier relationship management is maintained properly it can become a critical part of an effective overall procurement strategy, But without an easy way to evaluate, onboard, monitor, and optimize the vendors in your supply chain the Business may face a list of complications, including late or missing shipments, duplicate orders, and a bloated, inefficient supply chain full of underperformers who take up attention better directed at your potential partners in productivity.

4. Risk Management and Mitigation

One of the most important, and often overlooked, sources of potential value within the procurement function is risk mitigation. The inflow of goods and services, and the long, snaking supply chain that produces it, carries a hefty amount of risk touching on a number of factors, including:

- Compliance (Legal, internal, and industry)
- Supplier contracts
- Fraud (from theft, invoice fraud, etc.)
- Sourcing risks (product quality/cost, vendor compliance issues, delivery, tracking, etc.)

All of these risks can have a significant impact on the bottom line and competitive advantage, and are best managed with centralized, efficient, and transparent data and supply chain management.

Information Overload

From the smallest decisions ("Which vendor will give us the best value for our breakroom napkins?") to major challenges like multi-stage production initiatives, you need good data, and user-friendly access to it, to make informed and strategic choices. A lack of a centralized data solution can wreak havoc on your analytics, planning, and macro-scale decisions—but it can also toss a spanner in the workflows at all stages of procurement.

Automation in procurement

Squaring off against the potential pitfalls of procurement takes strategic thinking, an eye for detail, and a willingness to bring both your procurement processes and your organization into the digital age. Equipped with artificial intelligence (AI) and focused on automation, modern procurement solutions take the struggle out of procurement and ramp up the value.

Consider these benefits, and how they can ameliorate your toughest procurement challenges:

- Centralized, cloud-based data management, integrated with your supply chain, sales, production, finance, and marketing teams, means all transactional data is proactively recorded and instantly available for spend analysis, advanced financial reporting and planning, and important supplier contract negotiations
- Users can access their data from both desktops and mobile devices, and with triple-checked verification, everything from purchase order reviews and approvals to supplier evaluation and shipping performance reviews is faster and more accurate.
- eProcurement can be integrated with, or replace, outdated paper-based systems, saving your company on paper, document storage, and environmental impact costs.
- Supply chain management is easy to update in real time.
- Contingencies for critical shortages or urgent reorders can be added to workflows automatically, and legal-reviewed boilerplate makes constructing, reviewing, and approving successful contracts a snap.
- Risk management is simplified and streamlined with greater data transparency and shared information for all stakeholders. Reporting, analytics, and audits are more accurate, complete, and efficient.
- Automation frees the staff from low-value tasks to focus on more strategic concerns. Human error decreases, speed increases, and your overall procurement efficiency skyrockets.

Updating of procurement Team

Defeating even the toughest procurement challenges is a lot easier when your team has the tools and technology required to succeed. By integrating automation and artificial intelligence into your workflows and freeing your staff to focus on the big picture, companies can ensure procurement department is building value, and a strong bottom line, for your company.

TECHNOLOGY TRANSFER

Technology transfer is the process of sharing of skill, knowledge, technologies, methods of manufacturing, sample of manufacturing and facilities among governments and other institutions to ensure that scientific and technological developments are accessible to a wider range of users who can then further develop and exploit the technology into new products, processes, applications, materials or services.

Reasons for technology transfer

1. Profit from selling technology
2. Location and logistics advantage
3. Competitive edge
4. Grants and subsidiaries
5. Limitations of home country
6. superior capital market
7. Enhance competence

Method of technologic transfer

1. **F**DI
2. Licensing
3. Franchising
4. Management Contracts
5. Contract manufacturing
6. Joint Venture
7. Technological consortium and joint R&D projects

Importance of technological transfer

1. Encourage use of technology
2. Create competitive advantage

3. Promote research and development
4. Enhance capability and innovations
5. Leverage business environment

TECHNOLOGY ADVANCEMENTS:

Adopting new and innovative technology solutions has become imperative for logistics companies. Given that labor is scarce, competition is intense and customers have become more demanding, technology advancements can increase productivity by minimizing time, cost and errors.

- Automation systems / data driven software solutions such as advance packaging labelling, warehouse sorting etc. have become the need of the hour.
- Shipment tracking systems enable companies to monitor their shipments round the clock, get alerts and notifications, and set up customized reporting.
- Data Analytics can help with Improving customer experience, operational efficiency and safety.
- Robotics and autonomous machinery have been adopted by many key players in the logistics industry. These help in drastically cutting down time taken for order completion and delivery.
- IOT can play a key role in reducing risks and ensuring safe delivery of goods. The **best fleet management system** connects with specialized sensors built into new generation trucks. This software provides real time in-transit visibility of trucks, shipments on board, and key vehicle parameters.
- Thanks to cloud computing, many of the above software solutions are relatively inexpensive. However, many companies lack trained manpower resources to actually derive insights from them.

Global Sourcing: Challenges and Solutions

Nowadays, a large number of organizations consider sourcing as a viable option for cutting down their expenses. However, the procurement journey of organizations is not so simple as it may seem. Large-size business firms especially MNCs face numerous hardships when they try to customize their cross-border sourcing activities. The four pillars of global sourcing, namely, people, process, technology, and supply chain play a great hand when it comes to internal procurement operations for an organization.

Challenges Relating to Global Procurement

The challenges that most business firms face while outsourcing their services are listed as follows:

- Non-adherence to quality standards.

- The difference in time zones.
- Long-range logistics.
- Accountability problems.
- Compliance issues.
- Delays in supply.

1. Language barriers.

Companies faces challenges in Four Pillars of Global Sourcing

No doubt, there are various challenges involved in the sourcing operations of companies. But, when it comes to international sourcing, it is the four pillars, i.e., people, process, technology, and supply chain that makes all the difference. These four pillars are discussed in detail as follows:

1. **People:** In this age of perfect market competition, organizations have to scrutinize the intricacies of global logistics and supply chain management. Both these aspects will become even more complex in the forthcoming days. The supplier management team of business firms must be competent enough to handle all vendors in the respective countries. When operating in foreign markets, differences in language and culture are bound to occur. Service delivery management team must present the objectives of an organization in the global arena.
2. **Process:** In this digital age, automation is the new buzz. A large number of companies are implementing automated technologies in their operations. It facilitates their systems and processes at large. Agencies that provide Global Procurement Services make organizations aware of the latest sourcing trends and advanced technologies. According to experts, automation will drive global procurement processes shortly. Automation accelerates the speed and efficiency of operations while benefiting organizations at large.
3. **Technology:** Business firms should select a procurement agency whose services run on innovative technologies. This will enable companies to buy goods from multiple OEMs in various currencies.
4. **Supply Chain:**Companies need to ponder upon the supply chain before initiating their sourcing operations. It will be a better decision to go with procurement agencies that have numerous supplier contracts. A small-size or mid-size firm can’t get access to appropriate suppliers across the world. Reputed sourcing agencies have enough experience while operating in various countries. With their assistance, companies can channelize their procurement operations.

CHALLENGES IN PROCUREMENT .

1. Risk management

Risk is always a key concern for procurement, with the primary focus on suppliers' financial status, followed by health and safety and industry practices. It's no longer good enough to simply engage with your tier-one suppliers. Emphasis needs to be paid to controlling the approach taken with tier-two suppliers, ensuring that the necessary obligations are passed down to subcontractors.

2. Reputation and brand image

It's not difficult to recall allegations of child labour in the overseas supply chain of certain retail brands, or issues around modern slavery both at home and abroad. The knock-on effect can be disruption to brand and public image and ultimately an impact on profitability. The Modern Slavery Act goes some way towards addressing this, but issues remain around compliance.

3. CSR

Organisations are making tremendous progress in the approach to direct materials, but indirect procurement is more complex. The level of auditing required to ensure that practice are sustainable, including those of first and second tier suppliers, is labour-intensive and time-consuming. Consider asking suppliers to complete detailed questionnaires and take positive action with the results. Many organisations now issue written codes of conduct, but the key challenge is acceptance and practical application in the supply chain.

4. Becoming a customer of choice

Innovation is often included in an RFP, but does not necessarily specify what is really needed. Supplier innovation is more likely if you become a customer of choice. A recent CASME survey highlighted that a simple constraint to achieving this is late payment of invoices. Innovation is a two-way process; don't just write it in a contract and expect the best ideas from suppliers. The most successful approach is to abide by agreed payment terms, and demonstrate a partnership approach by listening and responding to suppliers' ideas.

5. Centres of Excellence

The trend towards a centralised organisation to support the procurement function is on the rise, with an emphasis on provision of spend data and analysis, plus RFx e-sourcing support. What is the best approach to organising the CoE's structure, work responsibilities and operation to ensure the business is supported? A virtual CoE may be an appropriate solution; however, a complete software package, beyond the capabilities of Microsoft Excel, is needed for centralising and recording the CoE's activities.

6. Stakeholder engagement

At almost every one of CASME's meetings held each year, the discussion includes procurement's need for achieving greater connections with stakeholders. Recent benchmarking studies show that more CASME members are now profiling and prioritising stakeholders and their requirements, in order to plan the right type of communication – for example, whether a particular stakeholder needs an occasional meeting over coffee, or a formal monthly one. CRM tools can be used to track the relationship building activities and supplier onboarding. Credibility can be gained by using the right terminology, and by demonstrating knowledge of the category, suppliers and market trends. By aligning procurement activity to the stakeholder's business objectives and selling the benefits of collaboration, the overall result can be more valuable than cost savings alone.

Methods to overcome these Challenges

/Effective planning is needed before implementation of procurement strategies. If there are issues relating to logistics, companies must focus on their operations and thereby, delivering the required technologies to every location consistently. When organizations select a sourcing destination whose infrastructure and transportation is not up to the mark, delays in supply are a common phenomenon. Sometimes, the lack of a professional mindset among workers also leads to supply delays.

There may be other factors in the form of customs inspections, missing paperwork, and local regulatory compliances. More often, companies fail to identify appropriate suppliers while operating in foreign markets. Under such circumstances, organizations may resort to procurement agencies for assistance.

Global Procurement Services help business firms in formulating their sourcing strategies.

In some cases, the growth strategies of business firms also have a direct impact on their procurement policies. There are instances when mergers and acquisitions delay the supply procedures while creating an intricate web of vendors. It is because of mergers and acquisitions organizations are ready to accept redundant technologies while drifting from corporate technology standards. Business firms have to pay increased prices for products and services in some cases. They have no other option apart from doing so. There are times when companies feel it is better to control costs rather than exploring sourcing opportunities.

GLOBAL MARKETING

Global marketing is defined as the process of adjusting the marketing strategies of your company to adapt to the conditions of other countries. Global marketing is more than selling your product or service globally. It is the full process of planning, creating, positioning, and promoting your products in a global market.Big Companies usually expand their markets across boundaries. Currently, with the proliferation of the internet, even small businesses can reach consumers anywhere in the world. If a business chooses not to extend internationally, it can face domestic competition from international companies that are extending their international presence. The presence of this competition almost makes it a requirement for many businesses to have an international presence.

There are many benefits of global marketing,

1. Improves the effectiveness of your product or service: This is because the more you grow, the more you learn, and the faster you learn, you become more effective at producing new product or service offerings.
2. Competitive advantage in the market: Second, you are able to have a strong competitive advantage. It is easy enough for companies to be competing in the local market. But there are very few companies who can do so on the worldwide arena. Hence, if you can compete in the worldwide market and become a strong force in your industry.
3. Awareness of your brand : Third, you increase consumer awareness of your brand and product or service. Through the internet, consumers can keep track of your progress in the world.
4. Reduce costs and increase your savings Finally, global marketing can reduce your costs and increase your savings. In focusing on other markets, you can attain economies of scale and range by standardizing your processes – not to mention the savings that you get when you leverage the internet!

After defining global marketing (including its uses and evolution), this article will be discussing the **different aspects of global marketing**: its strategies, campaign development, issues and mistakes, as well as standout examples.

Global Marketing Strategies

Global marketing strategies are actually important parts of a global strategy.

In order to create a good global marketing strategy, you must be able to answer:

- “What I am trying to achieve in an international market?”
- “What are my company’s strengths and weaknesses for that market?”
- “How can I counter challenges in the market?”
- “That potential will I have in this market?”

Moreover, a good global marketing strategy incorporates all the countries from all regions of the world and coordinates their marketing efforts accordingly.

Of course, this strategy does not always cover all the countries but should be applied for particular regions. For example, you can break down regions like North America, Latin America, Europe and the Middle East, Asia and the Pacific, and Africa.

Beyond its breakdown per country or region, a global marketing strategy almost always consists of several things:

(1) uniform brand names;

(2) identical packaging;

(3) similar products;

(4) standardized advertising messages;

(5) synchronized pricing;

(6) coordinated product launches; and

(7) harmonious sales campaigns.

Global marketing strategies used by companies expanding internationally:

- **Create a consistent and strong brand culture.** Creating a strong and consistent brand that always seems familiar to customers is a priority for companies growing internationally. With the ever-more rising and expanding internet, brand structure has become more of a brand culture. To be more specific, it has become more prevalent nowadays that the brand you support reflects your culture. It can be damaging if you compromise your brand culture. For example, Google found out the hard way when it launched a self-censored search engine in China, even though China subjects its new media to government blocks. Google's brand has been known to make the world access information at anytime. How can Google set up something in China against its own culture? As a result, customer backlash versus Google was substantial.
- **Market as if there were no borders.** Due to the proliferation of digital platforms, brands cannot always adopt different strategies per country. In a way, due to the internet, companies have to adopt a marketing approach that is more or less unified.

Factor's to considered to initiate a Global marketing campaign

In order to develop your campaign globally, there are a few things you should keep in mind. You have to know the market, you have to create a marketing plan, you should tailor fit your approach to marketing, and you should localize your communications.

- Know Your Market :As soon as your company decides to extend your marketing worldwide, you have to understand the context of where you will be working. Every region has various behaviors and norms as it deals with marketing messages; how people would like to be contacted; and what is appropriate for that place, and the like.You have to make sure that you research how the market will respond to the marketing strategy you have, so you can get much leverage from your new market.
- **Create a Marketing Plan :**Becoming successful worldwide is not merely altering your language. You have to make your global marketing plan consistent with your local efforts. Yet it still needs to be customized, according to your regional knowledge. Once you have an insight of the global environment, draft a marketing plan that details your actions.
- **Identify your objectives and goals.:** As soon as that has been established, draw a map that covers the overall strategy and techniques to attain those objectives.
- **Tailor Fit Your Approach:** Keep in mind that what may have worked for your local audience may not translate as well to your foreign audience. Try to adapt your initiatives to your audience, giving them a tailor fit experience. Definitely, what works for one country may not work for another.
- **Localize Your Communications:** It is not only relevant to know the language and cultural hurdles and adjusting your communications for every market, it is also critical to know all the cultural references and relevant holidays and events. You need to create a more personalized experience.

Global marketing issues and mistakes

Companies, especially their marketing teams, often face the following issues and mistakes when expanding worldwide. These can become hurdles in achieving international success.

- **Non-Specification of Countries**

  Companies are rarely specific about thwere they wish to expand. Companies may want to shift to Asia or they want to increase their growth by offering their products to Europe. It is problematic to take things too simply. By Europe do what do they mean is it European Union, Western Europe, Eastern Europe, and so on and so forth. It is also to be remembered that consumers identify themselves at the local level and hence marketing teams to understand each country and its own norms, laws, payment types, and particular business practices before entering foreign market.By being specific in the start, companies can prioritize the markets they want to get into, generate a staffing plan, and allocate the budget. These are all important for a business to attain its global objectives.

- **No Focus on Internal Information**

  Companies need to conduct specialized and complicated market research when you are going to create a global market entry strategy. Companies need to consider the potential opportunity in the market, how easy or hard it would be for your business to work in that market, and how successful you already are in the market. There are a lot of companies that concentrated on outside data to help their decision-making, as described above. Nonetheless, you can simply use your own internal information to get the data, on whether there is a strong fit between your product or service and the market. Remember that data from third parties do not understand your company or even know your consumer. Only you have the best input on this.

- **Lack of Adaptation of Sales and Marketing Channels**

  Most Western companies think that they can go into new markets by doing the same things that brought them success domestically. As previously mentioned, it is important to have brand consistency, but differing markets would like particular marketing approaches. Moreover, marketers have to consider at which channels it would be best to market, based on market behavior. Case in point, for Brazil, marketing campaigns are more successful through Facebook because of its popularity there. However, in Latin America, you can draw in a bigger audience through Twitter. Hence, you may need to check which channels give you the best results through market research.

- **No Adaptation of Product Offerings**

  Business can only attain a fit between their product and the market one at a time. However, more often than not, businesses attempt to launch the same products in varying markets. In essence, they are ignoring that they are interacting with a different set of consumers. A market that is more advanced might need additional features than what the product already has.

- **Non-Usage of Local Team Leads**

  Perhaps one of the usual mistakes companies make in global marketing is failing to consider the input of strong and competent employees in their foreign markets, especially when establishing strategic decisions.These individuals are significant because they know their country and your company. Since one of the biggest issues businesses face when including local input is communication, the marketing team must have a system that guarantees that local perspectives are gathered and distributed often.

- **Lack of Knowledge on Global Logistics**

  Marketers often make use of software that allows them to publish website content, send email, publish updates on social media, and accomplish other marketing-related activities. However, these tools do not always support each market. For example, you have payment solutions only for a couple of countries, but your customer relationship management system has many contacts coming from a hundred countries.
- Marketers have to guarantee that they could market to customers in the countries they are entering. They should consider how to display the local currency, how to email consumers in particular time zones, and how to support the languages of the consumers.

GLOBAL MARKETING EXAMPLES

If you are searching for inspiration on how to market your company successfully in the international arena, check out these examples from well known companies.

1. **AIRBNB :**Airbnb is for people who book and list accommodations all over the world. Generally, it is a community marketplace that has more than a million listings in more than 34,000 cities in the world. Airbnb became very successful globally because of social media. In 2015, Airbnb began a social media campaign using the #OneLessStranger hashtag. This social experiment had Airbnb asking its community to do random acts of hospitality for people they did not know and take a photograph or video with them and share by making use of the hashtag. In only 3 weeks after the campaign was launched, more than 3 million people created content, engaged, or talked about the campaign.
2. **Coca-Cola :**Even though Coca-Cola is a big corporation, it also concentrates on programs in small communities and infuses a lot of funds and time in small charities. Case in point, Coco-Cola built 650 clean water installations in Beni, Suef in Egypt and sponsored meals (Ramadan) for children in the Middle East. Moreover, the brand goes with an emotion that everyone knows — happiness.
3. **Domino's :**Domino's positioned menu innovation in the forefront to increase its international awareness and interest. They have consistent items for the pizza in all markets like their sauce, bread, and cheese, where it works anywhere.They just update the toppings for every market. If it is Asia, they have fish and seafood, for example.

4. **Dunkin' Donuts:**Dunkin' Donuts China has introduced seaweed and dry pork donuts.With thousands of stores in over 30 countries worldwide, Dunkin' Donuts updated its menus to satisfy its international consumers.In Lebanon, they have the Mango Chocolate Donut; in South Korea, they have the Grapefruit Coolatta; and in Russia, they have Dunclairs!
5. **H&M :**H&M almost always increases its store openings by 10 to 15 percent each year. One of the secrets of their global expansion is maximizing their online experience.
6. **Innocent Drinks :**A leading smoothie company in the United Kingdom, Innocent Drinks can be found in 13 countries all over Europe. Even with its wide reach, they still maintain consistent branding.
7. **Kentucky Fried Chicken:** Kentucky Fried Chicken was able to do something quite interesting. In Japan, they were able to connect their products with Christmas. So every Christmas, Japanese line up at their nearest KFC for some chicken!
8. **McDonald's:** Even though McDonald's keeps its branding consistent, McDonald's tries to bring in some local flavor to particular menu items. McDonald's has the McArabia in the Middle East—this is a flatbread sandwich. It also introduced France to its macaroons and included the McSpaghetti in the Philippines. In Mexico, they have a green chili cheeseburger and in South Korea, they have bulgogi burgers.
9. **Nike :** Nike has evolved his international presence by carefully selecting international sponsorships. Even though spending for sponsorships is quite unpredictable, demand costs usually rise sharply because of triggers such as tournaments and championships. This has captured the attention of the international arena.
10. **Red Bull :** One of Red Bull's successful techniques is hosting extreme sports in the world. They have the Red Bull Air Race in the U.K., the Red Bull Soapbox Race in Jordan, and the Red Bull Indianapolis Grand Prix.
11. **Starbucks :** Starbucks adjusts its menu for local tastes. For Hong Kong, they have Dragon Dumplings, for example. The company has had a wide reputation for the engagement of local cultures.
12. **Unger and Kowitt :**Unger and Kowitt is a law firm that focuses on traffic tickets in Fort Lauderdale, Florida. Although its focus is in Florida, the business knows that the U.S. has many languages and cultures. So its website is translated to English, Portuguese, Spanish, and Creole.

13. **World Wildlife Foundation:** The World Wildlife Foundation or the WWF is known for its Earth Hour initiative and moved it to the mobile audience of Norway. Earth Hour is an international voluntary event wherein participants turn their lights off for 1 hour to show the ease of fighting climate change. Since Norway experiences long daylight hours, it is a great candidate for WWF's initiative.By using Mobiento, a digital agency, the WWF positioned their Blackout Banner on the top media sites of Norway. When someone would finger swipe on the black screen, it would gradually show the countdown for Earth Hour. This banner got around a million impressions. The campaign also received marketing awards for its ingenuity.

HUMAN RESOURCE MANAGEMENT IN THE GLOBAL WORLD

International human resource management (IHRM) is the process of procuring, allocating, and effectively utilizing human resources in a multinational corporation

International human resource management bears both functional and strategic resemblance to human resource management. Functionally it performs almost the same set of activities as human resource management – recruitment, selection, performance management, compensation, training, industrial relations, career management etc. Strategically international HRM is closely linked to the business strategy of the organization.

International human resource management deals with at least three types of employees based on their country of origin:

1. Parent-Country Nationals (PCNs) – Employees belonging to the country where a company's headquarters are located are called as parent-country nationals or home country nationals.
2. Host-Country Nationals (HCNs) – Employees belonging to country where the company has set up a subsidiary or a manufacturing facility are called host- country nationals
3. Third-Country Nationals (TCNs) – Employees who work in the home or host country facility of the company but are not nationals of either are called third- country nationals.

International HRM also means dealing with issues related to different countries, expatriation, repatriation, cross-cultural issues etc.there are four major contextual variables because of which HRM activities in a global firm differ from a domestic firm, hence the need for international HRM. These are cultural diversity, workforce diversity, language diversity, and economic diversity. Let us go through these variables and see how they affect HRM practices.

I. Cultural Diversity:

Culture of a country is one of the key factors which affect people-oriented processes, and HRM is a people-oriented process. Therefore, culture of a country has very significant impact on HRM practices. When we consider global perspective of HRM, we find cultural diversity along the globe, that is, cultures of two countries are not alike. Cultural diversity exists on five dimensions- individualism versus collectivism, power orientation, uncertainty avoidance, masculinity versus femininity, and time orientation. Let us see how these dimensions affect human behaviour and, consequently, work practices.

II. Workforce Diversity:

Workforce diversity is increasingly becoming common for large organizations even for domestic ones. However, in a global firm, additional workforce diversity emerges because of hiring personnel from different countries. A typical global firm may draw its employees from three types of countries — home country , host country , and third country. In a global firm, workforce diversity can also be seen in the context of employee mobility from one country to another country for performing jobs.

On this basis, an employee can be put in one of the following categories:

1. Expatriate — a parent country national sent on a long-term assignment to the host country operations.
2. Inpatriate — a host country national or third country national assigned to the home country of the company where it is headquartered.
3. Repatriate — an expatriate coming back to the home country at the end of a foreign assignment.

III. Language Diversity:

Language is a medium of expression but employees coming from different countries have different languages. Though English is a very common language, it does not serve the purpose adequately as it does not cover the entire world. While employees coming from different countries may be encouraged to learn the language of the host country for better dissemination of the information, it does not become feasible in many cases. An alternative to this is to send multilingual communications. It implies that anything transmitted to employees should appear in more than one language to help the message get through. While there are no hard- and-fast rules in sending such messages, it appears safe to say that such a message should be transmitted in the languages the employees understand to ensure adequate coverage.

IV. Economic Diversity:

Economic diversity is expressed in terms of per capita income of different countries where a global company operates. Economic diversity is directly related to compensation management, that is, paying wages/salaries and other financial compensation to employees located in different countries.One of the basic principles of paying to employees is that “there should be equity in paying to employees.” However, putting this principle in practice is difficult for a global company because its operations are located in different countries having different economic status. In such a situation, some kind of parity should be established based on the cost of living of host countries.Diversity of various types in a global firm suggests that HRM practices have to be tailor- made to suit the local conditions.

International Human Resource Management –Morgan’s Model

1. The wide spectrum of HR activities particularly with reference to the added responsibilities of the international HR managers in terms of managing cultural diversity and developing international executives.
2. The National/Country specific people and cultural categories involved in IHR activities and lastly
3. Types of international employees deployed in various international organizations.

1. HR Activities:

The HR activities on an International perspective can be broadly depicted as those of procurement, allocation and utilization of human resources in the organization. These activities include international human resource planning, staffing (recruitment, selection, induction and placement), performance management, training and development, compensation and reward management and managing international employee relations and industrial relations.

These HR activities with respect to an international scenario have a broad spectrum mainly in terms of the complexity created by country differences, level of control, cultural differences and so many factors influencing the international business environment.

2. Country Categories Involved in IHRM:

The model further depicts that in an international perspective three types of country categories may be involved, namely-

a. The host country where the subsidiary could be located or be operating.

b. The home country where the MNC/International firm could be headquartered.

c. The “third-country” from where employees, capital and other resources like technology or logistics could be availed or procured by the organization.

3. Employee Categories Involved in IHRM:

Depending on the above country categories, the employees in an international perspective could be broadly classified as under**:**

a. Host Country Nationals (HCNs) representing the employees hired from the host country.

b. Parent Country Nationals (PCNs) representing the employees expatriated to the foreign subsidiary from the home country of the MNC.

c. Third Country Nationals (TCNs) representing the employees deployed from third/other countries other than that of the home country of the MNC.

Recruitment Policy

Companies operating outside their home countries, essentially, follow three ways of hiring executives:

1. Ethnocentrism:

It is a cultural attitude marked by the tendency to regard one's own culture as superior to others. Sending home country executives abroad – thinking that they will be able to deliver the goods – may be an appropriate strategy in the initial stages of expanding company operations worldwide as these officials know what to do immediately. At Royal Dutch Shell, for instance virtually all financial controllers around the world are Dutch nationals.

Often the other reasons advanced for ethnocentric staffing policies include- lack of qualified host country managerial talent, a desire to have a unified corporate culture, tight control and the keenness to transfer the parent company's core competencies (say, a specialised design skill) to a foreign subsidiary more expeditiously.

However, a policy of ethnocentrism is too narrow in its focus and may evoke strong negative reactions from local executives whose upward mobility is blocked.

There is also no guarantee that the expats will win over the hearts of local employees and offer positive contributions. In fact, failures of US expats range from 10% to 15%. European and Japanese expat failures are equally alarming, the costs of each such failure running to several thousands of dollars.

Too often expats are selected on the strength of their domestic track record. They are posted abroad without requisite cross-cultural training. The family factors stand completely discounted in the selection process. The rate of failures could be drastically reduced if these issues are properly addressed.

2. Polycentrism:

In the polycentric corporation, there is a conscious belief that only host country managers can ever really understand the culture and behaviour of the host country market; therefore, the foreign subsidiary should be managed by local people. The home-office headquarters, of course, is staffed by parent-country nationals.

Hiring nationals has many advantages. It eliminates language barriers, expensive training periods, cross-cultural adjustment problems of managers and their families.It also permits the firms to attract talented locals by offering an attractive compensation package. Many western MNCs have found that the key to success on foreign soil is to employ local people.

Analog Devices Inc. has achieved global success in a highly technical field by picking up local managers, training them extensively and then empowering them to hire and manage more local talent. Likewise, global sales of Bausch & Lomb improved dramatically after putting the local managerial talent to good use.

3. Geocentrism:

Geocentrism assumes that management candidates must be searched on a global basis, without favouring anyone. The best manager for any specific position anywhere on the globe may be found in any of the countries in which the firm operates. Such a staffing policy seeks the best people for important jobs throughout the organisation, regardless of nationality. It helps to build a stronger and more consistent culture and set of values among the entire global management team.

'Team members here are always interacting, networking and building bonds with each other, as they move from assignment to assignment, around the globe and participate in global development activities'. Colgate-Palmolive is an example of a company that hires the best person for the job regardless of nationality. It has been operating globally for more than 55 years, and its products are household names in more than 175 countries.

Fully 60 per cent of the company's expatriates are from countries other than the Unites States and two of its last four CEOs were not US nationals. Moreover, all the top executives speak at least two languages and important meetings routinely take place all over the globe.

International HRM can be a challenging exercise because of fairly obvious reasons:

I. Integration Issues:

It is difficult to push the right button at the right time, especially when managers operate from headquarters separated by distance. Controlling operations of subsidiary companies in different parts of the globe through remote control can be really taxing — especially in coordinating effort and put the same on track in sync with the established policies of a company.

II. Heterogeneous Functions:

International HRM can be very challenging when one takes a look at what international HR managers are supposed to handle in terms of variety and complexity — including issues relating to international hiring, placement, culture-specific training, compensation relating problems, administrative services to expatriates, carrying out appraisals from time to time, offering growth opportunities to the talented ones, putting out fires with labour, resolving conflicts and maintaining health labour-management relations, etc. The employees sent abroad on an assignment need to be taken care of in a special way. Their families too need to be taken care of including medical, educational, insurance, transportation benefits, etc. HR issues relating to the above are going to be impacted by a variety of factors which demand a closer examination.

International Human Resource Management – Issues

Some of the more basic issues involved in pertinent areas of global human resource management are explained below:

1. Staffing, Recruitment and Selection:

There are basically three ways to meet the requirements of manpower in foreign ventures.

- First, a foreign company may send persons of its home country to manage its affairs in the host country.
- Second, it can hire people of the host countries to meet its human resource requirements there.
- Third, it can also utilise the services of third country nationals.

International HRM is now accepted as the key source of competitive advantage for international business. In all cases, there have emerged certain norms regarding basic characteristics in international staffing. These are as follows –

- cultural adaptability,
- strong communication skills,
- technical competence,
- professional expertise,
- global experience,
- inter-personal skills,
- family flexibility and
- country or region specific considerations.

Most of the multinational companies vie with each other to recruit candidates for technical and managerial positions from highly reputed technical and management institutes offering them lucrative compensation packages and try to retain the services of the most talented ones.

Some of the advantages of staffing from the home country nationals are as follows –

- greater control over activities of the organisation,
- acquisition of experience in local markets;
- greater efficiency in implementing business strategy and
- adequate understanding of culture of the host country.

The disadvantages include the following –

- difficulty in adoption to the foreign environment,
- problems of family adjustability and
- friction resulting from language barriers.

The major advantages of staffing from amongst the host country nationals are as follows –

- elimination or reduction of language barriers;
- better understanding of host country's laws and regulations;
- reduction of hiring cost and (iv) reduced compensation package.

The disadvantages include-

- poor understanding of business objectives of host-country organisation and
- possibility of biases and favouritism in appointments.

The advantages of third country nationals in staffing are as follows –

- better equipped with the use of international perspectives and
- possibility of low cost of hiring. Disadvantages are as follows
- poor understanding of political situations and national hostilities and
- resistance from the government and local people and functionaries in the organisation.

In India, major requirements of various categories of manpower needed by foreign companies are met by the people of the country itself. India has a bountiful of software engineers and analysts, technical and managerial personnel with adequate expertise and specialisation, skilled and unskilled workers.

Most of the foreign MNCs operating in India utilise the services of the local people to manage their businesses in the country.

The use of information technology, Internet and the services of specialised and professional organisations have considerably made the task of hiring easy and convenient. Only in the case of top positions, the foreign companies generally prefer to fill them by personnel of their home countries.

2. Training and Development (T&D):

Training and Development is an important area which calls for special attention in international human resource management. Although a sufficient number of qualified people with requisite academic background is available in India, they need suitable training to develop skills and capabilities commensurate with requirements of jobs assigned to them.It is the task of training and development programmes to ensure that employees at all levels of organisational hierarchy are effectively trained and developed keeping organisation's objective at the forefront.

Some more notable areas of T&D programmes in international businesses comprise the following –

1. language efficiency,
2. understanding of the social and political environment of the host countries;
3. awareness of the cultural and social environment;
4. adaptability to changing situations;
5. efficiency in the use of the computers, Internet and other electronic devices and
6. the needs of employees' career development.

3. Compensation:

In international human resource management, compensation issues are of vital importance. Companies engaged in foreign businesses must offer lucrative compensation packages to all categories of employees in order to attract and retain talented and competent personnel. It must also be emphasised that labour cost has increasingly become an important component of the total cost of business operations. Although the use of improved technology in various areas of business activities has tended to replace manpower by electronic and other devices, the total expenditure on wages and salaries has continued to rise.

While formulating compensation policies and determining compensation packages, it is necessary to give due consideration to

- The standard of living, prevailing rates of remuneration,
- Statutory regulation of wages and fringes benefits,
- Cost of medical care and income tax laws of the host countries.
- People of various countries prefer to work in gulf countries as their emoluments are income-tax free.
- Labour laws of many countries also lay down minimum standards related to paid holidays, vacation time pay, maximum daily and weekly hours, minimum rates of wages statutorily fixed, liability of the employers in regard to social security benefits and payment of gratuity and bonus.

As there are wide variations in practices in different countries of the world, international human resource management must take into account the implications of these variations.

- Other pertinent aspects that deserve particular attention in international compensation management, especially in regard to higher positions, include the following – remuneration paid by competing firms; consistency with international standards; need for career development of employees; simplicity in administration; and stability in the retention of talents with a view to maintain the services of talented and indispensable executives. Many MNCs have started offering stock ownership and equity-based compensation, long-term incentives, profit-sharing and team-based remuneration to them.

4. Performance Appraisal:

Regular performance appraisal of various categories of functionaries in foreign business is also important in international human resource management. It is rather very difficult for the home- country management to evaluate performance of employees working abroad. The task of performance appraisal of such employees may be entrusted to competent appraisers of the host country.

However, the home-country management may formulate guidelines and lay down the standards for key jobs. Certain guidelines for appraisal may be related to objectives of assignment, emphasis on quantifiable measurement for the assignment, converting qualitative behaviour into quantifiable measurements, evaluating employees' performance on these measurements and making calculations of return on investment (ROI).

It is always desirable to provide feedback which can be helpful in making appraisal objective and transparent. Foreign companies sometimes have to face the problem of biases and prejudices by host-country appraisers, impact of unforeseen situations and also group-pressures. Many foreign companies have started increasing adoption of 360° appraisal. Email has generally been helpful in making both the appraiser and appraisee aware of the relevant issues in performance appraisal.

EXPATRIATION AND REPARTRIATION

Expatriation

An expatriate is an employee who has left his native land and is working and temporarily residing in a foreign country. An expatriate can also be a citizen who has relinquished citizenship in their home country to become the citizen of another country. The term originates from the Latin words, ex (out of) and patria (fatherland) .A firm's employees who are transferred out of their home base into some other area of the firm's international operations are referred to as expatriates. The practice of global mobility of a company's workforce helps in building competitive advantages. All expatriate employees are entitled to receive an expatriate premium while working in a foreign country. This includes monetary benefits and non-monetary incentives like housing and education. When the initiative for expatriation comes from individuals rather than employers, it is called self-initiated expatriation (SIE).

Expatriate are the person who goes to the foreign country on the international assignment. When a MNC open its new subsidiary in the new country, then it might not find the local person who has the specific skills that are required by the company, so, it send an employee from the host country to that new subsidiary. Approaches to select an expatriate,

- Ethnocentric approach which means parent company makes the important decisions, employees from the parent company hold key position & the subsidiaries follow all the culture and practices of the parent company
- Geocentric approach. The organisation that applies the worldwide incorporated business strategy, manages and recurit employees on a global basis

Since the expatriate is more familiar with the business and the working culture of the parent company, hence he can assure the better job performance and follow the organisation's policy that are used in every subsidiary.

Advantages of Expats

- Companies appoint the expatriate as he is likely to have tacit knowledge of global operations and help the local employees to identify and meet the company's objectives.
- They are the means of applying the strategic control over the subsidiary Management style.
- Expatriate help the subsidiary to follow the same management style with that of Home Company.
- They will make the local employee to follow the same culture.
- Control and Coordinate. Posting an expatriate in the subsidiary, help the MNEs and gives them the opportunity to control and coordinate the new subsidiary. Since, the host company has may have the people with different attitude and behaviour with that to home company.
- Expatriate helps in improving the business performance in the host country. They help in breakdown the barrier between the parent company and subsidiaries. They are helpful in reducing risks, technical problems. Moreover, they are very helpful in developing good relation with the suppliers. Expatriates are not only used for coordination but also for the knowledge transfer, improving business relation to dominate the international market (Dowling, 2008).

Disadvantages of Expats

There are many disadvantages associated with the expatriates, such as,

- They can misunderstand the political situation which can give rise to the political risk and can heavily cost the company. Misunderstanding of the political situation in the host country can even lead to the ban of the company in the host country.
- Expatriate has to look for the local market to build up the relation and increase the business for the company, but neither he does not have command over the local language nor he has much experience to manage and work with the local staff (Mendenhall et. al, 1995).
- The training and rewarding of an expatriate is highly costly. The extraordinary awards for an expatriate can lead to ill – feeling in the local employees and can work as a de-motivational factor for them.

Reasons on why expatiates fail to adjust with host countries

OFFICIAL REASONS	PERSONAL REASONS
Managers inability to adjust Inability to cope with larger overseas responsibilities Lack of technical skills	Inability of spouse to adjust Family problems Inability to cope with new environment Emotional problems Lack of confidence

REPATRIATION

Repatriation is a process of returning back from a international assignment to a home country after completing the assignment or some other issues. **Repatriation** is the last step in the expatriation cycle and it involves readjustment and re-entry of international managers and their families back to their home country.

The Importance of Repatriates

The employee of any organization who adjust well in a HCN in an international assignment and performed effectively there would be highly imported.

The repatriate perspective, here are some of the reasons why repatriated employees are important:

- There are a many successful international assignments which are very important to the employee career as well as for the company's growth. So many companies send expatriate to other countries for doing business internationally.
- The employees who are send to abroad for international assignment are expatriates those employees who learned many things that would be useful to those who will be sent to that same country if some means could be identified as to how they might be mentors to future expatriate employees.
- Expatriates can bring new and unusual approaches to cultural environment, information gathering, analysis of data, and problem-solving as a result of having work cross-culturally in an effective manner.
- Expatriates may have been more flexible, or less rigid, in changing circumstances. In that different approaches have been tried in other contexts, they may be able to bring insights and innovation to the planning process that may not have been considered previously.
- The repatriate who have performed at a high level in a HCN may bring a dimension of confidence and competence that will enhance his or her value to the company as it competes in a changing world market.
- Expatriates who are work outside the culture of the company and the country, the repatriated employee may well have insights that can effect needed change. That perspective ought to be valued and given a voice within the company.
- The repatriated employees would likely to bring motivated by some factors to encourage them for the sharing of their experience.
- The effective international employees may well have gained insights in how to affect a more coordinated group effort than encouraging individual achievement.

Repatriation Process

Preparation: before 3-4 months of expatriate return

- Developing plans for future and info about new position
- Checklist of items before leaving (closure of bank a/c, bills etc.)

Physical Relocation

- Removal of personal belongings , breaking ties with friends, colleagues before returning

- Re-entry training for home country's update, socio-cultural contrast orientation, psychological aspects etc.

3. Transition:

- Finding accommodations, school for children, opening bank A/c etc. for comfortable living.
- Relocation consultants used.

4. Readjustment

- Coping with aspects as company changes , reverse culture shock and career demands
- Eg. Repatriate returning from country where power distance is large as Thailand may experience stress on returning to small power distance countries like Denmark.

Repatriation of Expatriates

- Repatriation
- Return to one's home country from an overseas management assignment
- Reasons for returning
- Formally agreed-on tour of duty is over
- Expats want their children educated in the home country
- Unhappiness with foreign assignment
- Failure to perform well
- Major concerns of expatriates
- Cultural Re-entry
- Financial Implications
- Nature of job assignment

Multinational responses to repatriation

1. Staff availability: current and future needs

- If repatriate promoted ,International assignments as a positive career move
- If repatriate demoted or given pink slips so vice versa.

2. Return on investment (ROI)

- Expatriates are expensive
- Accomplishing assignment objectives at the expected cost

3. Knowledge Transfer

- Cross-fertilization of ideas and practices that assist in developing competitive advantage.
- Build upon international experience of repatriates
- Designing a Repatriation Program

1. Mentor programs (Pairing expat with a member of home office senior mgmt):

- Maintaining contact with the expatriate throughout the assignment
- Ensuring that expatriates are kept up- to-date with developments in home country
- Assisting expatriates in repatriation process

2. Inviting repatriates in developing repatriation program

Steps suggested for smooth transition

- Arrange an event to welcome & recognize the employee & family
- Establish support to facilitate family reintegration
- Offer repatriation counseling or workshops to ease the adjustment
- Assist the spouse with job counseling, resume writing & interviewing techniques
- Provide educational counseling for the children
- Provide employees with thorough debriefing to identify new knowledge, insights & skills to provide a forum to showcase new competencies
- Offer international outplacement to the employee if no positions are possible
- Arrange an interview with the expatriate & spouse to review their view of the assignment & address any repatriation issues

Advantages

- Repatriates return with highly-relevant global knowledge, new networks that significantly enhance their ability to get things done and connect domestic to foreign workers, a more global mindset, and new perspectives and competencies that should make the home company more competitive.