.... UNIVERSITY

INTERNATIONAL BUSINESS MANAGEMENT

MBA .... SEMESTER

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INTERNATIONAL BUSINESS MANAGEMENT

MBA - INTERNATIONAL BUSINESS

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DBA5302 INTERNATIONALBUSINESSMANAGEMENT

COURSEOBJECTIVE: Students become familiarwith thetheoreticalbackgroundofinternational business.
Tounderstandtheeconomic,culturalandethicalissuesrelatingtointernational business.

COURSEOUTCOME: Enablestudentstoapplytheoryitinavarietyofwaystovaried Internationalbusinesssituations,formulateframeworksforcomplex cross-borderdecisionmaking

UNITI **INTRODUCTION-**InternationalBusiness–Definition–Internationalizingbusiness-Advantages-factorscausingglobalizationofbusiness-internationalbusinessenvironment – country attractiveness -Political, economic and cultural environment – ProtectionVsliberalizationofglobalbusinessenvironment.

UNITII **INTERNATIONALTRADEANDINVESTMENT-**Promotionofglobalbusiness-theroleof GATT/WTO - multilateral trade negotiation and agreements - VIII & IX, rounddiscussionsandagreements-Challengesforglobalbusiness-globaltradeandinvestment - theories of international trade and theories of international investment -Need for global competitiveness - Regional trade block - Types - Advantages anddisadvantages-RTBsacrosstheglobe-briefhistory.

UNITIII **INTERNATIONALSTRATEGICMANAGEMENT-**Strategiccompulsions-Standardization Vs Differentiation - Strategic options - Global portfolio management-global entry strategy – different forms of international business – advantages-organizational issues of international business - organizational structures - controlling ofinternational business- approaches to control -performance of globalbusiness-performanceevaluationsystem.

UNIT IV

PRODUCTION,MARKETING,FINANCIALANDHUMANRESOURCEMANAGEMENTOF GLOBAL BUSINESS

- Global production -Location -scale of operations- cost ofproduction– MakeorBuydecisions– globalsupplychainissues– Qualityconsiderations-Globalization of markets, marketing strategy - Challenges in productdevelopment , pricing, production and channel management-Investment decisions -economic- Political risk - sources of fund- exchange -rate risk and management -strategic orientation - selection of expatriate managers- Training and development -compensation.

UNIT V **CONFLICT MANAGEMENT AND ETHICS IN INTERNATIONALBUSINESSMANAGEMEN-** Disadvantages of international business - Conflict in internationalbusiness-Sourcesandtypesofconflict-Conflictresolutions-Negotiation-theroleofinternationalagencies-Ethicalissuesininternationalbusiness-Ethicaldecision-making.

TEXTBOOKS:

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Syllabus

DBA 5302 INTERNATIONAL BUSINESS MANAGEMENT

COURSE OBJECTIVE: Students become familiar with the theoretical background of internationalbusiness. To understand the economic, cultural and ethical issuesrelating to international business.

COURSE OUTCOME: Enable students to apply theory it in a variety of ways to variedinternational business situations, formulate frameworks for complexcross-border decision making

UNIT I: INTRODUCTION

International Business –Definition – Internationalizing business-Advantages –factors causing globalization of business- international businessenvironment – country attractiveness –Political, economic and cultural environment –Protection Vs liberalization of global business environment.

UNIT II: INTERNATIONAL TRADE AND INVESTMENT

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

UNIT III: INTERNATIONAL STRATEGIC MANAGEMENT

Strategic compulsions-Standardization Vs Differentiation – Strategic options – Global portfolio management-global entry strategy – different forms of international business – advantages-organizational issues of international business – organizational structures – controlling ofinternational business – approaches to control – performance of global business-performance evaluation system.

UNIT IV: PRODUCTION, MARKETING, FINANCIAL AND HUMAN RESOURCE MANAGEMENT OF GLOBAL BUSINESS

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

UNIT V: CONFLICT MANAGEMENT AND ETHICS IN INTERNATIONAL BUSINESS MANAGEMENT

Disadvantages of international business – Conflict in internationalbusiness- Sources and types of conflict – Conflict resolutions – Negotiation – the role ofinternational agencies –Ethical issues in international business – Ethical decision-making.

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INTRODUCTION

International business is the process of implying business across the country's boundary at a global level. It focuses on the resources of the globe and the objectives of theorganization on the global business and helps strengthen the economic relations amongnations. This business helps other nations by exporting the goods of their requirements. Ithelps in developing better mutual understanding among countries due to which they are readyto support each other in times of need. Therefore, international business has a vast scope whichincludes Foreign Investments, Exports & Imports of Merchandise, Licensing andFranchising, Service Exports and Imports, Growth Opportunities, Benefiting from CurrencyExchange, and Limitations of the Domestic Market

International businesses are open to performing business in different countries acrossthe globe. This business keeps on expanding its activities and exploring new markets forselling more and more products. The international business earns a high amount of profitswhich helps them in expanding their market share. It earns a large amount of foreign exchangeby selling its products among different countries. All payments are received in terms offoreign currency which are used by its home country for payment of imports. The foreignexchange earned by these businesses helps in the overall economic development of thecountry.

The presence of international businesses around the globe helps in spreading its risk. Incase if there is a loss incurred by this business in any one of the countries, then that can beeasily adjusted with the profit earned in other countries. As it transfers their surplus goodsor resources from one country to another country which helps them in reducing their risk. Thesebusinesses are also able to enjoy economies of scale due to their large scale production.International businesses produce a large amount of goods for selling in different countries.With the increase in the amount of production, per unit cost of producing goods goes down,which helps them in earning large profits.

Further, it improves international relations among nations. These business helps othernations by exporting their goods of their requirements. It helps in developing better mutualunderstanding among countries due to which they are ready to support each other in times ofneed. And also provide employment opportunities to a large number of people for carryingout its operations across the globe. They perform large scale operations in many countries forwhich they require a large amount of human resources. International businesses also enjoygovernment support for carrying out their operations and expanding their size. Thegovernment provides tax and financial benefits to these businesses as they earn a largeamount of foreign reserves for the country.

Global trade and investment, or broadly, globalization, is a common market conditionfor all countries of the world now. However, it is not free from challenges. To be specific,Economic Warfare, Geo-politicization, State Capitalism, Lack of Leadership, PowerDistribution, Weaker Underdogs, and Price Fluctuations of Natural Resources are majorchallenges to global trade and investment the world is facing now. All the components ofinternational business are elaborately discussed in this book.

UNIT I

LESSON 1 – INTRODUCTION TO INTERNATIONAL BUSINESS MANAGEMENT

CONTENTS

Learning Objectives

Overview

1.1 Introduction
1.2 Definition of International Business
1.3 Internationalizing Business
1.4 Advantages of International Business
1.5 Factors Causing Globalization of Business
1.6 International Business Environment
1.7 Country Attractiveness
1.8 Political, Economic and Cultural Environment
1.9 Protection Vs Liberalization of Global Business Environment

Case Study

Self-Assessment Questions

LEARNING OBJECTIVES

After studying this lesson, students should be able to:

- Understand the meaning of International Business and environmental conditions that influence business operations
- Explain the reasons why companies go International – Internationalizing business
- Discuss the advantages of International Business
- Define the international business environment
- Get an overview of country attractiveness

LEARNING OUTCOMES:

Upon completion of the lesson, students are able to demonstrate a good understanding of:

- Basics of international business
- Analyzing advantages of international business
- List out factors causing globalization of business
- Basics of the international business environment
- Determine protection vs liberalization of the global business environment
- Identifying globalization of markets

1.1 INTRODUCTION

International business comprises a large and growing portion of the world'stotal business. All companies are affected by global events and competition,whether large or small since most sell output to and secure raw materials andsupplies from foreign countries. Many companies also compete againstproducts and services that come from outside India.

The beverages you drink might be produced in India, but with the collaboration of a USA company. The tea you drink is prepared from the tea powder produced in China. The spares and hard-disk of the computer you operate might have been produced in the Japan. The perfume you apply might have been produced in Spain. The television you watch might have been produced with the Russian technology. The shoes you wear might have been produced in Taiwan, but remarketed by an Italian company. Your car you drove might have been produced in Germany. Your air-travel services might have been provided to you by Air-France and so on so forth.

Most of you have the experience of browsing the internet and visiting differentwebsites, knowing the products and services offered by various companies acrossthe globe. Some of you might have the experience of even ordering and buying theproducts through the internet. This process gives you the opportunity of transacting inthe international business arena without visiting or knowing the various countriesand companies across the globe.

You get all these even without visiting or knowing the country of the companywhere they are produced. All these activities have become a reality due to theoperations and activities of international business.

Thus, international business is the process of focusing on the resources of theglobe and objectives of the organisations on global business opportunities and threats,to produce, buy, sell or exchange goods/services worldwide.

InternationalBusiness

Source:proprofs (https://www.toppr.com/guides/business-studies/international-business/introduction-to-international-business-and-its-benefits/)

International business means buying and selling goods and services across the border. These business activities may be of government or private enterprises. Here, the enterprises across the national border expand their business activities like manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication, and so on. A business enterprise that goes for international business has to take a very wide and long view before making any decision; it has to refer to the social, political, historical, cultural, geographical, physical, ecological and economic aspects of the other country where it had to business. International business, by its nature, is a primary determinant of international trade; one of the results of the increasing success of international business ventures is globalization.

International Business is the process of focusing on the resources of the globe and objectives of the organizations on global business opportunities and threats. International business is defined as the global trade of goods/services or investments.

1.2 DEFINING INTERNATIONAL BUSINESS

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

Roger Bennet defines International business involves commercial activities that cross national frontiers

According to John D. Daniels and Lee H. Radebaugh, International business is all business transactions-private and governmental- that involve two or more countries. Private companies undertake such transactions for profits, governments may or may not do the same in their transactions.

“International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of the individuals, companies and organisations. These transactions take on various forms which are often interrelated.” – Michael R. Czinkota

Cambridge dictionary defines international business as – “the activity of trading goods and services between countries”.

1.3 INTERNATIONALIZING BUSINESS

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

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

International operations depend on companies' objectives and the meanswith which they carry them out. The processes affect and are affected by the physical andsocietal factors and the competitive environment.

Internationalization of Business has benefited TCS, Asian paints, Wipro, and Infosys. It may beunderstood as those business transactions that involve the crossing of national boundaries'.

Theyinclude;

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

Why study international business?

1. Increasingly, companies are sourcing their human resource requirement globally, including Sonycorporation.
2. Most of the products we consume daily are supplied to us by global businesses.We are sure of quality if the products bear such names as Nike, Toyota, Colgate, Gap Tshirt,and the like. To know these brands is to understand international business
3. Managing an international business is major complex than running a domesticbusiness. Global business involves the production of goods in facilities located in differentcountries with resources, human and physical sourced from all parts of the globe andmarketing goods and services to users across the globe.
4. The significant impact of international business in this area has been impetus ongovernments to open up their borders to international trade and investment, standardizetheir systems and procedures, and adopt internationally accepted values and attitudes.
5. International business executives play a decisive role in determining the relativecompetitiveness of various countries in the global arena.

1.4 **ADVANTAGES OF INTERNATIONAL BUSINESS:**

- **Product Flexibility**

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

- **Less Competition**

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

- **Protection from National Trends and Events**

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

- **Learning New Methods**

When you do business in another country, you learn new ways.You can apply this new knowledge to other markets. For example, according to the CiteSales website, Unilever discovered a market for laundry detergent that would function inEurope's high-mineralcontent or "hard" water. This product can now be marketed toparts of the U.S. that have similar water problems.

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

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

1.5 FACTORS CAUSING GLOBALIZATION OF BUSINESS:

More and more companies seek to internalize or globalize their economics for many reasons.

1. Developing markets have huge markets

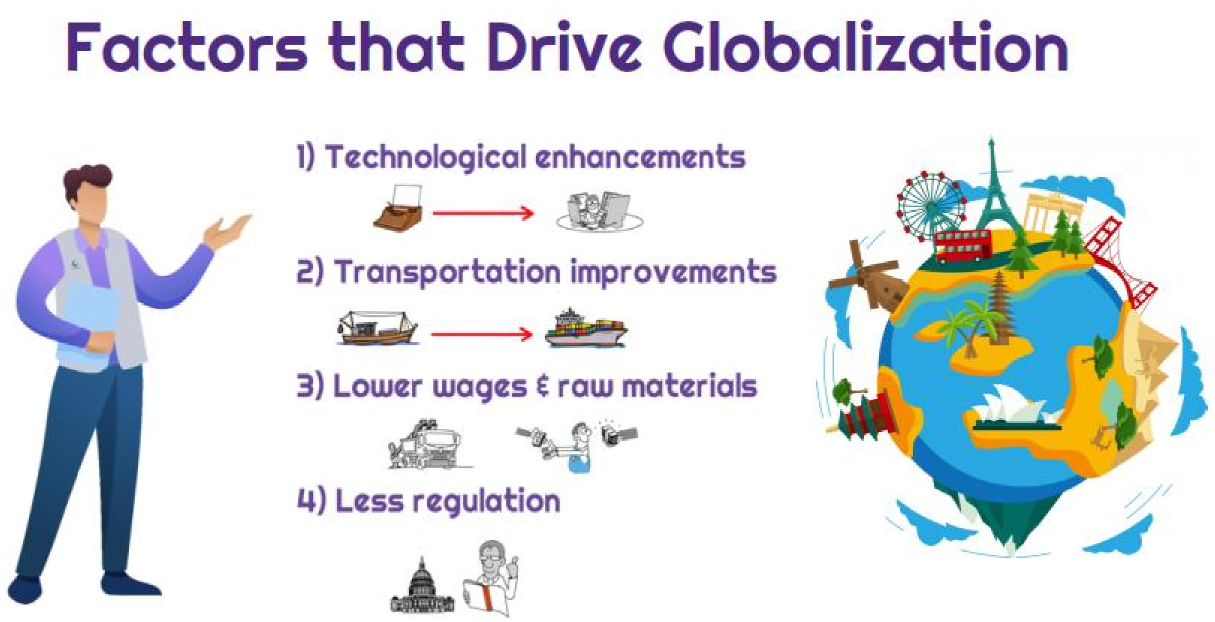
2. Many MNCs are locating their subsidiaries in low-wage countries to take advantage oflow-cost production.
3. Changing demographics also adds to increasing globalization
4. Regional trading blocs are adding to the pace of globalization. WTO, EU, NAFTA,MERCOSUR and FTAA are major alliances among countries.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

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

These currents are;

- Growth of rapidly developing economics (RDE's)
- Continuing cost and capital advantages of RDE's
- Development of talent and capabilities in RDE's
- Migration of customers to RDE's
- The emergence of RDE based global competitors.

8. There is money in international business, and no organization would wish to miss theopportunity.
9. Resource seeking is another motive for firms going international.
10. World bodies and institutions trigger globalization. WTO is an internationalorganization that regulates and promotes business across nations. The main purposes of WTOare a) to help free trade b) to help negotiate the further opening of markets c) to settle trade disputes betweenmembers.



Source: UniversalCPA (https://www.universalcpareview.com/ask-joey/what-is-globalization/)

Ripple effects of globalization:

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

Disadvantages of globalization:

- The negative drivers of globalization included culture which is a major hold back ofglobalization. An example of how culture can negatively affect globalization can be seenin the French film industry. The French are very protective of this part of their cultureand provide huge grants to help its development. As well as government barriers, marketbarriers and cultural barriers still exist.
- A negative aspect of a country's development is war; e.g. tourism in Israel fell by 40% dueto the latest violence. Corporate strategy can also be a negative driver ofglobalization as a corporation may try to locate in one particular area.
- Another negative driver of globalization is “local focus” or “localization”, as it is termedin Richard Douthwaite’s book “Short Circuit”. Douthwaite (1996) believes thatglobalization can and should be reversed.
- He also believes that localization is the way to do this. He defines localization as “notmeaning everything being produced locally but it means a better a balance between local,regional, national and international markets and thus brings less control to multinationalcorporations”.
- Another step to reverse globalization would be for governments to club together to curbthe power of multinationals by negotiating new trade and treaties that would remove thesubsidies powering globalization and give local production a chance.
- Douthwaite also states that the global economy is itself nothing less than a system ofstructural exploitation that creates hidden slaves on the other side of the world and alsothat the North should allow the South to produce for it and not just for us (North). So itcan be seen that Douthwaite is very opposed to globalization, especially thatpart of it is exploited by multinational corporations.
- Further arguments against globalization by Mr. Lawton include that itdestroys jobs in wealthy, advanced countries. This is due to the lower costs ofwages in developing countries. Multinationals will move to areas of lower-wage levels atthe drop of a hat, e.g. Fruit of the Loom. Also, this ability to relocate has meant that wagelevels of unskilled workers in developed countries have fallen relativelyspeaking. This is down to the fact that one now needs skill and knowledge in developedeconomies to survive.

  Causes the flow of ideas, services, and capital around the world

  - Offers consumers new choices and a greater variety
  - Allows the mobility of labour, capital and technology
  - Provides employment opportunities

- Reallocates resources and shifts activities to a global level

1.6 INTERNATIONAL BUSINESS ENVIRONMENT

A global company has to formulate strategies based on its missions,objectives and goals. Strategy formulation is a must for a global company to makedecisions regarding the markets to enter, product/service range to introduce in theforeign countries and the like. Further, the severe and intensified competition in theglobal market makes strategy formulation a challenging task.

The fundamental basis for strategy formulation is environmental analysis.The environment provides opportunities for the business to produce and sell a particularproduct. For example, the present-day business environment offers vastopportunities for the Internet. Similarly, the environment in India provides an opportunity for the production and selling of fuel-saving motor bicycles. European climatic conditionprovides an opportunity for woollen and leather garments.

Environment sometimes poses threats and challenges to business. Businessesshould enhance their strengths to face the challenges posed by the environment.For example, China dumped steel at cheap prices in the Indian market and posed athreat to the Indian steel industry, i.e. Consequently, the Indian steel industry improvedits technology to meet the challenges and dumped its steel in the US markets.

Studying the environment helps the business formulate strategies and run thebusiness efficiently in the competitive global market. We understand that environmenthas a significant and crucial impact on the business. Thus, business depends onenvironmental dynamics. Now, we study the meaning of the business environment.

Meaning of International Business Environment

Environment means surrounding. The international business environment meansthe factors/activities that surround/encircle the international business. In otherwords, the business environment means the factors that affect or influence the MNCsand transactional companies.

Factors that affect International Business include Social and Cultural factors(S), Technological factors (T), Economic factors (E), Political/Governmental factors(P), International factors (I) and Natural factors (N). (STEPIN)

William F. Glueck defined the term environmental analysis as “the process bywhich strategists monitor the economic, governmental/legal, market/competitive,supplier / technological, geographic and social settings to determine opportunitiesand threats to their firms.”

Environmental diagnosis consists of managerial decisions made byanalyzing the significance of data (opportunities and threats) of the environmentalanalysis.”

International Business Environmental Factors

Business environmental factors are broadly divided into internal environmentalfactors and external environmental factors. Internal environmental factorsinfluence/affect the business from within. They include human resource management,trade unions, organisation structure, financial management, marketing managementand production management, management/leadership style etc.

External environmental factors are further divided into micro external factorsand macro external environmental factors. Micro external environmental factorsinclude: competitors, customers, market intermediaries, and suppliers of raw materials,bankers and other finance suppliers, shareholders, and other stakeholders of thebusiness firm.

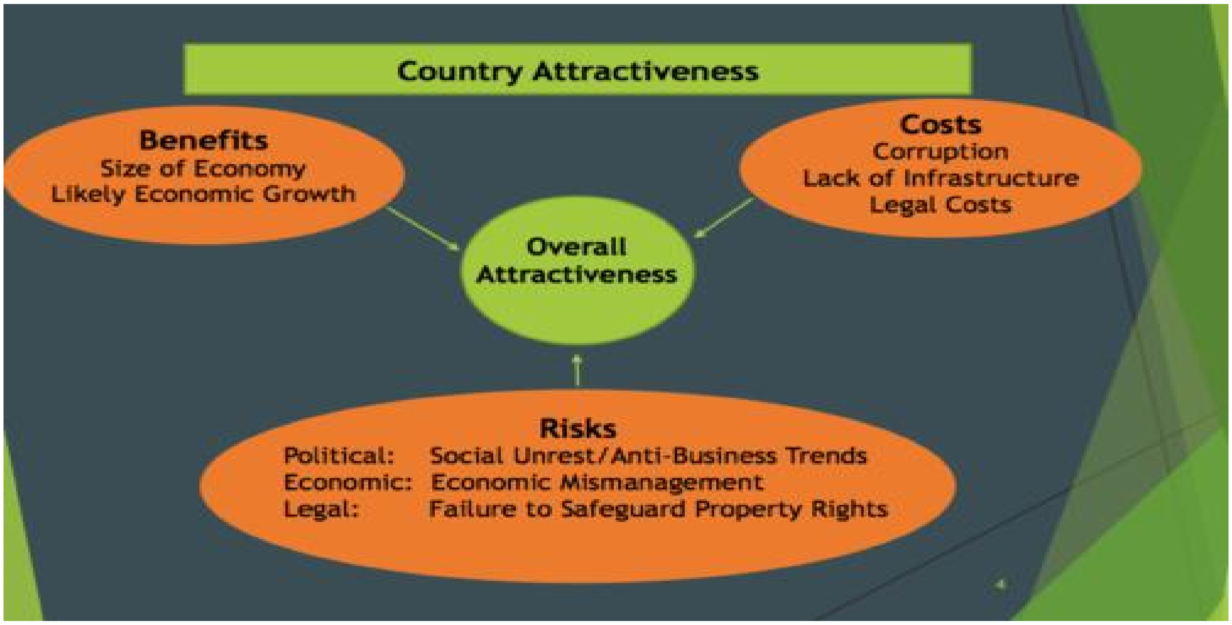
External macro-environmental factors include: social and cultural factors,technological factors, economic factors, political and governmental factors,international factors and natural factors. Environmental protection received greaterattention to protect the lives of the people, animals, and plants and maintainecological balance. The analysis of internal environmentalfactors indicates the strengths and weaknesses of the business firm, while the analysisof micro external and macro external environmental factors indicates the opportunitiesprovided by the environment to the business. The strengths, weaknesses, opportunitiesand threats (SWOT) analysis helps formulate strategies for the business firm.

1.7 COUNTRY ATTRACTIVENESS

It is a multidisciplinary concept at the crossroads of development economics, financialeconomics, comparative law and political science: it aims at tracking and contrasting the relativeappeal of different territories and jurisdictions competing for “scarce” investment inflows, byscoring them quantitatively and qualitatively across ad hoc series of variables such as GDPgrowth, tax rates, and capital repatriation.

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

Some development economists believe that a sizeable part of Western Europe has nowfallen behind the most dynamic amongst Asia’s emerging nations, notably because the latteradopted policies more propitious to long-term investments: “Successful countries such asSingapore, Indonesia and South Korea still remember the harsh adjustment mechanisms imposedabruptly upon them by the IMF and World Bank during the 1997-1998 ‘Asian Crisis’ […] Whatthey have achieved in the past 10 years is all the more remarkable: they have quietly abandonedthe “Washington consensus” [the dominant Neoclassical perspective] by investing massively ininfrastructure projects. This pragmatic approach proved to be very successful.”



Source: Quizlet (https://quizlet.com/94725652/international-bus-chapter-245-flash-cards/)

1. Guide to analyze country's attractiveness Unit One

2. Managerial Implications

3. Two broad implications for International Business

- The political, economic, and legal systems of a country raise important ethical issuesthat have implications for the practice of international business
- The political, economic, and legal environment of a country influences theattractiveness of that country as a market and/or investment site

4. Attractiveness Return

- A country attractiveness assessment is based on two dimensions
- Market and industry opportunities
- Country risks (many organizations publish country assessment results based on variouseconomic/political/social factors)

5. Country attractiveness analysis

Market opportunities

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

Industry opportunities

- Industry opportunities assessment determines the profitability potential of a company'spresence in a country given the following factors:
- Quality of industry competitive structure (Porter's five-force Industry AnalysisFramework)
- Resource availability (Porter's diamond framework)

6. Framework for country market and industry attractiveness assessment MARKET – Howsignificant is the demand in this country + Growth + Size + Customer quality

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

7. Country attractiveness analysis

- Political risks

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

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

  Competitive risks are related to non-economic distortion of the competitivecontext owing to cartels and networks as well as corrupt practices. The competitivebattlefield is not even, and investors who base their competitive advantage on productquality and economics are at a disadvantage.
- Operational risks.

  Operational risks directly affect the bottom line, either becausegovernment regulations and bureaucracies add costly taxation or constraints to foreigninvestors or because the infrastructure is not reliable.

8. Framework for country risk analysis

Political risks, operational risks, competitive risks, economic risks

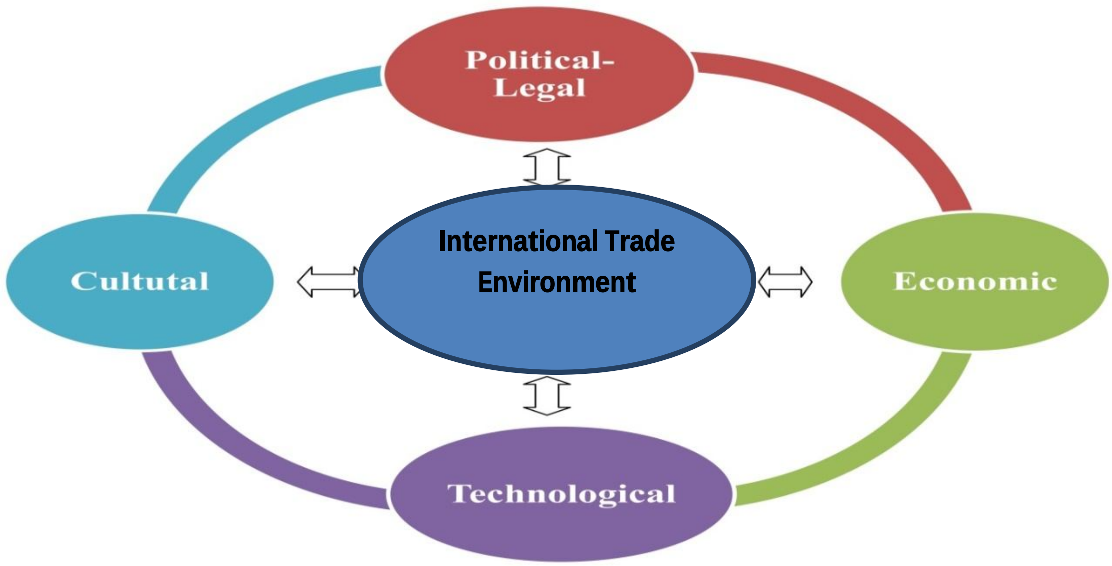
- Shareholders exposure
- Assets destruction (war, riots)
- Assets spoliation (expropriation)

- Assets immobility (transfer, freeze)
- Operational Exposure
- Market disruption
- Labor unrest
- Racketing
- Supply shortages
- Employees Exposure
- Kidnapping
- Gangsterism
- Harassment
- Variability
- Inflation
- Cost of inputs
- Exchange rates
- Business logics
- Corruption
- Cartels
- Networks

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

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

1.8 POLITICAL, ECONOMIC AND CULTURAL ENVIRONMENT



Source: Simplynotes.in (http://www.simplynotes.in/e-notes/mbabba/international-business-management/trading-environment-of-international-trade/)

Political- Legal Environment

Source: Slideplayer (https://slideplayer.com/slide/6839726/)

The political-legal environment consists of laws, regulatory framework, and political set-up in which a business unit operates. The stable political setup and legal framework in the economy influence the organisation's decisions. S.H. Robock has developed a conceptual framework for identifying and assessing political riskwhich may affect business decisions. The major sources of such risks include competing ideologies, vestedinterest in local business groups, electoral majority of the party in power, dissension in the ruling party, insurgenciesin border areas, international power alignment and alliances, foreign economic policies of the government abroad,national and regional interest etc.

Political-legal environment factor is particularly important in a mixed economy like India, and it has a significanteffect on the working of business organisations. The legislature, judiciary and executive are three major organs of the politicaland legal environment. The political-legal environment includes the following elements:

1. Political system i.e. political processes, political organisations-political parties, political stability, the extentof bureaucratic delays, etc.
2. Legal rules of the business-their formulation, implementation, efficiency, and effectiveness.
3. Defence and foreign policies – defence expenditure, maintenance of external relationships with othercountries, etc.

The political-legal environment can be divided into the following two parts:

Promoting Environment: Promoting environment includes the stimulation of business interest through theprovisions of various incentives and facilities, thus protecting home products and markets from the influence offoreign competitors, taking a direct role in promoting business insurance. In India, Government offers all thesefacilities in the form of sound infrastructure – transport, electricity, banking and postal and telecommunication,promoting business abroad, promoting business in public and joint sectors; concessions and benefits to varioustypes for industries located in specified areas.

Regulatory Environment: Regulatory environment puts certain restrictions on the operations of businessorganizations. These restrictions are not arbitrary but are based on the nature of a social system andare the effective means or the instruments of achieving the desired level of social welfare in the country. InIndia, the regulatory environment consists of the factors related to the regulation of business operations byprescribing their freedom to operate in specificbusiness areas and the practices required to follow inconducting their business. Legislative measures have stipulated these in the form of various statutesand policy formulations. For example,essential regulations are enforced in India which influences the functioningof business organisation, including the following:

a) Industrial policies and licensing,
b) Competition Law,
c) Foreign Exchange Management,
d) Import and export regulations,
e) Foreign operations, collaboration, and joint ventures,
f) Protection of consumer interest,
g) Prevention of environmental pollution,
h) The Companies Act and other Economic Legislations.

Each country varies regarding international trade and relocation of foreign plants on its native soil. Some countriesopenly court foreign companies and encourage them to invest in their country by offering reduced taxes or someother investment incentives. Other countries impose strict regulations that can cause large companies to leaveand open a plant in a country that provides more favourable operating conditions. When a company decides toconduct business in another country, it should also consider the political stability of the host country's government.Unstable leadership can create significant problems in recouping profits if the government falls off the hostcountry and/or changes its policy towards foreign trade and investment. Political instability is often caused bysevere economic conditions that result in civil unrest.

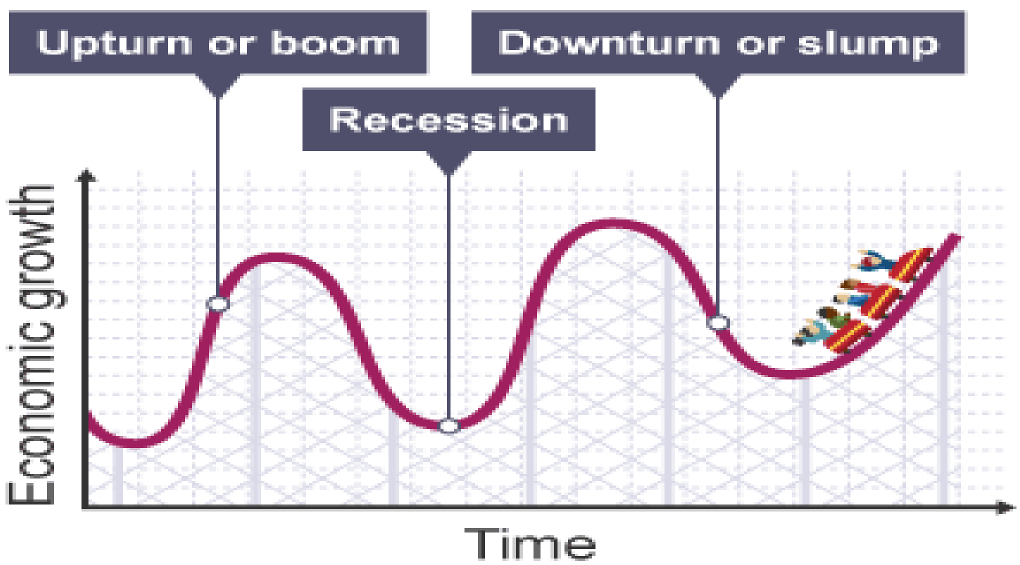
Another key aspect of international trade is paying for a product in a foreign currency. This practice can createpotential problems for a company since any currency is subject to price fluctuation. A company could losemoney if the value of the foreign currency is reduced before it can be exchanged into the desired currency.Another issue regarding currency is that some nations do not have the necessary cash. Instead, they engage incounter trade, which involves the direct or indirect exchange of goods for other goods instead of cash.Counter trade follows the same principles as bartering, a practice that stretches back into prehistory. A carcompany might trade new cars to a foreign government in exchange for high-quality steel that would be morecostly to buy on the open market. The company can then use the steel to produce new cars for sale.

In a more extreme case, some countries do not want to engage in free trade with other nations, a choice knownas self-sufficiency. There are many reasons for this choice, but the most important is the existence of strongpolitical beliefs. For example, the former Soviet Union and its communist allies traded only with each otherbecause the Soviet Union feared that Western countries would attempt to control their governments throughtrade. Self-sufficiency allowed the Soviet Union and its allies to avoid that possibility. However, these self-imposedtrade restrictions created a shortage of products that could not be produced among the group, makingthe overall quality of life within the Soviet bloc substantially lower than in the West since consumer demandcould not be met. When the Berlin Wall came down, trade with the West was resumed, and the shortage ofproducts was reduced or eliminated.

Economic Environment

The economic environment is the most important environmental factor that business organisations takeinto account because a business organisation is an economic unit of operation. Since the measurement oforganisational performance is mostly in the form of financial terms, often managers concentrate more on economicfactors. The economic environment is important for non-business organisations too, because such organisationsdepend on the environment for their resource procurement which is greatly determined by the economic factors.As such, understanding the economic environment is crucial to strategic management. The economicenvironment covers all those factors, which give shape and form to the development of economic activities andmay include factors like the nature of the economic system, general economic conditions, various economic policies,and various production factors.

From the analytical point of view, various economic factors can be divided into two broad categories: generaleconomic conditions and factors of production.



Source: Study.com (https://study.com/academy/lesson/international-economic-environment-in-marketing-definition-factors-quiz.html)

General Economic Conditions :

A country's general economic conditions determine the extent to which various economic forces influence anorganisation. Such forces include: the economic system, monetary policy, fiscal policy and industrial policy of thecountry. However, the general economic conditions are also affected by political and social factors. Theseeconomic conditions affect national income, income distribution, employment level, factor market, andproduct market. In turn, all these factors taken together affect the working of business organisations. An intensiveanalysis of these forces will give a picture of the conditions in which the organisations have to operate.

(a) Economic System: An economic system refers to a particular set of social institutions that deal withthe production, distribution and consumption of goods and services in a particular society. It is composedof people and institutions, including their relationship to productive resources. The economic system of a countrydetermines the extent to which the organisations have to face different constraints and controls by the economicfactors. In three alternative economic systems, i.e. capitalistic, mixed, and socialistic, organisations have to facedifferent types of control ranging from total freedom to total control. An economic system not only puts certainrestrictions over the functioning of the organisation but also provides certain protections to an organization depending on its nature. For example, public sector organisations are protected from private organisations,local organisations from foreign organisations, small organisations from large organisations, and so on. Indiahas adopted a mixed economic system.

(b) National Income and its Distribution: National income is defined as the money value of final goods andservices produced in a country during a particular period normally one year. National income determinesthe purchasing power of people and consequently generate the demand for products. The distribution of nationalincome determines the types of products that may be demanded by different segment of people. Per capitaincome determines the purchasing power.

(c) Monetary Policy: Monetary policy controlled by a Central Bank of a country regulates the economic growththrough the expansion or contraction of money supply in circulation. The basic objectives of monetary policyare:

- To provide the necessary finance to the industries, particularly in the private sector;
- To control the inflationary pressure in the economy; and
- To generate and maintain high employment.

(d) Fiscal Policy: Fiscal policy deals with the tax structure and governmental expenditure. Generally, the fiscalpolicy is adopted for:

- Mobilizing maximum possible resources;
- Optimal allocation of resources to attain rapid economic growth;
- Attainment of greater equality in the distribution of income; and
- Maintenance of reasonably possible stability of prices.

There are two aspects of fiscal policy relevant to strategic management: (i) the impact of the tax structure on thefortunes of individual organisations as well as the industry; and (ii) the impact of the government’s spending ondifferent economic activities.

Factors of production :

Organisations employ different factor inputs in the process of production, such as land, labour, capital,managerial personnel, etc. The management should appraise the availability of these factors' inputs so thatsuitable strategies can be adopted for their procurement and utilization. The easy availability of theseresources facilitates organisational functioning. In addition to availability, cost and quantity of resourcesare significant. While analyzing the factor market aspect of the economic environment, the following considerationsshould be taken into account.

(a) Natural Resources: The availability of natural resources i.e. land, minerals, fuel, etc., becomes a strategicplanning factor for organisations requiring such resources in the production process. Normally, the location patternis decided based onthe availability of these factors. There is plenty of natural resources, land, water, and minerals of various types in our country. However, in the absence of their proper exploitation and uses, theseresources are not able to give adequate benefits. Moreover, there is a lack of certain critical factors, such as electricity, fuel, etc., which affectorganisational efficiency adversely.

(b) Infrastructure Facilities: Infrastructure provides the supporting base for the efficient functioning of anorganisation in the industry. These may include transportation, communication, banking services, financialservices, insurance, and so on. In our country, while these facilities are available in plenty and at a satisfactorylevel in some places, there is total absence or inadequacy in some other places. For example, in urban areas,these facilities are available to a reasonably satisfactory level, but these are lacking in rural areas where thescope for opening more business operations is relatively high. The government emphasises the development of backward areas by giving various incentives to the organisations and creating the provisions forinfrastructure.

(c) Raw Materials and Supplies: An organisation requires a continuous flow of raw materials and other things tomaintain its operations. The price of materials, frequency and regularity of supply and other terms and conditionsare important considerations in this respect. In turn, all these factors depend on the availability of natural resources, infrastructure facilities, and the general economic development of the country.

(d) Plant and Equipment: An organisation invests money in plant and equipment because it expects a positiverate of return over its investment in future. The revenue from the use of the plant and equipment should besufficient to cover the invested money and operating costs and generate enough profits to satisfy theorganisation. Greater uncertainty in these would make the cost of plant and equipment a more important strategicfactor. The availability of plants and equipment depends on the country's technical development and thegovernment’s approach toward foreign technical collaboration.

(e) Financial Facilities: Financial facilities are required to start and operate the organisation. The externalsources of finance are share capital, banking and other financial institutions, and unorganized capital markets.The recent changes in the Indian capital market indicate the availability of plenty of finance both from thefinancial institutions as well as from general public. The organisation and working of Indian capital marketcan be compared favourably with many industrially advanced countries. The availability of finance coupled withvarious incentives attached is a facilitating factor. However, such facilities have been utilized by only some largescale and medium scale organisations.

(f) Manpower and Productivity: While the availability of factors of production affects the development of thecountry, as well as individual organisations, the level of productivity, affects the organisationalefficiency andprofitability. The productivity of both human and physical factors depends on many factors, such as the type of technology used, the production process applied, the organisational processes, the use of managerial techniques, etc.

Socio-Cultural Environment

The social-cultural environment is another important aspect of environmental scanning in strategic management. Itrefers to the set of values, ideals, attitudes, beliefs, desires, and expectations that distinguish one group from another. The organisation needs to be aware of how social and cultural factors can directly influencethe way they manage their operations, particularly human resources and marketing. The executives in theorganisation need to be aware of the sensitive values and ideas of people coming from different upbringing andbackgrounds. Changes in aspirations, habits, customs and values lead to the generation of new opportunities andthreats to the business organisation.

The elements of the social and cultural environment affect the working of the organisations mainly throughorganisational objective setting, organisational processes, and the products to be offered by the organisation.These aspects affect the total functioning of the organisation. The social and cultural factors affect the organisation's basic objectives by specifying the norms within which the organisational objectives are formulated.Organisational processes are also designed keeping in view the various social and cultural factors. Since theorganisation works as a mediator for converting inputs into outputs, and these outputs are given to society, itcan produce only those things, which are accepted by society. Hence, social and cultural factors affect thegoods and services that can be offered by the organisation.

Sometimes, while formulating or implementing their strategies, managers do not consider the social and culturalfactors adequately. The result is the failure of strategy and loss to the organisation in terms of loss of opportunities andadditional cost. In a global dynamic competitive environment, the social and cultural factors are also subject tochange. This change is gradual and steady which can be forecasted with comparative ease once the managersget an insight into these factors.

Before a corporation begins exporting products to other countries, it must first examine those countries' norms, taboos, and values. This information can be critical to the successful introduction of a product into aparticular country and will influence how it is sold and/or marketed. Such information can prevent cultural blunders,such as the one General Motors committed when trying to sell its Chevy Nova in Spanish-speaking countries.Nova, in Spanish, means “doesn’t go” – and few people would purchase a car named “doesn’t go.” This marketingerror – resulting simply from ignorance of the Spanish language – cost General Motors millions in initial sales –as well as considerable embarrassment.

Business professionals also need to be aware of foreign customs regarding standard business practices. Forexample, people from some countries like to sit or stand very close when conducting business. In contrast,people from other countries want to maintain a spatial distance between them and the people with whom theyare conducting business. Thus, before business-people travel overseas, they must be given training on how toconduct business in the country to which they are traveling.

Business professionals also run into another practice that occurs in some countries – bribery. The practice ofbribery is common in several countries and is considered a normal business practice. If the bribe is not paid toa businessperson from a country where bribery is expected, a transaction is unlikely to occur. Laws in somecountries prohibit businesspeople from paying or accepting bribes. As a result, navigating this legal and culturalthicket must be done very carefully to maintain full compliance with the law.

Source: Exploration & Explode blog (https://15106199blog.wordpress.com/blog/)

1.9 PROTECTION VS LIBERALIZATION OF GLOBAL BUSINESS ENVIRONMENT

Protectionism:

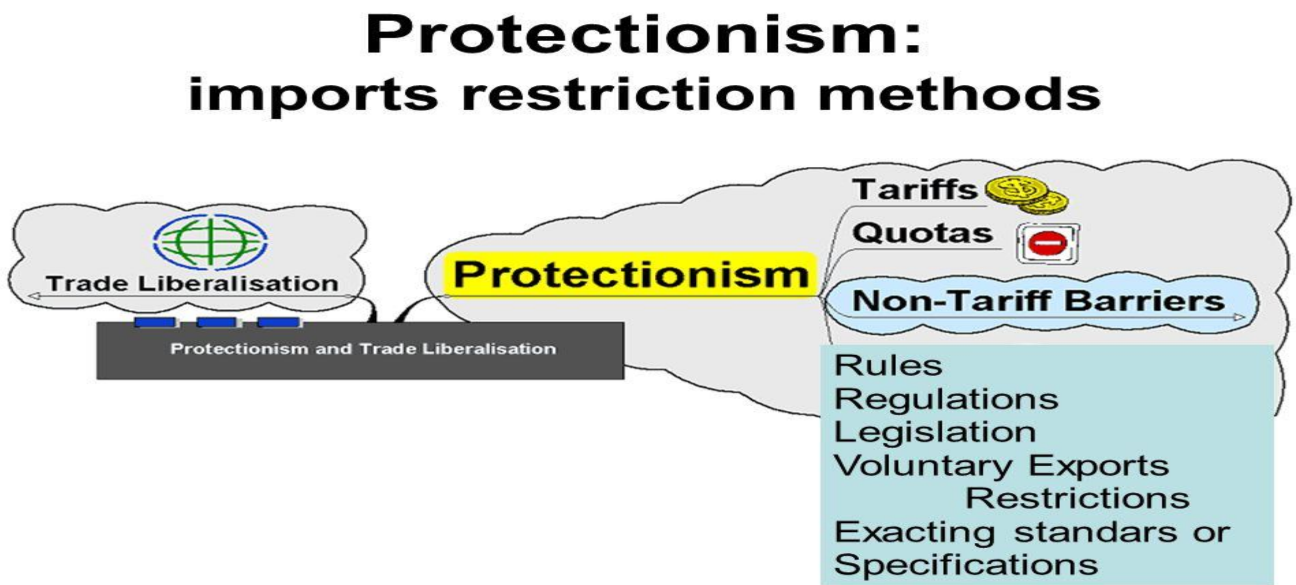
Governmentalrestrictions and support to influence international trade competitiveness are knownas protectionism.

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

The main means are:

- **Tariffs -** A tax on a good coming into a country. increases the price of the goods andmakes it less competitive
- **Quotas -** Physical restriction on the number of goodscoming into a country.
- **Non-Tariff Barriers -** Any methods not covered by a tariff, most usually:
    - Rules
    - Regulations

- Voluntary Export Restraints (VERs)
- Legislation
- Exacting Standards or Specifications



Source: Slieplayer.com (https://slideplayer.com/slide/1601525/)

Conflicting Results of Trade Policies

Despite free-trade benefits, governments intervene in trade to attain economic, social, orpolitical objectives. Officials apply trade policies that they reason will have the best chanceto benefit their nation and its citizens—and, in some cases, their political longevity.Determining whether and how to influence trade is complicated by uncertain and conflictingpolicy outcomes. For example, catfish importing was restricted to help workers in depressedareas, but the restrictions forced consumers in those same areas to pay higher prices. In general,governments would also like to help their struggling companies and industries withoutpenalizing those that are doing well. However, this goal is often impossible, especially ifother countries retaliate by limiting their imports.

The Role of Stakeholders

Proposals on trade regulations often spark fierce debate among people and groups thatbelieve they will be affected—the so-called stakeholders. Of course, those most directlyaffected are most apt to speak out, such as the U.S. stakeholders (workers, owners, suppliers,and local politicians) whose livelihoods depend on growing catfish. Displaced workers seethemselves as being unemployed for the long term or forced to take new jobs in new industries,perhaps even in new towns, at lower wages. People threatened in this way tend to objectoften and loudly.

The Role of Consumers

In contrast, consumers (who are also stakeholders) typically buythe best product they can find for the price, often without knowing or caring about its origin.They often don't realize how much retail prices rise in aggregate because of import restrictions.Nor do they take much notice since consumer costs are typically spread out amongmany people over time and entail a small price increase for individual purchases. For example,even if U.S. consumers knew how import restrictions on peanuts and sugar add to thedomestic price of peanut butter and confectionary products, it likely would not spur themenough to band together and push government leaders to rectify the situation.

Trade Liberalisation

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

In economy and trade

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

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

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

A few big companies may dominate liberalised and privatized public services,particularly in sectors with high capital costs, or high water, gas, or electricity costs. In somecases, they may remain legal monopolies, at least for some market segments (like smallconsumers).

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

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

Case study

Mayer & Company's Global Success

This is one game that India has permanently lost to its arch-rival Pakistan—manufacturing and exporting sports goods. Historically, when India and Pakistan were one before 1947, Sialkot, now in Pakistan, used to be the world's largest production centre for badminton, hockey, football, volleyball, basketball, and cricket equipment. After the creation of Pakistan, Jalandhar became the second centre after Hindus in the trade migrated to India. Soon, Jalandhar overtook Sialkot and till the early 1980s it remained so. However, when the face of the trade began to change in the 1980s and import of quality leather and manufacturing equipment became a necessity for quality production, Pakistan wrested the initiative as India clung to its policies of discouraging imports through high duties and restrictions. As it was, the availability of labour and skills was a common factor in both Sialkot and Jalandhar, but with Sialkot having the advantage of easier entry, most of the world's top sports manufacturers and procurers developed an association with local industry in Sialkot that continues even today.

Ten years later in the early 1990s, when Manmohan Singh liberalized the norms for importing equipment and raw material required for producing sports goods, it was too late as majority of the global majors had already shifted base to Sialkot. In 1961, the late Narinder Mayor started the first large-scale sports goods manufacturing unit, Mayor & Company, thereby laying the foundation of an organized industry. Even today, more than 70 per cent of the industry functions in an unorganized manner. Starting with soccer balls, Mayor expanded to produce inflatable balls like volleyballs, basketballs, and rugby balls.

Today, his two sons Rajan and Rajesh have built it up into five companies engaged in a wide array of businesses, though sports goods remain the group's core business. While the parent trading company, Mayor & Company, remains the leading revenue-earner to the tune of ` 55 crore annually out of a total group turnover of ` 85 crore-plus, Mayor's second venture, the Indo-Australian Mayor International Limited, is spinning another15 crores. Mayor International is a 100 per cent Export-oriented Unit (EOU) exclusively manufacturing and exporting golf and tennis balls.

The product portfolio of the company comprises the following:

Inflatable Balls

- Soccer balls and footballs (Professional, Indoor, Match and Training, leisure toy)
- Volley balls, rugby balls (Volley balls and Beach Volley Balls)
- Australian rugby, hand balls (English League, Union and touch); (Australian rules, Australian Rugby League balls with laces).

Boxing Equipment

- Boxing and punching balls (Boxing and Punching balls, Head Gear, Gloves, Punching Mitts andKits, Punching Bags & Bag Sets)
- Gloves
- Goal keeper's gloves (Football/Soccer)
- Boxing gloves.

Cricket Equipment

- Worldwide distributor for Spading Cricket Bats, Balls and Protective equipment.

Hockey Equipment

- Worldwide distributor for Spading Hockey Sticks, Balls and Protective equipment.

Based in Delhi, Rajan Mayor, 41, is the CMD of the group, which also comprises an IT division working on B2B and B2C solutions; Voyageur World Travels in the tourism sector; a houseware exports division specializing in stainless steel kitchenware, ceramics, and textiles; and a high school. Younger brother Rajesh, 34, is the Executive Director and looks after all the division's operating in Jalandhar, Technical director Katz Nowaskowaski divides his time equally between India and Australia, where he looks after the group's interests. "While inflatable balls are our prime competence in our core business, we are presently focusing on golf balls, for which we are the sole producers in South Asia. Out of a total ` 300 crore of sports goods business generated in domestic market, most of which is supplied by the unorganized players, golf balls constitute a miniscule amount and therefore we came up with a 100 per cent EOU for producing golf balls. Later, the same facility was utilized with little moderation for tennis balls too," says Nowaskowaski.

Clarifying that the sports good industry in India only includes playing equipment and not apparels or shoes, D K Mittal, chairman of the Sports Goods Export Promotion Council and joint secretary in the Ministry of Commerce, has certified Mayor Group as the number one exporter since 1993 till date, barring 1996. However, SGEPC secretary TarunDewan points out that being the number one exporter does not mean that Mayor is the number one brand being exported. "Actually we have tie-ups with Dunlop, Arnold Palmer, and Fila for manufacturing golf balls. For footballs and volleyballs we have associations with Adidas, Mitre, Puma, Umbro, and Dunlop. We manufacture soccer World Cup and European Cup replicas for Adidas, which is a huge market. Only 400 balls used for actual play in the World Cup are manufactured in Europe and that too only for sentimental reasons, otherwise we are capable of delivering products of the same, if not better quality. Now since we manufacture balls for them, we cannot antagonize them by producing balls of similar quality with our own brand name. Secondly, I agree that competing with such big giants in the world market in terms of branding is a task that is well beyond our reach at the moment. However, we are trying to brand ourselves in the domestic market and that is one of the prime focus areas in the coming year," says Rajan.

Coca-Cola, Unilever, McDonald's, American Airlines, Disney club, and other such big brands come up with huge orders at times for golf balls with their logos for promotional schemes. However, there is no mention of the producing country since these companies do not want to show that balls they deliver in the US are being produced in Asia, "Not only is our quality good enough; labour in India is cheap enough to churn out a much less expensive product in the end. Yet, the main threat to our industry comes from countries like Taiwan and China, who have already cornered a chunk of world markets in tennis, badminton, and squash rackets. This is primarily because of two reasons—slow responses to our needs in tune with the market requirements from the government and lack of infrastructure. And most importantly, tags 'Made in China' or 'Made in Taiwan' are more acceptable in the West than 'Made in India' or 'Made in Pakistan'.One of the mottos of the Mayor group has been to make 'Made in India'an acceptable label in the West. For that we stress quality, timely delivery, and competent rates. Yet, a lot -

depends on perception value, which in our case is sadly on the negative side, much owing to our government's stance over the years. Things might be improving, but the pace is very slow and as our economy drifts towards a free market scenario supinely, it might just prove to be too little too late in the end," says Rajesh.

Today, Mayor Group is sitting pretty as its competitors; Soccer International Sakay Trades, Savi, Wasan, Cosco, Nivia, and Spartan are only trying to catch up in the inflatable's category. With 1.2 million dozen golf balls, Mayor is way ahead of its competitors. The company is planning to enhance its manufacturing capacity to 1.5 million dozen golf balls next fiscal. With approval from the world's two top golf associations – the US PGA and RNA of Scotland, demand for its product is not a problem, the company's senior marketing officials point out. With the markets in Mayor's current export destinations – Europe, North America, Australia, and New Zealand – all set to expand in the coming years after the present slump, Mayor wants to expand its sports goods business that caters to 60 per cent of its overall exports. Though 40 per cent of exports come from house ware manufactured in Delhi and Mumbai, with export centres in the same countries for its sports goods, just about maintaining this business at its present state, and concentrating entirely on sports goods is what the Mayors are intent on. With nearly 2000 skilled workforce; quality certification from ISO 9001:2000 and ISO 14001: 2004; and having spread to more than 40 countries, Mayor and Company is obviously sitting pretty.

Questions

1. What routes of globalization has the Mayor group chosen to go global? What other routes could it have taken?

2. What impediments are coming in the Mayor group's way of becoming a major and active player in international business?

3. Why is 'Made in India' not liked in foreign markets? What can be done to change the perception?

Source: Jhanji, H. (n.d.). Internatonal Business, Edited by: Hitesh Jhanji.

Self-Assessment Questions

1. Examine the impact of globalisation on financial markets citing some recent data and statistics.
2. Has globalisation led to an increase in inequality and poverty? Critically examine.
3. Examine the pros and cons of globalisation with special reference to India.
4. What do you mean by international business environment? Explain the internal and external business environment.
5. How does the economic environment affect international business? Explain citing real examples.
6. Do the PEST analysis of an Indian FMCG company. Also, try to apply other variations of PEST like PESTEL and STEEPLE analysis

UNIT II

LESSON II – INTERNATIONAL TRADE AND INVESTMENT

CONTENTS

Learning Objectives

Overview

2.1 Promotion of Global Business

2.2 Role of GATTT/WTO

2.3 Multilateral Trade Negotiation and Agreements - VIII & IX

2.4 Round Discussions and Agreements

2.5 Challenges for Global Business

2.6 Global Trade and Investment

2.7 Theories of International Trade and Theories of International Investment

2.8 Regional Trade Block

2.9 Types of Regional Trade Block

2.10 RTBs Across the Globe

2.11 Regional Trade Block – Advantages and Disadvantages

Case Study

Self-Assessment Questions

LEARNING OBJECTIVES

After studying this lesson, students should be able to:

- Know the concept and theories of international trade and investment
- Understand the role of GATT/WTO
- Discuss the challenges of global business
- Explain the regional trade block
- Describe the need for global competitiveness

LEARNING OUTCOMES:

Upon completion of the lesson, students are able to demonstrate a good understanding of:

- Basis of International trade and investment
- Concepts of International trade theories
- Identifying the challenges faced by the global business
- Determining the need for global competitiveness

2.1 PROMOTION OF GLOBAL BUSINESS:

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

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

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

- Awareness:

  Many French consumers do not know that the Gap even exists, so they cannotdecide to go shopping there. This objective is often achieved through advertising, butcould also be achieved through favorable point-of-purchase displays. Note that sinceconsumers often pay very little attention to advertising and promotional stimuli,potential buyers may have to be exposed to the promotional stimulus numerous timesbefore it "registers."

- Trial:

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

- Attitude toward the product:

  A high percentage of people in the U.S. and Europe have tried Coca-Cola. Hence, amore reasonable objective is to get people to believe positive things about the product -e.g., that it has a superior taste and is better than generics or store brands. This is oftenachieved through advertising

- Temporary sales increases:

  For mature products and categories, attitudes may be fairly well established andnot subject to cost-effective change. Thus, it may be more useful to work on gettingtemporary increases in sales (which are likely to go away if the incentives are removed).

  In the U.S. and Japan, for example, fast food restaurants may run temporary pricepromotions to get people to eat out more or switch from competitors, but when thesepromotions end, sales are likely to move back down again (in developing countries, incontrast, the trial may be a more appropriate objective in this category)

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

- Language barriers:

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

- Cultural barriers:

  Subtle cultural differences may make an ad that tested well in one countryunsuitable in another. e.g., an ad that featured a man walking in to join his wife in thebathroom was considered an inappropriate invasion in Japan. Symbolism often differsbetween cultures, and humour, which is based on the contrast to people's experiences,tends not to travel well.

  Values also tend to differ between cultures in the U.S. and Australia; excellingabove the group is often desirable, while in Japan, "The nail that sticks out getshammered down." In the U.S., "The early bird gets the worm" while in China "The firstbird in the flock gets shot down."

- Local attitudes toward advertising:

  People in some countries are more receptive to advertising than others. Whileadvertising is accepted as a fact of life in the U.S., some Europeans find it too crass andcommercial.

- Media infrastructure:

  Cable TV is not well developed in some countries and regions, and not all mediain all countries accept advertising. Consumer media habits also differ dramatically;newspapers appear to have a higher reach than television and radio in parts of LatinAmerica.

- Advertising regulations:

  Countries often have arbitrary rules on what can be advertised and what can beclaimed. Comparative advertising is banned almost everywhere outside the U.S.Holland requires that a toothbrush be displayed in advertisements for sweets. Some countries require that advertising be shown there be produced in the country.

Some cultural dimensions:

- **Directness vs indirectness:** U.S. advertising tends to emphasize directly why someonewould benefit from buying the product. This, however, is considered too pushy forJapanese consumers, where it is felt to be arrogant of the seller to presume to know whatthe consumer would like.
- **Comparison:** Comparative advertising is banned in most countries and would probablybe very counterproductive, as an insulting instance of confrontation and bragging, in Asiaeven if it were allowed. In the U.S., comparison advertising has proven somewhateffective (although its implementation is tricky) as a way to persuade consumers what tobuy.
- **Humor:** Although humor is a relatively universal phenomenon, what is consideredfunny between countries differs greatly, so pre-testing is essential.
- **Gender roles.** A study found that women in U.S. advertising tended to be shown inmore traditional roles in the U.S. than in Europe or Australia. On the other hand, somecountries are even more traditional—e.g., a Japanese ad that claimed a camera to be “sosimple that even a woman can use it” was not found to be unusually insulting.
- **Explicitness:** Europeans tend to allow for considerably more explicit advertisements,often with sexual overtones, than Americans.
- **Sophistication.** Europeans, particularly the French, demand considerably moresophistication than Americans, who may react more favorably to emotional appeals - e.g.,an ad showing a mentally retarded young man succeeding in a job at McDonald’s wasvery favorably received in the U.S. but was booed at the Cannes film festival in France.
- **Popular vs. traditional culture:** U.S. ads tend to employ contemporary, popular culture,often including current music, while those in more traditional cultures tend to refer moreto classical culture.
- **Information content vs. fluff:** American ads contain a great deal of “puffery,” whichwas found to be very ineffective in Eastern European countries because it resembledcommunist propaganda too much. The Eastern European consumers instead wantedhard, cold facts.

Advertising standardization: Issues surrounding advertising standardization tend to parallelproduct and positioning standardization. On the plus side, economies of scaleare achieved. A consistent image can be established across markets, creative talent can be utilized across markets, and good ideas can be transplanted from one market to another. On the downside, cultural differences, peculiar country regulations, and differences in product life cyclestages make this approach difficult. Further, local advertising professionals may resist campaignsimposed from the outside. Sometimes with good reasons and sometimes merely to preserve theircreative autonomy.

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

2.2 ROLE OF GATT & WTO:

WTO

The World Trade Organization (WTO) deals with trade rules between nations at a global or near-globallevel. It’s an organization for liberalizing trade. It’s a forum for governments to negotiate trade agreements. It’s aplace for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place wheremember governments go to try to sort out the trade problems they face with each other.

The first step is to talk. The WTO was born out of negotiations, and everything the WTO does is the result ofnegotiations. The bulk of the WTO’s current work comes from the 1986–94 negotiations called the UruguayRound and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currentlythe host to new negotiations under the “Doha Development Agenda” launched in 2001.

WTO works through the WTO agreements which are negotiated and signed by the bulk of the world’s tradingnations. These documents provide the legal groundrules for international commerce. They are essentiallycontracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signedby governments, the goal is to help producers of goods and services, exporters, and importers conduct theirbusiness while allowing governments to meet social and environmental objectives.

The system’s overriding purpose is to help trade flow as freely as possible so long as there are no undesirablesideeffects because this is important for economic development and well-being. That partly means removingobstacles. It also means ensuring that individuals, companies, and governments know the trade rules around the world, and giving them the confidence that there will be no sudden policy changes. Lastly, WTOalso helps to settle disputes arising in the conduct of the business.

The system operated by the WTO is a "Multilateral trading system”, as almost all the main trading nations aremembers of the system but all countries of the world are not the members. So “multi-lateral” is used to describethe system instead of “global” or “world”.

History and formation Of WTO

The WTO's creation on 1 January 1995 marked the biggest reform of international trade since the SecondWorld War. It also brought to reality, in an updated form, the failed attempt in 1948 to create an InternationalTrade Organization.

Much of the history of those 47 years was written in Geneva. But it also traces a journey that spanned thecontinents, from that hesitant start in 1948 in Havana (Cuba), via Annecy (France), Torquay (UK), Tokyo (Japan),Punta del Este (Uruguay), Montreal (Canada), Brussels (Belgium) and finally to Marrakesh (Morocco) in 1994.During that period, the trading system came under GATT, salvaged from the aborted attempt to create the ITO.GATT helped establish a strong and prosperous multilateral trading system that became more and more liberalthrough rounds of trade negotiations. But by the 1980s, the system needed a thorough overhaul. This led to theUruguay Round and ultimately to the WTO.

GATT: 'provisional' for almost half a century

From 1948 to 1994, the General Agreement on Tariffs and Trade (GATT) provided the rules for much of the world. Trade and presided over periods that saw some of the highest growth rates in international commerce. It seemedwell-established, but throughout those 47 years, it was a provisional agreement and organization.

The original intention was to create a third institution to handle the trade side of inter-national economic cooperation,joining the two "Bretton Woods" institutions, the World Bank and the International Monetary Fund. Over 50 countriesparticipated in negotiations to create an International Trade Organization (ITO) as a specialized agency of theUnited Nations. The draft ITO Charter was ambitious. It extended beyond world trade disciplines to include ruleson employment, commodity agreements, restrictive business practices, international investment, and services.The aim was to create the ITO at a UN Conference on Trade and Employment in Havana, Cuba, in 1947.

Meanwhile, 15 countries had begun talks in December 1945 to reduce and bind customs tariffs. With the SecondWorld War only recently ended, they wanted to give an early boost to trade liberalization and to begin to correctthe legacy of protectionist measures which remained in place from the early 1930s.

This first round of negotiations resulted in a package of trade rules and 45,000 tariff concessions affecting $10billion of trade, about one-fifth of the world's total. The group had expanded to 23 by the time the deal was signedon 30 October 1947. The tariff concessions came into effect by 30 June 1948 through a "Protocol of ProvisionalApplication". And so the new General Agreement on Tariffs and Trade was born, with 23 founding members(officially "contracting parties").

The 23 were also part of the larger group negotiating the ITO Charter. One of the provisions of GATT says thatthey should accept some of the trade rules of the draft. They believed this should be done swiftly and "provisionally" to protect the value of the tariff concessions they had negotiated. They spelled out how theyenvisaged the relationship between GATT and the ITO Charter, but they also allowed for the possibility that theITO might not be created. They were right.

The Havana conference began on 21 November 1947, less than a month after GATT was signed. The ITOCharter was finally agreed to in Havana in March 1948, but ratification in some national legislatures provedimpossible. The most serious opposition was in the US Congress, even though the US government had beenone of the driving forces. In 1950, the United States government announced that it would not seek Congressionalratification of the Havana Charter, and the ITO was effectively dead. So, the GATT became the only multilateralinstrument governing international trade from 1948 until the WTO was established in 1995.

For almost half a century, the GATT's basic legal principles remained much as they were in 1948. There wereadditions in the form of a section on development added in the 1960s and "plurilateral" agreements (i.e. withvoluntary membership) in the 1970s, and efforts to reduce tariffs further continued. Much of this was achievedthrough a series of multilateral negotiations known as "trade rounds" – the biggest leaps forward in internationaltrade liberalization have come through these rounds which were held under GATT's auspices.

In the early years, the GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round inthe mid-sixties brought about a GATT Anti-Dumping Agreement and a section on development. The TokyoRound during the seventies was the first major attempt to tackle trade barriers that did not take the form of tariffsand to improve the system. The eighth, the Uruguay Round of 1986–94, was the last and most extensive of all.It led to the WTO and a new set of agreements.

They were not multilateral, but they were a beginning. Eventually, several codes were amended in the UruguayRound and turned into multilateral commitments accepted by all WTO members. Only four remained "plurilateral"– those on government procurement, bovine meat, civil aircraft and dairy products. In 1997 WTO membersagreed to terminate the bovine meat and dairy agreements, leaving only two.

The Tokyo Round: A First Try to Reform the System

The Tokyo Round lasted from 1973 to 1979, with 102 countries participating. It continued GATT's efforts toreduce tariffs progressively. The results included an average one-third cut in customs duties in the world's ninemajor industrial markets, bringing the average tariff on industrial products down to 4.7%. The tariff reductionsphased in over eight years involved an element of "harmonization"– the higher the tariff, the largerthe cut, proportionally. In other issues, the Tokyo Round had mixed results. It failed to come to grips with thefundamental problems affecting farm trade and also stopped short of providing a modified agreement on"safeguards" (emergency import measures). Nevertheless, a series of agreements on non-tariff barriers didemerge from the negotiations, in some cases interpreting existing GATT rules, in others breaking entirely newground. In most cases, only a relatively small number of (mainly industrialized) GATT members subscribed tothese agreements and arrangements. Because they were not accepted by the full GATT membership, theywere often informally called "codes".

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The Uruguay Round

It took seven and a half years, almost twice the original schedule. By the end, 123 countries were taking part. Itcovered almost all trade, from toothbrushes to plea-sure boats, from banking to telecommunications, from thegenes of wild rice to AIDS treatments. It was quite simply the largest trade negotiation ever, and most probablythe largest negotiation of any kind in history.

At times it seemed doomed to fail. But in the end, the Uruguay Round brought about the biggest reform of theworld's trading system since GATT was created at the end of the Second World War. And yet, despite itstroubled progress, the Uruguay Round did see some early results. Within only two years, participants agreed on a package of cuts in import duties on tropical products, mainly exported by developingcountries. They had also revised the rules for settling disputes, with some measures implemented on the spot.And they called for regular reports on GATT members' trade policies, a move considered important for makingtrade regimes transparent around the world.

Dispute Settlement Under GATT and Uruguay Round

The WTO replaced GATT as an international organization. However, the General Agreement still exists as the WTO's umbrella treaty for trade in goods, updated due to the Uruguay Round negotiations.

A procedure for settling disputes existed under the old GATT, but it had no fixed timetables, rulings were easierto block, and many cases dragged on for a long time inconclusively. The Uruguay Round agreement introduceda more structured process with more clearly defined stages in the procedure. It introduced greater discipline forthe length of time a case should take to be settled, with flexible deadlines set in various stages of the procedure.The agreement emphasizes that prompt settlement is essential if the WTO functions effectively. It sets out inconsiderable detail the procedures and the timetable to be followed in resolving disputes. If a case runs its fullcourse to a first ruling, it should not normally take more than about one year to 15 months if the case is appealed.The agreed time limits are flexible, and if the case is considered urgent (e.g. if perishable goods are involved),it is accelerated as much as possible.

The Uruguay Round agreement also made it impossible for the country losing a case to block the adoption ofthe ruling. Under the previous GATT procedure, rulings could only be adopted by consensus, meaning that asingle objection could block the ruling. Now, rulings are automatically adopted unless there is a consensus toreject a ruling. Any country wanting to block a ruling has to persuade all other WTO members (including itsadversary in the case) to share its view.

Although much of the procedure does resemble a court or tribunal, the preferred solution is for the countriesconcerned to discuss their problems and settle the dispute by themselves. Therefore, the first stage is consultationsbetween the governments concerned, and even when the case has progressed to other stages, consultationand mediation are still always possible.

2.3 MULTILATERAL TRADE NEGOTIATIONS & AGREEMENTS VII & IX

Functions:

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

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

Additionally, the WTO must review and propagate the national trade policies and ensure the coherence and transparency of trade policies through surveillance in globaleconomic policy-making. Another priority of the WTO is the assistance of developing, least-developedand low-income countries in transition to adjust to WTO rules and disciplines throughtechnical cooperation and training.

i. The WTO shall facilitate the implementation, administration and operation and furtherthe objectives of this Agreement and the Multilateral Trade Agreements and shall alsoprovide the framework for the implementation, administration and operation of the multilateralTrade Agreements.
ii. The WTO shall provide the forum for negotiations among its members concerningtheir multilateral trade relations in matters dealt with under the Agreement in the Annexes to thisAgreement.
iii. The WTO shall administer the Understanding on Rules and Procedures Governingthe Settlement of Disputes.
iv. The WTO shall administer Trade Policy Review Mechanism.
v. To achieve greater coherence in global economic policymaking, theWTO shall cooperate, as appropriate, with the International Monetary Fund (IMF) and with, theInternational Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

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

The WTO is also a centre of economic research and analysis: regular assessments of theglobal trade picture in its annual publications and research reports on specific topics areproduced by the organization. Finally, the WTO cooperates closely with the two othercomponents of the Bretton Woods system, the IMF and the World Bank.

Principles of the trading system

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

- **Non-discrimination.** It has two major components: the most favoured nation (MFN) rule,and the national treatment policy. Both are embedded in the main WTO rules on goods,services, and intellectual property, but their precise scope and nature differ across theseareas. The MFN rule requires that a WTO member must apply the same conditions to alltrade with other WTO members, i.e. a WTO member has to grant the most favourableconditions under which it allows trade in a certain product type to all other WTO members. "Grant someone a special favour, and you have to do the same for all other WTO members." National treatment means that imported goods should be treated noless favourably than domestically produced goods (at least after the foreign goods haveentered the market) and was introduced to tackle non-tariff barriers to trade (e.g.technical standards, security standards et al. discriminating against imported goods).
- **Reciprocity.** It reflects both a desire to limit the scope of free-riding that may arisebecause of the MFN rule and a desire to obtain better access to foreign markets. Therelated point is that for a nation to negotiate, it is necessary that the gain from doing so begreater than the gain available from unilateral liberalization; reciprocal concessionsintend to ensure that such gains will materialize.
- **Binding and enforceable commitments.** The tariff commitments made by WTOmembers in multilateral trade negotiation and on accession are enumerated in aschedule (list) of concessions. These schedules establish "ceiling bindings": a country canchange its bindings, but only after negotiating with its trading partners, which could meancompensating them for loss of trade. The complaining country may invoke the WTO dispute settlement procedures if satisfaction is not obtained.
- **Transparency.** The WTO members are required to publish their trade regulations, maintain institutions allowing for the review of administrative decisions affecting trade,respond to requests for information by other members, and notify changes in tradepolicies to the WTO. These internal transparency requirements are supplemented andfacilitated by periodic country-specific reports (trade policy reviews) through the TradePolicy Review Mechanism (TPRM).The WTO system also tries to improve predictabilityand stability, discouraging the use of quotas and other measures used to set limits onquantities of imports.
- **Safety valves.** In specific circumstances, governments can restrict trade. TheWTO's agreements permit members to take measures to protect not only the environmentbut also public health, animal health and plant health.

  There are three types of provision in this direction:
  - Articles allowing for the use of trade measures to attain non-economic objectives;
  - Articles aimed at ensuring "fair competition"; members must not useenvironmental protection measures as a means of disguising protectionist policies.
  - Provisions permitting intervention in trade for economic reasons.Exceptions to the MFN principle also allow for preferential treatment of developingcountries, regional free trade areas and customs unions.

Organizational structure

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

Council for Trade in Goods

There are 11 committees under the jurisdiction of the Goods Council, each with a specifictask. All members of the WTO participate in the committees. The Textiles MonitoringBody is separate from the other committees but still under the jurisdiction of the GoodsCouncil. The body has its chairman and only 10 members. The body also has several groups relating to textiles.

Council for Trade-Related Aspects of Intellectual Property Rights

Information on intellectual property in the WTO, news and official records of theactivities of the TRIPS Council, and details of the WTO's work with other internationalorganizations in the field.

Council for Trade in Services

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

Trade Negotiations Committee

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

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

2.4 Decision-making

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

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

Dispute settlement

In 1994, the WTO members agreed on the Understanding on Rules and ProceduresGoverning the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in1994. Dispute settlement is regarded by the WTO as the central pillar of the multilateral tradingsystem and as a "unique contribution to the stability of the global economy". WTO membershave agreed that if they believe fellowmembers are violating trade rules, they will use themultilateral system of settling disputes instead of taking action unilaterally.

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

Accession and membership

The process of becoming a WTO member is unique to each applicant country. The terms of accession depend upon the country's stage of economic development and currenttrade regime. The process takes about five years, on average, but it can last more if the country isless than fully committed to the process or if political issues interfere. The shortest accessionnegotiation was that of the Kyrgyz Republic, while the longest was that of Russia, which, havingfirst applied to join GATT in 1993, was approved for membership in December 2011 and becamea WTO member on 22 August 2012. The second-longest was that of Vanuatu, whose WorkingParty on the Accession of Vanuatu was established on 11 July 1995.

After a final meeting of the Working Party in October 2001, Vanuatu requested moretime to consider its accession terms. In 2008, it indicated its interest to resume and conclude itsWTO accession. The Working Party on the Accession of Vanuatu was reconvened informally on4 April 2011 to discuss Vanuatu's future WTO membership. The re-convened Working Partycompleted its mandate on 2 May 2011. The General Council formally approved the AccessionPackage of Vanuatu on 26 October 2011. On 24 August 2012, the WTO welcomed Vanuatu asits 157th member. An offer of accession is only given once a consensus is reached amonginterested parties.

Accession process

WTO accession progress:

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

A country wishing to accede to the WTO submits an application to the General Council andhas to describe all aspects of its trade and economic policies that have a bearing on WTOagreements. The application is submitted to the WTO in a memorandum which is examinedby a working party open to all interested WTO Members.

After all necessary background information has been acquired, the working party focuses onissues of discrepancy between the WTO rules and the applicant's international and domestictrade policies and laws. The working party determines the terms and conditions of entry into theWTO for the applicant nation. It may consider transitional periods to allow countries someleeway in complying with the WTO rules.

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

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

Members and observers

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

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

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

Agreements

The WTO oversees about 60 different agreements which have the status of internationallegal texts. Member countries must sign and ratify all WTO agreements on accession. Adiscussion of some of the most important agreements follows. The Agreement on Agriculturecame into effect with the establishment of the WTO at the beginning of 1995.

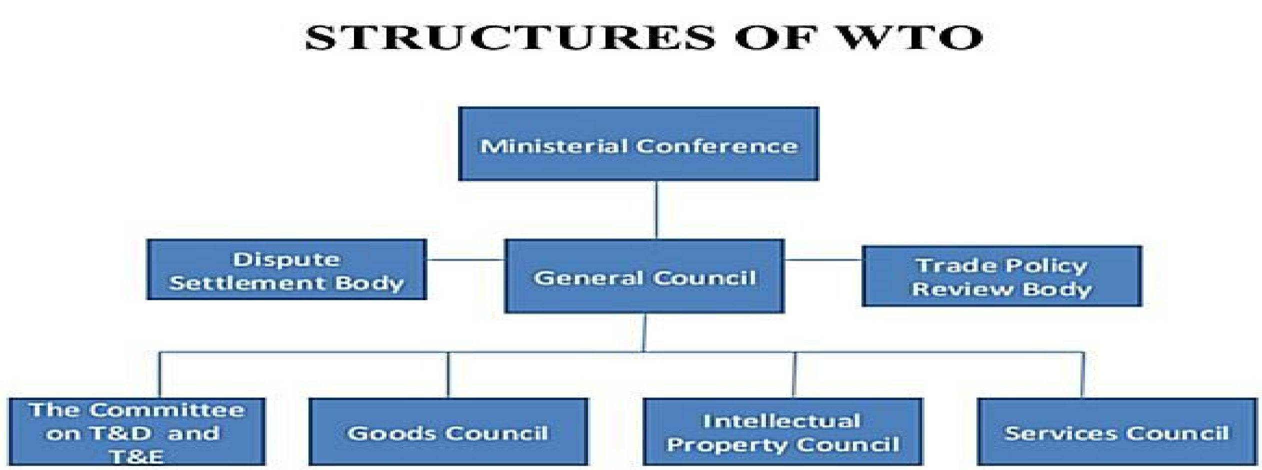
The General Agreement on Trade in Services was created to extend themultilateral trading system to the service sector, in the same way as the General Agreement onTariffs and Trade (GATT) provided such a system for merchandise trade. Theagreement entered into force in January 1995. The Agreement on Trade-Related Aspects ofIntellectual Property Rights sets down minimum standards for many forms of intellectualproperty (IP) regulation. It was negotiated at the end of the Uruguay Round of the GeneralAgreement on Tariffs and Trade (GATT) in 1994.

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

The Agreement on Technical Barriers to Trade is an international treaty of the World Trade Organization. It was negotiated during the Uruguay Round of the General Agreement onTariffs and Trade and entered into force with the establishment of the WTO at the end of 1994.The object ensures that technical negotiations and standards, as well as testing and certificationprocedures, do not create unnecessary obstacles to trade". The Agreement on CustomsValuation, formally known as the Agreement on Implementation of Article VII of GATT,prescribes methods of customs valuation that Members are to follow. Chiefly, it adopts the"transaction value" approach.

Organization structure of the WTO

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



1. Ministerial conference:

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

i. **The first ministerial conference** – was held in Singapore in 1996, with the primary purpose to initiate aninternational effort among global trading nations.
ii. **The second ministerial conference -** was held in Geneva in Switzerland.
iii. **The third ministerial conference -** was held in Seattle in, Washington
iv. **The fourth ministerial conference -** was held in Doha in the Persian Gulf nation of Qatar.
v. **The fifth ministerial conference -** was held in Cancun, Mexico.
vi. **The Sixth ministerial conference -** was held in Hong Kong.
vii. **The Seventh ministerial conference -** was held in Geneva, Switzerland

2. General council:

The general council has other forms like dispute settlement bodies and trade policyreviews body.

3. Councils:

i. Council for trade in goods
ii. Council for trade in services
iii. Council for trade-related aspects of intellectual property rights.

4. Committee and management bodies:

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

i. Committee on trade and development
ii. Committee on the balance of balance of payments
iii. Committee on budget, finance and administration.

Multilateral agreements

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

WTO's Parts

- **GATT:** to reduce trade barriers and create more comprehensive andenforceable world trade rules.
- **GATS:** General Agreement on Trade in Services (National Treatment forService Firms)
- **TRIPs:** Agreement is Trade-Related Aspects of Intellectual Property Rights(Enforce Patents, Copyrights, and Trademarks)
- **TRIMs:** Agreement on Trade-Related Investment Measures are rules that applyto the domestic regulations a country applies to foreign investors.

WTO's Most Basic Principles

MFN = Most Favored Nation

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

National Treatment

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

GATT (general agreement on tariffs and trade)

GATT is a multilateral trade agreement overseas, and it has been labelled thelocomotive that powers international conferences. Created in January 1948 is intended toachieve a broad, multilateral and free worldwide system of trading.

Basic principles of GATT:

1. Member countries will consult each other concerning trade problems.
2. It provides a framework for negotiation and embodies the results of negotiations in a legal environment.
3. Trade should conduct on a non-discriminatory basis.

Objectives of GATT:

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

Four Terms from Trade Law

- Non-discrimination
- Reciprocity
- Market access
- Fair competition

Trade Agreements

Unilateral Trade Agreement:

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

Bilateral Trade Agreement

Bilateral Trade Agreements are between two nations at a time. They are fairly easy tonegotiate and give those two nations favoured trading status between each other.

Multilateral Trade Agreement:

Multilateral Trade Agreement is between many nations at one time. For this reason, theyare very complicated to negotiate but are very powerful once all parties sign the agreement. Theprimary benefit of multilateral agreements is that all nations get treated equally**Example:** The Doha round of trade agreements is a multilateral trade agreement betweenall 149 members of the World Trade Organization.

Plurilateral agreement:

It is an agreement between more than two countries, but not a great many, which wouldbe a multilateral agreement. A plurilateral agreement implies that member countries would begiven a choice to agree to new rules voluntarily.

What are the challenges to managing a global business?

Developing organization and human resource strategies across multiple borders shouldnot simply be a matter of adapting a domestic model to accommodate changes in distance andglobal scale. Starting with a global mindset discussed earlier, you will have to develop a freshperspective to consider the unique challenges of doing business globally.

Human Resource Management Issues

Certain human resource management issues are particular for the globalenterprise. The key issues involve staffing policies, such as selecting the right people with theright mixture of local versus home experience, managing the expatriate manager, and dealingwith particular problems like repatriation. Other issues include understanding the challenges of living and working overseas, performance appraisals from a distance, training and management development, compensation packages, labour relations, and organized labour laws.

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

Managing Accounting and Control Issues

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

Other accounting issues include inflationaccounting, differences in multinationaltaxation, U.S. taxation of foreign-source income, and determining corporate income tax andindirect taxes, such as the value-added tax (VAT), withholding tax, and miscellaneous taxes onbusiness transactions.

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

There are five types of exposure to foreign exchange risk. The greatest risk is fromtransaction exposure; the net cash flows from individual transactions. It is affected byfluctuations in foreign exchange values; ventures need to consider this before establishing aninvoice policy (what currency) and pricing strategies (how much).

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

2.5 CHALLENGES FOR GLOBAL BUSINESS:

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

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

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

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

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

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

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

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

Risks in Global Business

Global opportunities are not without risks – such as those arising from volatile capital movements. The InternationalMonetary Fund works to help economies manage or reduce these risks, through economic analysis and policyadvice and through technical assistance in areas such as macroeconomic policy, financial sector sustainability,and the exchange-rate system.

The risks are not a reason to reverse direction, but for all concerned – in developing and advanced countries,among both investors and recipients – to embrace policy changes to build strong economies and a strongerworld financial system that will produce more rapid growth and ensure that poverty is reduced.

I. **Political and Regulatory Risks:** Many countries of the world are not politically stable, and the transfer ofpolitical power does not happen smoothly in these countries. Therefore, companies doing businessin these countries may have riskswith new political regimes. Similarly, many countries have different typesof regulations for doing business. Such regulations may be quite different as compared tothose prevailing in the domestic country. Therefore, the regulations of the host countries should betaken into account.

II. **Cultural and Managerial Risks:** Countries differ widely in terms of cultural characteristics like customerpreferences and tastes, attitudes towards certain types of products/services, traditions, values and beliefs,and a host of other cultural factors. Therefore, products/services have to be tailored according to suchrequirements. Further, since management practices are culture-bound, the kinds of management practicesthat are effective in the domestic country may not be suitable in foreign countries. Therefore, there is aneed for suitable change in management practices, more particularly related to human resource aspects.

III. **Exchange risk:** Every country has its currency system as one country's currency is not incirculation in the other country. Therefore, one currency is exchanged with another currency at somerate. The exchange rate keeps on fluctuating, causing the risk of loss to participants in international business

IV. **Credit risk:** It is the risk of loss due to a debtor's non-payment of a loan or other line of credit (either theprincipal or interest (coupon) or both). It is difficult to ascertain the creditworthiness of a foreign buyer.When a foreign buyer goes bankrupt, the domestic exporter faces great losses.

V. **Transport risk:** Due to long distances between countries, goods are despatched by shipping or airways.Sea and transport are exposed to many types of additional risks.

VI. **Market risk:** Competition in international business is severe, and market conditions change frequently.It may not be possible for a firm to compete in international markets.

Issues in Global Business

1) **Organisational Aspects:** Resources can be allocated differently according to the treatment given to theorganisation. A firm may establish a global financial system, or it may treat foreign operations as a separateentity. In a unified system, the management can allocate excess cash in business units to the units thatneed money or to capital markets offering better returns. New capital can be available at the lowest cost. Thereare differences between countries in tax rates, freedom of remittances of profits, associated risks, and so on; it is generally beneficial to take a larger share of profit from business in one place than in another. A unified systemcan manage the currency exchange rates more readily and easily. These abilities can be a motivatingforce for the strategists to go global. A global company can organise its activities on a global basis. But there arecertain forces such as economic, culture, etc. and varying national interests that operate against a unifiedorganizational systems.
2) **Resource Allocation:** Global companies are to raise capital and allocate them to domestic and foreign operationsto support their strategies. In earlier years, it was a simple process of transferring the funds from the parentcompany to establish operations in foreign countries. Resource allocation is more complex nowadays becausethe financial and technological resources are available from host countries and international capital markets. Entryinto foreign markets through licensing, franchising, joint ventures and subsidiaries are the orders of the day. It hasbecome a complex process.
3) **Leadership:** Leadership styles vary according to the nation, and hence a company wants to have businessrelations. A leadership style calling for specific skills and techniques may not work all the time in the countries. Aleadership style effective in the U.S.A may not be effective in China.
4) **Plans and Policies:** An organisation system has an impact on plans and policies for implementing astrategy involving global activities in the areas of financé, marketing, research and development, and operations.In the financial area, one has to face and manage fluctuating exchange rates, currency controls, quotas, tariffs etc.The domestic and foreign government influences inflation, taxation and fiscal and monetary policies ifthe firm chooses to go global. Accounting principles and practices also vary from country to country. A unifiedfinancial system helps in easing these problems. In the marketing area, the key issue is the standardization of theproduct line across domestic and foreign markets. It relates product, prices, promotion and distribution variables.Research and development depend on how the firms take it. Countries are interested in bringing aboutfaster economic processes and welcome to build their research calling for investment in this sector. Aunified global research and development effort allows the spread of costs over a larger base compared tothe research and development of national companies. However, responsiveness to local market conditions leadsto the development of multiple research and development units. Production area, concerned with standardizationto reduce costs and flexibility in management. An ideal strategy is one which is unified in which a limitednumber of factories of optimized scales of operation-choosing locations where material and labour costs areleast. Instead of having entire production in one place, it pays to produce parts in one country and assemblethem in other parts

2.6 GLOBAL TRADE AND INVESTMENT

Trade is the voluntary exchange of goods, services, assets, or money between one person ororganization and another. Because it is voluntary, both parties to the transaction must believethey will gain from the exchange or else they will not complete it. International trade istrade between residents of two countries. The residents may be individuals, firms, not-for-profitorganizations,or other forms of associations.

International merchandise trade statistics

International merchandise trade plays a crucial role in economic development, binding producers and consumers located in different countries into a global economic system. The availability of timely, high-quality international trade statistics is vital for analysing production, consumption, employment, etc. at national and global levels. More recently, the rise in globalisation has cemented the role of international merchandise trade statistics at the heart of measuring this phenomenon.

A prime objective International Trade Statistics Programme is to compile core series on international merchandise trade that are comparable between countries, analytically useful, timely and available for the longest period possible. A second objective of the Programme is to reconcile and resolve trade asymmetries at the national level between declaring and partner countries. A 'balanced' international merchandise trade dataset is a fundamental requirement for both analytical and policy use of international trade statistics. International Trade Statistics Programme is directly involved in better understanding and measuring globalisation using international trade statistics as a core input.

World Merchandise Export statistics

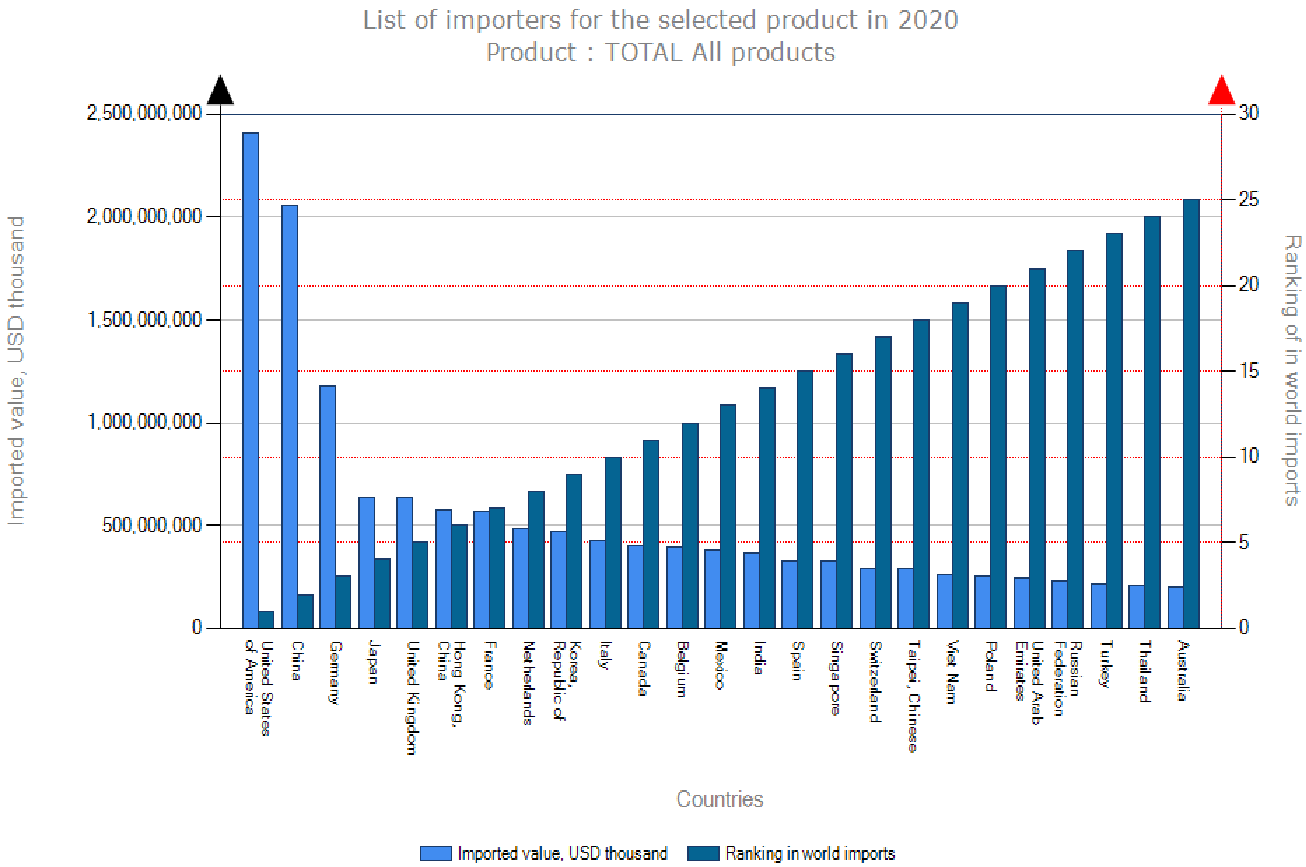
In 2020, the world merchandise exports exceeded $16.9 trillion (according to external trade statistics of 125 countries). It was $18.1 trillion in the previous year (according to merchandise trade statistics of 132 countries).India was ranked 14th in the world for commodity Export. India’s merchandise export in 2020 was$275.5 bn. In 2020, India's top ten export markets for goods were theUSA ($49.3 bn), China ($19.0 bn), United Arab Emirates ($18.0 bn), Hong Kong SAR ($9.5 bn), Singapore ($8.3 bn), Bangladesh ($7.9 bn), United Kingdom ($7.8 bn), Germany ($7.7 bn), Netherlands ($6.3 bn), Malaysia ($6.2 bn). India’s top ten exports of goods from the world in 2020 areMineral fuels, oils, distillation products, etc ($27.6 bn), Pearls, precious stones, metals, coins, etc ($24.5 bn), Pharmaceutical products ($18.4 bn), Nuclear reactors, boilers, machinery, etc ($18.0 bn), Organic chemicals ($17.4 bn), Electrical, electronic equipment ($13.5 bn), Vehicles other than railway, tramway ($13.0 bn), Iron and steel ($10.6 bn), Cereals ($8.7 bn), Plastics and articles thereof ($6.6 bn).

Top exporters of goods in 2020

The world's largest exporters of commodities in 2020:

- China - 15.2% of the world exports ($2.59 trillion)
- USA - 8.42% ($1.43 trillion)
- Germany - 8.16% ($1.38 trillion)

- Japan - 3.77% ($641 billion)
- Hong Kong - 3.24% ($551 billion)



Sources: ITC calculations based on UN COMTRADE and ITC statistics.

According to statistics provided by the major exporters, the largest flows of exports of **ALL COMMODITIES** in 2020:

- Exports from Canada to the USA: (1.67% of the world exports, $284 billion according to external trade statistics of Canada)\
- Exports from China to Hong Kong: (1.6% of the world exports, $272 billion according to external trade statistics of China)
- Exports from China to Japan: (0.84% of the world exports, $142 billion according to external trade statistics of China)
- Exports from China to the USA: (2.66% of the world exports, $452 billion according to external trade statistics of China)
- Exports from Hong Kong to China: (1.79% of the world exports, $304 billion according to external trade statistics of Hong Kong)
- Exports from Japan to China: (0.833% of the world exports, $141 billion according to external trade statistics of Japan)

- Exports from Mexico to the USA: (1.94% of the world exports, $330 billion according to external trade statistics of Mexico)
- Exports from the United Arab Emirates to Areas, nes: (0.982% of the world exports, $166 billion according to external trade statistics of United Arab Emirates)
- Exports from the USA to Canada: (1.5% of the world exports, $255 billion according to external trade statistics of USA)
- Exports from the USA to Mexico: (1.25% of the world exports, $212 billion according to external trade statistics of USA)

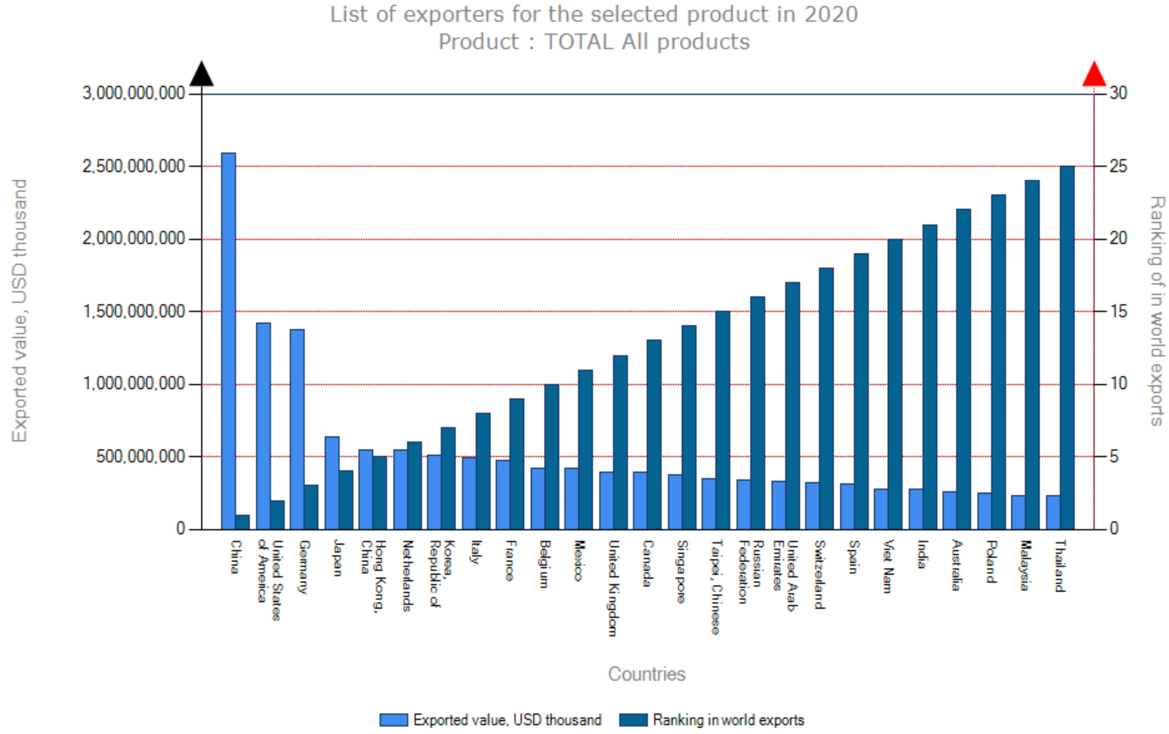
World Merchandise Import statistics

In 2020, the world merchandise imports exceeded $17.1 trillion (according to external trade statistics of 125 countries). It was $18.3 trillion in the previous year (according to merchandise trade statistics of 132 countries).India was ranked 21st in the world for commodity Imports. India's merchandise import in 2020 was $368.0 bn. In 2020, India's top ten import markets for goods were the China($58.8 bn) , USA ($26.6 bn), UAE ($23.9 bn), Saudi Arabia ($17.7 bn), Iraq($16.2 bn), Hong Kong SAR($14.6 bn), Singapore ($12.3bn), Rep. of Korea($12.2 bn), Indonesia ($12.0 bn) and Switzerland ($11.3 bn).India's top ten imports of goods from the world in 2020areMineral fuels, oils, distillation products, etc ($104.4 bn), Electrical, electronic equipment ($42.9 bn), Pearls, precious stones, metals, coins, etc ($41.0 bn), Nuclear reactors, boilers, machinery, etc ($35.2 bn), Organic chemicals ($18.2 bn), Plastics and articles thereof ($12.0 bn), Animal,vegetable fats and oils, cleavage products, et ($10.6 bn), Optical, photo, technical, medical, etc apparatus ($8.2 bn) Iron and steel ($7.6 bn), Fertilizers ($7.2 bn).

Top importers of goods in 2020

The world's largest importers of commodities in 2020:

- USA - 14% of the world imports ($2.4 trillion)
- China - 12% ($2.05 trillion)
- Germany - 6.85% ($1.17 trillion)
- Japan - 3.71% ($635 billion)
- United Kingdom - 3.7% ($634 billion)
- France - 3.4% ($582 billion)



Sources: ITC calculations based on UN COMTRADE and ITC statistics.

According to statistics provided by the major importers, the largest flows of imports of **ALL COMMODITIES** in 2020:

- Imports to Canada from the USA (1.15% of the world imports, $197 billion according to external trade statistics of Canada)
- Imports to China from Japan (1.02% of the world imports, $174 billion according to external trade statistics of China)
- Imports to China from Korea (1% of the world imports, $172 billion according to external trade statistics of China)
- Imports to China from Other Asia, nes (1.17% of the world imports, $200 billion according to external trade statistics of China)
- Imports to Hong Kong from China (1.46% of the world imports, $251 billion according to external trade statistics of Hong Kong)
- Imports to Japan from China (0.957% of the world imports, $163 billion according to external trade statistics of Japan)
- Imports to Mexico from the USA (0.983% of the world imports, $168 billion according to external trade statistics of Mexico)
- Imports to the USA from Canada (1.61% of the world imports, $276 billion according to external trade statistics of USA)
- Imports to USA from China (2.67% of the world imports, $457 billion according to external trade statistics of USA)

- Imports to the USA from Mexico (1.92% of the world imports, $328 billion according to external trade statistics of USA)

2.7 THEORIES OF INTERNATIONAL TRADE

Mercantilism

Mercantilists maintained that the way a nation became rich and powerful was to export morethan it imported. The resulting export surplus would be settled by an inflow of bullion orprecious metals, primarily gold and silver. Thus, the Government had to do all in its power tostimulate the nation's exports and discourage and restrict imports (particularly the import ofluxury consumption of goods).

The principle assertion of Mercantilism was that 'a nation's wealth and prosperity reflects in its stock of precious metals such as gold and silver', as at that time, gold and silver were the currency of trading nations. The basic tenet of Mercantilism is to maintain a trade balance where exports are greater than imports. Consistent with this belief, the Mercantilist doctrine advocated government intervention. It means that their policy was to maximize exports and minimize imports. It means that imports were to be restricted, by means of tariffs and quotas, whereas exports were to be restricted by subsidies.

Criticism

- The theory viewed trade as a zero-sum game, a gain by one results in a loss by another. Adam Smith and David Ricardo showed the short-sightedness of the approach and demonstrated that trade is a positive-sum game or a situation where all the countries benefit.
- Mercantilists measured the wealth of a nation by the stock of precious metals it possessed. In contrast, today, we measure the wealth of a nation by its stock of human man-made and natural resources available for producing goods and services. The greater the stock of useful resources, the greater is the flow of goods and services to satisfy human wants and increase the standard of living of the nation.

Theory of Absolute Cost Advantage

According to Adam Smith, trade between two nations is based on absolute advantage. When one nation is more efficient than (or has an absolute advantage over) another in the production of one commodity but is less efficient than (or has an absolute disadvantage with respect to) the other nations in producing a second commodity than both the nation can gain by each specializing in the production of the commodity of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage. Through this process, resources are utilized in a more efficient way, and the output of both commodities will rise. According to Smith, "whether advantage which one country has over another by natural or acquired, is in this respect of no consequence".

Country	Commodity A	Commodity B
A	10	20
B	20	10

Theory of Comparative Advantage

The most basic concept in the whole of international trade theory is the principle of comparative advantage, first introduced by David Ricardo in 1817. It remains a major influence on much international trade policy and is therefore important in understanding the modern global economy. The principle of comparative advantagestates that a country should specialize in producing and exporting those products in which it has a comparative, or relative cost, advantage compared with other countries and should import those goods in which it has a comparative disadvantage. Out of such specialisation, it is argued, will accrue a greater benefit for all.

In this theory, there are several assumptions that limit the real-world application. The assumption thatcountries are driven only by the maximization of production and consumption and not by issues out of concern for workers or consumers is a mistake.

Country	India	China
Commodity A	4	1
Commodity B	6	5

Heckscher-Ohlin (H-O) Theory

In the early 1900s, an international trade theory called factor proportions theory emerged by two Swedish economists, Eli Heckscher and Bertil Ohlin. This theory is also called the Heckscher-Ohlin theory. TheHeckscher-Ohlin theory stresses that countries should produce and export goods that require resources (factors) that are abundant and import goods that require resources in short supply. This theory differs from the theories of comparative advantage and absolute advantage since these theory focuses on the productivity of the production process for a particular good. On the contrary, the Heckscher-Ohlin theory states that a country should specialisein production and export using the factors that are most abundant and thus the cheapest. Not produce, as earlier theories stated, the goods it produces most efficiently.

Many economists prefer the Heckscher-Ohlin theory to the Ricardo theory because it makes fewer simplifying assumptions. In 1953, Wassily Leontief published a study where he tested the validity of the Heckscher-Ohlin theory. The study showed that the U.S was more abundant in capital compared to other countries; therefore, the U.S would export capital-intensive goods and import labour-intensive goods. Leontief found out that the U.S's export was less capital intensive than import.

Country Similarity Theory

This theory was developed by Staffan B. Linder, a Swedish economist, based on his observation of the pattern of international trade since the 1970s. According to this theory, developed countries trade more with other developed countries. About ¾ of total world exports are among the developed countries.

This fact, by itself, is an indictment of Heckscher-Ohlin's factor endowment theory. According to the H-O theorem, the incentive to trade is greatest among nations of radically different factor endowments. This means that trade would take place in larger part between developed manufacturing countries and developing countries producing primary products (i.e., natural resource commodities such as oil and petroleum) and labour-intensive products.

Factor-Mobility Theory

As both the quantity and quality of countries' factor conditions change, their relative capabilitieschange as well, possibly because of internal circumstances. For instance, if savings ratesincrease, countries have more capital relative to their factors of land and labour. If they spendrelatively more on education, they improve the quality of the labour factor.

Currently, one of the biggest changes underway concerns relative population numbers.At present rates, 33 countries, including Japan and Italy, are projected to have smaller populationsin 2050 than today, primarily because of low fertility rates. They are also encounteringageing populations along with more people entering the workforce at a later age because ofeducation, leaving fewer people to provide output and needing large immigration increasesjust to maintain the present ratios of employed people to retirees. Concomitantly, nine countriesare expected to account for half of the world's population increase, with India, Pakistan, and Nigeria leading the pack.

These changes, of course, are important in understanding and predicting changes inexport production and import market locations. At the same time, the mobility of capital,technology, and people affect trade and relative competitive positions. Here we addressthe factor-mobility theory, which focuses on why production factors move, the effects ofthat movement on transforming factor endowments, and the impact of international factormobility (especially people) on world trade.

Product Life Cycle

Theory Raymond Vernon developed the international product life cycle theory in the 1960s. The international productlife cycle theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle. Eventually, a country's export becomes its import. Although the model is developed around the U.S, it can be generalised and applied to any of the developed and innovative markets of the world.

The product life cycle theory was developed during the 1960s and focused on the U.S since most innovations came from that market. This was an applicable theory at that time since the U.S dominated world trade. Today, the U.S is no longer the only innovator of products in the world. Today companies design new products and modify them much quicker than before. Companies are forced to introduce the products in many different markets at the same time to gain cost benefits before their sales decline. The theory does not explain the trade patterns of today.

Porters Daimond Model

The Porter Diamond, properly referred to as the Porter Diamond Theory of National Advantage, is a modelthat is designed to help understand the competitive advantage that nations or groups possess due to certain factors available to them and to explain how governments can act as catalysts to improve a country's position in a globally competitive economic environment. The model was created by Michael

Porter, a recognized authority on corporate strategy and economic competition and founder of the Institute for Strategy andCompetitiveness at the Harvard Business School.

The Porter Diamond suggests that countries can create new factor advantages for themselves, such as a strong technology industry, skilled labour, and government support of a country's economy. The Porter Diamond is visually represented by a diagram that resembles the four points of a diamond. The four points represent four interrelated determinants that Porter theorizes as the deciding factors of national comparative economic advantage. These four factors are firm strategy, structure and rivalry; related supporting industries; demand conditions; and factor conditions. These can, in some ways, also be thought of as analogous to the eponymous forces of Porter's Five Forces model of business strategy.

Firm strategy, structure, and rivalry refer to the basic fact that competition leads businesses to find ways to increase production and develop technological innovations. The concentration of market power, degree of competition, and ability of rival firms to enter a nation's market are influential here. This point is related to the forces of competitors and barriers to new market entrants in the Five Forces model.

Related supporting industries refer to upstream and downstream industries that facilitate innovation through exchanging ideas. These can spur innovation depending on the degree of transparency and knowledge transfer. Related supporting industries in the Diamond model correspond to the suppliers and customers who can represent either threats or opportunities in the Five Forces model.

Demand conditions refer to the size and nature of the customer base for products, which also drives innovation and product improvement. Larger, more dynamic consumer markets will demand and stimulate a need to differentiate and innovate, as well as simply greater market scale for businesses.

The final determinant, and the most important one according to Porter's theory, is that of factor conditions. Factor conditions are those elements that Porter believes a country's economy can create for itself, such as a large pool of skilled labour, technological innovation, infrastructure, and capital

2.8 RTB (REGIONAL TRADE BLOCKS)

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

Characteristics:

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

2.9 TYPES OF REGIONAL TRADE BLOCKS:

1. Preferential trading agreement:

It is the loosest form of economic integration. Under this, a group of countries has a formalagreement to allow each other's goods and services to be traded on preferential terms.

2. Free trade area:

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

3. Customs union:

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

4. Common market:

It has no barriers to trade among members; in addition, the common market removesrestrictions on the movement of factors of production (labour, capital and technology) acrossborders.

5. Economic union:

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

6. Political union:

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

2.10 MAJOR REGIONAL TRADE BLOCKS/GROUPS:

1) European union :(EU)

The largest and most comprehensive regional economic group is the EuropeanUnion. To abolish internal tariffs to more closely integrate the EU and hopefully alloweconomic co-operation to help avoid further political conflicts. It included European EconomicCommunity; later, it is called as European Community.

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

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

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

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

4) SAARC Preferential Trading Arrangement (SAPTA):

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

5) South Asian Free Trade Area (SAFTA):

The SAFTA agreement came into force on January 1, 2006. The agreement promotesmutual trade and economic cooperation among the contracting states through the exchange ofconcessions by it. In general, the agreement requires the completion of a tradeliberalization program.

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

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

7) ASEAN Free Trade Area (AFTA):

The major objectives of the AFTA are:

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

8) Mercosur:

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

Objectives:

a) Establishment of a free trade zone,
b) A common external tariff (a customs union), and
c) Free movement of capital, labour, and services.

9) Asia Pacific Economic Cooperation (APEC):

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

10) European Free Trade Association: (EFTA)

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

11) Latin American Integration Association: (LAIA)

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

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

It has 48 member countries and 10 associate members. The ESCAP’s geographical covers asfollows:

- East: Cook Islands
- West: Azerbaijan
- North: Mongolia
- South: Australia and New Zealand

13) Andean Pact:

It was formed in 1969 and included Bolivia, Chile, Ecuador, Colombia, and Peru. It has hadto deal with low economic growth, hyperinflation, high unemployment, political unrest andcrushing debt burdens.

14) Central American Common Market and CARRICOM:

It is referred to as CARRICOM, which was established in 1973. However, it has repeatedlyfailed to make any progress toward economic integration. A formal commitment to economicand monetary union was adopted by CARRICOM’s member states in 1984, but since then, littleprogress has been made.

2.11 ADVANTAGES & DISADVANTAGES OF TRADE BLOCKS:

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

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

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

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

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

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

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

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

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

9. Interdependence: Because trading blocs increase trade among participating countries, thecountries become increasingly dependent on each other. A disruption of trade within a tradingbloc due to a natural disaster, conflict or revolution may have severe consequences for theeconomies of all participating countries.

Case study

The Indian Cashew Processing Industry

Even though the cashew tree grows fruit, it is best known for its nuts. India is the world's largest producer, processor and exporter of cashew. In 2000, India accounted for 65 percent of the $208 million in total global exports. The fruit of the tree (known as the cashew apple), however, drew the earliest attention. The Tupi Indians of Brazil, first harvested the cashew apple in the wild. They later introduced it to the early Portuguese traders, who, in turn, propagated the tree in other tropical countries. But attempts to grow the tree on the plantations proved unsuccessful, because it was vulnerable to insects in the close quarters of plantations. Instead, some of the abandoned plantation trees propagated new trees in the wild forests of India, East Africa, Indonesia and South-East Asia.

Two other factors inhibited the early harvest of the cashew nut. Firstly, cashew fruit matures before the nut and the fruit will be kept only about 24 hours, after harvesting the nut. So, the fruit is usually discarded in the pursuit of the nut, which, if dried, can last a year or longer. Secondly, the processing of cashew nuts is tedious and time-consuming. In the 1920s, however, India developed a cashew-processing industry in response to the growing demand for cashew nuts among Indian consumers.

The processing required much manual dexterity and low wage rates, because the nut is contained beneath layers of shell and thin skin. To remove the shell, the workers must place the nut in an open fire for a few minutes and then tap it (while still hot), with a wooden hammer. If the nut breaks from the tapping, its value decreases considerably. Once the workers remove the shell, they place the nut in an oven for up to 10 hours, after which they remove the skin by hand, while the nut is still warm, without the use of fingernails or any sharp objects that can mark or break the surface. The workers then sort the nuts into 33 grades, based mainly on size and wholeness. The highest grades sell for several times the price of the lowest grades, which are sold almost entirely to the confectionery industry. India maintained a virtual monopoly on cashew processing, until the mid-1970s. This monopoly was due to three factors:

1. India was the largest producer of cashews.

2. Early demand occurred largely in India, meaning that any other country would have to incur added transport charges to reach the Indian market.

3. Most importantly, the Indian workers were particularly adept at the process technology.

Through the years, other factors threatened India's prominence as a cashew producer. Firstly, a shortage developed, when the demand for the nuts grew in the United States and the United Kingdom. Secondly, because the nuts were ill-suited for plantation growth, India could not produce enough and thus turned to East Africa, especially Mozambique, Tanzania and Kenya, for supplies. Those countries were experiencing high unemployment and were at first eager to sell the raw nuts, which grew in the wild. But by the 1950s, they began to realize that they could bypass India, by processing the raw nuts themselves. Cashew-processing methods were well known and did not require the East Africans to-invest in expensive machinery. So there was no technological obstacle. Mozambique became the world's largest cashew grower by the mid-1970s and processed cashews became the country's leading export. However, because the Indian labour force worked on making handicrafts at home as children, by the time they were employed in cashew processing, they could perform delicate hand operations efficiently. Without such -

training, the East Africans were at a fatal disadvantage. Further, the Mozambique government neglected reinvestments in the state-owned processing plants and many of the trees became diseased and too old to be productive. By the 21st century, Mozambique was no longer a major player in the industry.

Although the Africans' inability to compete, granted a reprieve to the Indian industry, it put it on notice, that it was vulnerable to supply cut-offs. The Indian Council for Agricultural Research, the International Society for Horticultural Sciences, and the Indian Society for Plantation Crops, expanded their efforts to increase India's production of raw nuts. Concomitantly, three different companies developed mechanical equipment to replace hand processing. They sold equipment to East African countries and Brazil in the 1970s. These countries reduced their exports of raw nuts to India to maintain supplies for their own processing.

Three factors have kept India's hand-processing industry afloat:

1. The machinery breaks many cashew nuts, so Indian processors have had an advantage in the sale of higher-grade nuts. At any time, however, newer machinery might solve the breakage problem, again threatening the approximately 200 Indian processors and their 300,000 employees. Moreover, there is an increased competition for the lower-grade output.

2. Indian processors have been able to obtain increased supplies of raw nuts, partially as a result of the increased Indian production. Pesticide technology now makes cashew tree plantations feasible, increasing the number of trees per acre. Nevertheless, about 97 per cent of nuts come from trees in the wild. Indian experimentation in hybridization, vegetative propagation and grafting and budding techniques, promises to increase the output per tree to five times what it was in the wild. Further, India has been increasing its imports of raw nuts substantially, primarily from Tanzania.

3. India uses fewer fertilizers than Brazil, the biggest export competitor and the lack of fertilizer apparently gives, Indian nuts, a better flavour.

Because its exports consist of a higher portion of higher-grade nuts and because of the flavour differences, Indian exports sell for a premium in comparison with those of competitors, for example, about 15 percent more than nuts from Brazil. However, yields are usually higher in Brazil, and Brazilian processors pay only between 30 and 36 percent of the price, the Indian processors pay for raw nuts. Further, because of differences in domestic demand, India typically exports about 50 percent of the raw kernels that it processes, whereas, Brazil exports about 85 percent. In the mid-1990s, Brazil suffered crop problems, which enabled India to gain an increase in the global export share of processed cashew kernels.

During the 1990s, India depended heavily on imported raw nuts from Vietnam. However, Vietnam has since, become a competitor by processing its own nuts and by importing nuts to process from other countries. The Vietnamese government is spending heavily to introduce high-tech strains into production in order to improve both quantity and quality. Vietnamese exports are of high quality and so the country's - exporters are not only targeting India's largest export market, the United States, but also emerging markets such as China, Saudi Arabia and Russia. If Vietnam's growth in exports continues at the same rate, it will surpass India as the largest exporter by 2010.

There is potential for an excess supply of cashew nuts, which might result from plantation techniques and improved technology in India and elsewhere. To find outlets for a possible nut glut, the All-India -

Coordinated Spices and Cashew Nut Improvement Project has focused its efforts on increasing nut sales in small markets and on finding new markets for products from the cashew tree. For example, experimentation is going on to harvest both the fruit and the nut. The fruit is also being studied for commercial use in candy, jams, chutney, juice, carbonated beverages, syrup, wine and vinegar. Another area of research is in the use of cashew nutshell liquid (oil), which was once discarded as a waste product. It is now used extensively in industrial production of friction dusts, for formulation in brake linings and clutch facings. However, the extraction of cashew nutshell liquid has been too costly, to make the product fully competitive with some other types of oils. There is also a potential for short-term cashew shortages, such as that occurred in 1999, because of unfavourable climatic conditions. This has led India to try to increase its production and its foreign supplies.

Questions

1. What trade theories help to explain where the cashew tree products have been produced historically?

2. What factors threaten India's future competitive position in cashew nut production?

3. If you were an Indian cashew processor, what alternatives might you consider to maintain future competitiveness?

Source: John D. Daniels, Lee H. Radebaugh& Daniel P. Sullivan, "International Business", 11th ed., Pearson Education, p.217-219.

Self-Assessment Questions

1. "Mercantilism is a bankrupt theory that has no place in the modern world." Discuss.
2. Explain the advantages and disadvantage of regional trading blocs citing some real examples
3. Drawing on the theory of comparative advantage to support your arguments, outline the case for free trade.
4. Write short note on:

   (a) SAARC

   (b) EU

5. Explain the principles of WTO which are foundation of multilateral trading system.
6. Give a critical note on the Uruguay Round.
7. What are the differences between GATT and WTO
8. "If theories, like girls, could win beauty contests, the comparative cost theory would certainly rate high in that, it is an elegant logical structure". Discuss.
9. Discuss Income-Preference Similarity theory. What are the basic tenets of the theory?

UNIT III

LESSON III – INTERNATIONAL STRATEGIC MANAGEMENT

CONTENTS

Learning Objectives

Overview

3.1 International strategic management

3.2 Strategic compulsions

3.3 Standardization Vs Differentiation

3.4 Strategic options

3.5 Global portfolio management

3.6 global entry strategy

3.7 different forms of international business – Advantages and Disadvantages

3.8 organizational issues of international business

3.9 organizational structures

3.10 controlling of international business

3.11 approaches to control

3.12 performance of global business

3.13 performance evaluation system

Case Study

Self-Assessment Questions

LEARNING OBJECTIVES

After studying this lesson, students should be able to:

- Understand the concepts of international strategic management

- Explain how firms choose which foreign markets to enter and the factors that are important in determining the best timing and scale of entry
- Discuss the choice of entry mode
- Describe the approaches to controlling international business
- Knows about the organizational structures and organizational issues of international business

LEARNING OUTCOMES:

Upon completion of the lesson, students are able to demonstrate a good understanding of:

- Basis of global portfolio management
- Concepts of strategic compulsion
- Analyzing the different entry strategies into the global business
- Identifying the global business performance

3.1 INTERNATIONAL STRATEGIC MANAGEMENT

Global Mickey

Mickey Mouse is every bit as popular around the globe as Coca-Cola's soft drinks and McDonald's burgers. But the Walt Disney Company has done a surprisingly poor job of capitalizing on the global potential for its various products. In 2012, for instance, 75 percent of Disney's $42.3 billion in revenues came from the United States and Canada, which account for only 5 percent of the world's population. This contrasts markedly with Coca-Cola and McDonald's, which each derive about two-thirds of their revenue from outside the United States.

Perhaps Disney's most public effort at internationalization has been its theme park operations. Its first theme park, Disneyland, opened in Anaheim, California, in 1955 and was soon generating huge profits. The 1971 debut of the firm's next major theme park development, Florida's Walt Disney World, was also a major success. Given the enormous popularity of Disney characters abroad, the firm saw opportunities to expand theme park operations to foreign markets. Its first international venture, Tokyo Disneyland, opened in 1983. The Japanese have long been Disney fans, and many Japanese tourists visit Disneyland and Disney World each year. To limit its risk, though, the firm did not invest directly in the park—a decision Disney managers would eventually come to regret. Instead, a Japanese investment group called the Oriental Land Company financed and entirely owns Tokyo Disneyland. Disney oversaw the park's construction and manages it but receives only royalty income from it. Tokyo Disneyland has been an enormous success from the day it opened its gates: It greeted its 100 millionth visitor after only eight years, a milestone that Disneyland took twice as long to reach. And Tokyo Disneyland remains one of Japan's top tourist attractions.

The success of Tokyo Disneyland inspired the firm to seek other foreign market opportunities. After evaluating potential sites throughout Europe, the firm narrowed its choice to one in France just outside Paris. This time, though, Disney decided to participate more fully in both the park's ownership and its profits. Although the French government decreed that Disney's ownership in the new venture would be limited to no more than 49 percent (with the remaining 51 percent made available for trade on European stock exchanges), Disney eagerly accepted this ownership structure. The French government's offer of numerous economic incentives also played a role in Disney's decision. The government sold the land for the park to Disney at bargain-basement prices and agreed to extend the Parisian rail system to the proposed park's front door. But as Euro Disney took shape, storm clouds loomed. Farmers protested the manner in which the French government condemned their land so that it could be sold to Disney. The cultural elite in Paris lambasted the project as an affront to French cultural traditions. Disney found itself defending its conservative employee dress codes, regimented training practices, and plans to ban alcohol from park facilities. Finally, a recession swept through Europe in 1992 just as the park was opening, forcing Disney to drop its plan to reduce its debt by selling land it owned near the park to local developers.

Disney did learn some things from its start-up problems in Europe. When the Disney Studios theme park adjacent to Disneyland Paris premiered in 2002, Disney made some small but significant changes in its operations. The voices of European actors such as Jeremy Irons, NastassjaKinski, and Isabella Rossellini were featured on Disney Studios' tram rides, rather than those of U.S. actors like Bruce Willis. Disneyland Paris originally offered only French sausages, upsetting German, Italian, and British visitors who preferred those of their own country. Disney Studios Paris' food outlets, however, offer a broader array of sausages. The setting of the park's featured stunt show is modeled after St. Tropez, rather than a Hollywood back lot. Small matters, perhaps, but such details are designed to make visitors to the theme park feel more at home.

In 2005, Disney's next major international foray came to fruition when Disneyland Hong Kong made its debut. Opening-day festivities included a traditional parade comprising mainly Disney characters coupled with a few local touches—fireworks, Chinese lion dancers, and clanging cymbals. The company received a 43 percent equity stake in the $3.6 billion project in exchange for an investment of only $314 million. The local government, in turn, invested more than $2.9 billion in low- interest loans, land, and infrastructure improvements for the remaining 57-percent share. Disney was careful to incorporate fengshui concepts into the design of the Hong Kong Park.

But as in Europe, Disney had to go back to the drawing boards and revise its approach to running Disneyland Hong Kong because attendance and spending fell below the company's projections. Disney had again failed to understand its market. The Chinese were less familiar with many Disney characters and classic attractions than the company expected, and many visitors felt the park was too "foreign" for their tastes. To compensate, Disney systematically reduced the presence of some of its traditional characters and replaced them with more Chinese figures such as CaiShen Ye, the bearded Chinese god of wealth. It also changed the costuming of mainline favorites such as Mickey and Minnie Mouse, putting the venerable characters into red Chinese New Year garb. And the iconic daily Disney parade has been changed to include such traditional Chinese favorites as dragons and puppets of birds, fish, and flowers. These efforts have worked; in 2011, Disney began a multiyear expansion of the Hong Kong Park. The first addition was Toy Story Land, featuring Buzz Lightyear, Woody, and friends.

Disney is nothing if not persistent. In addition to tinkering with Disneyland Hong Kong, the company established a branch office in Shanghai to coordinate its efforts in the 1.3-billion customer market. The Disney Channel and Disney cartoons are now broadcast throughout China, and "Disney Corners" featuring Disney branded merchandise are available in more than 1,800 department stores in China. Disney operates 15 learning centers in Beijing and Shanghai, using a curriculumfeaturing Disney characters such as the Little Mermaid and Mickey Mouse to teach English to 7,000 Chinese youngsters ranging in age from 2 to 12. It plans to expand this program to 150 facilities serving 150,000 students by 2015. Of course, this approach to language education familiarizes the new generation of Chinese with Disney characters as well as improving their English skills. Disney's methodical approach to the Chinese market has paid off: After a decade of negotiations, Disney broke ground on a new $4.4 billion theme park in Shanghai in 2011. Disney will own 43 percent of the new venture, with three city-owned businesses controlling the remainder.

The company also is targeting India as a lucrative market for its products. In 2004 it launched Disney Channel and Toon Disney programming customized for the Indian families. Disney developed an Indian takeoff on High School Musical, although cricket replaced basketball in the movie's storyline. In 2012, it acquired UTV, India's largest TV and film studio, which also controls six leading Indianbroadcast channels. Chinese and Russian versions of High School Musical are also under way, as are live and animated films targeted to the Japanese, Indian, Chinese, Arab, and Russian markets.

Nor is the company ignoring its opportunities elsewhere. Disney's Consumer Product Division has established dedicated sales teams to cater to the worldwide procurement needs of major international retailers such as Carrefour, ASDA (the British subsidiary of Walmart), and Metro. In 2012, the Disney Channel debuted in Russia and Turkey. It now is broadcast in 35 languages in 167 countries serving 323 million subscribers. ESPN International has equity interests in 27 international TV networks and has developed customized programming, such as ESPN Classic Sport Europe, ESPN Latin America, and ESPN Asia, to serve sports fans -

in those regions. Still, the company's international operations, which generate only 25 percent of the company's revenues, have much room for improvement and growth

Source: Griffin, R. W., &Pustay, M. W. (n.d.). International Business A Managerial Perspective, eighth edition.

To survive in today's global marketplace, firms must be able to quickly exploit opportunitiespresented to them anywhere in the world and respond to changes in domestic and foreign markets as they arise. This requires a cogent definition of the firm's corporate mission, a vision for achieving that mission, and an unambiguous understanding of how the company intends to compete with other firms. To obtain this understanding, firms must carefully compare their strengths and weaknesses to those of their worldwide competitors; assess likely political, economic, and social changes among their current and prospective customers; and analyze the impact of new technologies on their ways of doing business.

Disney's decisions to build Tokyo Disneyland, Disneyland Paris, Disney Studios Paris,and Hong Kong Disneyland are consistent with its strategy to be a global entertainment firm. So, too, are its efforts to increase worldwide licensing of its characters and expand its audience for the Disney Channel to other countries. But the firm stumbled badly in its initial efforts with Disneyland Paris and knows its competitors will continue to fight for market share. European vacationers can enjoy other amusement parks, such as Denmark's Legoland or France's ParcAsterix. Mickey Mouse lunchboxes compete for the attention of the world's schoolchildren with those featuring England's Paddington Bear, France's Babar the Elephant, Japan's Hello Kitty, and Belgium's Smurfs. And Time Warner's Cartoon Network has been outperforming the mouse for years. Thus, Disney's top managers know that they are in a continuous battle for the entertainment dollars (and euros, yen, and pounds) of the world's consumers and that it is up to them to deploy the firm's resources to achieve desired levels of profitability, growth, and market share.

The Challenges of International Strategic Management

Disney's managers, like those of other international businesses, use strategic management toaddress these challenges. More specifically, international strategic management is a comprehensiveand ongoing management planning process aimed at formulating and implementingstrategies that enable a firm to compete effectively internationally. The process of developing aparticular international strategy is often referred to as strategic planning. Strategic planning isusually the responsibility of top-level executives at corporate headquarters and senior managersin domestic and foreign operating subsidiaries. Most large firms also have a permanent planningstaff to provide technical assistance for top managers as they develop strategies. Disney'splanningstaff, for example, gathered demographic and economic data that the firm's decision-makers used to select the sites for its domestic and international theme parks.

International strategic management results in the development of various internationalstrategies, which are comprehensive frameworks for achieving a firm's fundamental goals.Conceptually, there are many similarities between developing a strategy for competing in asingle country and developing one for competing in multiple countries. In both cases, the firm'sstrategic planners must answer the same fundamental questions:

- What products or services does the firm intend to sell?
- Where and how will it make those products or services?
- Where and how will it sell them?
- Where and how will it acquire the necessary resources?
- How does it expect to outperform its competitors?

But developing an international strategy is far more complex than developing a domestic one. Managers developing a strategy for a domestic firm must deal with one national government,one currency, one accounting system, one political and legal system, and, usually, a singlelanguage and a comparatively homogeneous culture. But managers responsible for developing astrategy for an international firm must understand and deal with multiple governments, multiplecurrencies, multiple accounting systems, multiple political systems, multiple legal systems, anda variety of languages and cultures.

Moreover, managers in an international business must also coordinate the implementation oftheir firm's strategy among business units located in different parts of the world with different timezones, different cultural contexts, and different economic conditions, as well as monitoring and controllingtheir performance. But managers usually consider these complexities acceptable trade-offsfor the additional opportunities that come with global expansion. Indeed, international businesseshave the ability to exploit three sources of competitive advantage unavailable to domesticfirms.

- **Global efficiencies.** International firms can improve their efficiency through several meansnot available to domestic firms. They can capture location efficiencies by locating theirfacilitiesanywhere in the world that yields them the lowest production or distributioncosts or that best improves the quality of service they offer their customers. Productionof athleticshoes, for example, is labor intensive, and Nike, like many of its competitors,centers its manufacturing in countries where labor costs are especially low.4 Similarly,by building factories to serve more than one country, international firms may also lowertheir productioncosts by capturing economies of scale. For example, rather than splittingproductionof its first SUV among several factories, Mercedes-Benz decided to initiallyproduce this vehicle only at its Alabama assembly plant to benefit from economies of scalein production.5 Finally, by broadening their product lines in each of the countries theyenter, international firms may enjoy economies of scope, lowering their production andmarketingcosts and enhancing their bottom lines. Apple's transition from a seller of onlypersonal computersto a company with an extensive line of electronic communicationsequipment—desktops,laptops,iPhones, iPads, etc.—allows it to economize on research anddevelopmentexpenses,branding costs, and distribution expenses. As a result, its researchand development(R&D), distribution, and branding costs per product are much lower thanwhen it was simply a seller of computers.
- **Multinational flexibility.**There are wide variationsin the political, economic, legal, and cultural environments of countries. Moreover, theseenvironmentsare constantly changing: New laws are passed, new governmentsare elected,economic policies are changed, and new competitors may enter(or leave) the nationalmarket.International businesses thus face the challenge of respondingto these multiplediverseand changing environments. But unlike domestic firms, which operate in andrespondto changes in the context of a single domestic environment, internationalbusinessesmay also respond to a change in one country by implementing a change in

another country.Chicken processor Tyson Foods, for example, has benefited from the increased demand byhealth-conscious U.S. consumers for chicken breasts. In producingmore chicken breasts,Tyson also produced more chicken legs and thighs, which are consideredless desirableby U.S. consumers. Tyson capitalized on its surplus by targetingthe Russian market,where dark meat is preferred over light, and the Chinese market, where chicken feet areconsidereda tasty delicacy. Tyson exports nearly $700 million worth of chicken thighs andlegs to Russia and chicken feet to China.6 In a variety of ways similar to this, internationalbusinessesare better able than purely domestic firms to exploit and respondto changes anddifferences in their operating environments.

- **Worldwide learning.** The diverse operating environments of multinational corporations(MNCs) may also contribute to organizational learning.7 Differences in these operatingenvironments may cause the firm to operate differently in one country than another. Anastute firm may learn from these differences and transfer this learning to its operationsin other countries.8 For example, McDonald's U.S. managers believed that its restaurantsshould be freestanding entities located in suburbs and small towns. A Japanese franchiseeconvinced McDonald's to allow it to open a restaurant in an inner-city officebuilding.That restaurant's success caused McDonald's executives to rethink their store locationcriteria. Nontraditional locations—office buildings, Walmart superstores,food courts,and airports—are now an important source of new growth for the firm. "EmergingOpportunities" provides another example of the benefits of worldwidelearning.

Unfortunately, it is difficult to exploit these three factors simultaneously. Global efficienciescan be more easily obtained when a single unit of a firm is given worldwide responsibilityfor the task at hand. BMW's engineering staff at headquarters in Munich, for example, isresponsiblefor the research and development of the company's new automobiles. By focusingits R&D efforts at one location, BMW engineers designing new transmissions are better able tocoordinate their activities with their counterparts designing new engines. However, centralizingcontrol of its R&D operations also hinders the firm's ability to customize its product to meet thediffering needs of customers in different countries. Consider the simple question of whether toinclude cup holders in its cars. In designing cars to be driven safely at the prevailing high speedsof Germany's autobahn, the company's engineers initially decided that cup holders were bothirrelevant and dangerous. Driving speeds in the United States, however, are much lower, and cupholders are an important comfort feature in autos sold to U.S. consumers. Lengthy battles werefought between BMW's German engineers and its U.S. marketing managers over this seeminglytrivial issue. Only after a decade of argument did cup holders finally become a standard featurein the firm's automobiles sold in North America. And even then, in some BMW models the cupholders were placed in front of the air conditioner vents, making it harder to keep beverages attheir desired temperature.

As this example illustrates, if too much power is centralized in one unit of the firm, itmay ignore the needs of consumers in other markets. Conversely, multinational flexibility isenhanced when firms delegate responsibility to the managers of local subsidiaries. Vestingpower in local managers allows each subsidiary to tailor its products, personnel policies,marketing techniques, and other business practices to meet the specific needs and wants ofpotential customers in each market the firm serves. However, this increased flexibility willreduce the firm's ability to obtain global efficiencies in such areas as production, marketing,and R&D.

Furthermore, the unbridled pursuit of global efficiencies or multinational flexibilitymay stifle the firm's attempts to promote worldwide learning. Centralizing power in a singleunit of the firm to capture global efficiencies may cause it to ignore lessons and informationacquired by other units of the firm. Moreover, these other units may have little incentive orability to acquire such information if they know that the “experts” at headquarters will ignorethem. Decentralizing power in the hands of local subsidiarymanagers may create similarproblems. A decentralized structure may make it difficult to transfer learning from one subsidiaryto another. Local subsidiaries may be disposed to reject any outside information outof hand as not being germane to the local situation. Firms wishing to promote worldwidelearning must utilize an organizational structure that promotes knowledge transfer amongtheir subsidiaries and corporate headquarters. They must also create incentive structures thatmotivate managers at headquarters and in subsidiaries to acquire, disseminate, and act onworldwide learning opportunities.

3.2 STRATEGIC COMPULSIONS

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

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

Area of strategic compulsions

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

3.3 STANDARDIZATION VERSUS DIFFERENTIATION:

According to Levitt, represents local marketing versus global marketing and focuses on the centralquestion of whether a standardized (global) or a differentiated (local), country-specific marketingapproach.

Perspectives on standardization versus Differentiation:

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

Factors Favoring Standardization and Differentiation

Factors favoring Standardization	Factors favoring differentiation
Economics of scale. InR&D, production andmarketing	Local environment-induced adaptation..,government and regulatory influences,legal issues.
Global competition	Local competition
Convergence of tastesand consumerneeds(consumerpreferences arehomogeneous)	Variation in consumer needs(consumerneeds are heterogeneous)
Centralized managementof the international operation.	Fragmented and decentralizedmanagement with independent countrysubsidies
A standardized concept isused by competitors	An adopted concept is used by competitors

3.4 STRATEGIC OPTIONS:

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

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

Global strategy: Anapproach in whichheadquarters seekssubstantial control over itscountry operations to minimize redundancy andmaximize efficiency,learning, and integrationworldwide**.**Or assume a single market and offers a standard product(s) to meet customer needs wherever they are located.Global strategy is the ability of an organization to apply a replicable and systematic methodology to the unique challenges that are faced by the organization. A sound global strategy addresses questions such as, how to build a necessary global presence and what should be the optimal locations for various value chain activities. Any company which implements the global strategy will have the following aspects as its features

- Product is the same in all countries.
- Centralized control - little decision-making authority on the local level
- Effective when differences between countries are small
- Advantages: cost, coordinated activities, faster product development

International strategy: In this strategy company extends marketing, manufacturing and otheractivities outside the home country.

Transactional strategy: A coordinated approach tointernationalization in which the firm strives to be relatively responsive to local needs while retaining sufficient central control of operations to ensure efficiency and learning.

Multi-domestic strategy: An approach tofirm internationalization inwhich headquartersdelegates considerableautonomy to each countrymanager, allowing him orher to operateindependently and pursuelocal responsiveness.

3.5 GLOBAL PORTFOLIO MANAGEMENT

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

Factors affecting global portfolio investment:

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

Problems of global portfolio investment:

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

3.6 GLOBAL ENTRY STRATEGY

Companies desiring to enter the foreign markets, face a dilemma when deciding themethod of entry into a given overseas location. Companies can reduce the dilemma by analyzing thedecision factors.

Decision factors:

After deciding to go to foreign markets, the companies have to decide the mode of entry.This dilemma can be solved to some extent by considering the following factors:

- Ownership advantages
- Location advantages
- Internationalization advantages

Ownership Advantages: Ownership advantages are those benefits designed by a company byowing resources. These benefits provide competitive advantages to the company over itscompetitors. These advantages are both tangible and intangible.

Location advantages: Certain locational factors grant benefit to the company when themanufacturing facilities are located in the host country rather than in the home country. Theselocational factors include:

- Customer Ned, preferences and tastes
- Logistic requirements
- Cheap land acquisition cost
- Cheap labour
- Political stability
- Low-cost raw materials

- Climatic conditions

Internationalisation advantages: Internationalisation advantages are those benefits that a companygets by manufacturing goods or rendering services in the host country by itself rather than throughcontract arrangements with the companies in the host country.

3.7 FORMS OF INTERNATIONAL BUSINESS:

1. Exporting:

Exporting is the simplest and widely used mode of entering foreign markets. The advantagesof exporting include:

- **Need for limited finance:** If the company selects a company in the host country to distribute, the company can enter the international market with no or less financial resources. Alternatively, if the company chooses to distribute on its own, it needs to invest financial resources, but this amount would be quite less compared to what would be necessary under other mores.
- **Less risk:** Exporting involves less risk as the company understands the culture, customers and the market of the host country gradually. The company can enter the host country on a fullscale if the product is accepted by the host country's market. A British company selected this mode to export jams to Japan.
- **Motivation for exporting:** Motivations for export are proactive and reactive. Proactive motivations are opportunities available in the host country.

Forms of Exporting:

Forms of exporting include: indirect exporting, direct exporting and intra-corporatetransfers.

1. Indirect exporting: Indirect exporting is exporting the products either in their original form or inthe modified form to a foreign country through another domestic company. Various publishers inIndia including Himalaya Publishing House sell their products, i.e., books from various exporters inIndia, which in turn export these books to various foreign countries.

2. Director exporting: Direct exporting is selling the products in a foreign country directly throughits distribution arrangements or a host country's company. Baskin Robbins initiallyexported its icecream to Russia in 1990 and later opened 74 outlets with Russian partners. Finally,in 1995 it established its ice-cream plant in Moscow.

3. Intra-corporate Transfers: Intra-corporate transfers are the selling of products by a company to itsaffiliated company in the host country (another country). Selling of products by Hindustan Lever inIndia to Unilever in the USA. This transaction is treated as exports in India and imports in theUSA.

Factors to be considered:

The company, while exporting, should consider the following factors:

- Government policies like export policies, import policies, export financing, foreign exchange etc.,

- Marketing factors like image, distribution networks, responsiveness to the customer, customer awareness and customer preferences.
- Logistical consideration: These factors include physical distribution costs, warehousing costs, packaging, transporting, inventory carrying costs etc.
- Distribution issues: These include own distribution networks, networks of host country's companies. Japanese companies like Sony, Minolta and Hitachi rely on the distribution networks of their subsidiaries in the host country.

Export Intermediaries:

Export intermediaries perform a variety of functions and enable small companies to exporttheir goods to foreign countries. Their functions include: handling transportation, documentation,taking ownership of foreign-bound goods, and assuming total responsibility for exporting and financing.

Types of export intermediaries include:

- Export Management: companies act as the export department of the exporting firm (its client). These companies act as commission agents for exports or they take title to the goods.
- Co-operative society: The domestic companies desire to export the goods from a cooperative society, which undertakes the exporting operations of its members.
- International Trading Company: This company is engaged in direct exporting and importing. It buys the goods from the domestic companies and exports. Therefore, the companies can export their goods by selling them to international trading companies.
- Manufacturers' Agents: They work on a commission basis. They solicit domestic orders for foreign manufacturers.
- Manufacturers' export agents: These agents also work on a commission basis. They sell the domestic manufacturers' products in the foreign markets and act as their foreign sales department.
- Export and Import Brokers: The bankers bridge the gap between exporters and importers and bring these two parties together.
- Foreign forwarders: Foreign forwarders help the domestic manufacturers in exporting their goods by performing various functions like physical transportation of goods, arranging customs documents and arranging transportation services.

2. International Franchising:

Franchising is a form of licensing. The franchisor can exercise more control over thefranchised compared to that in licensing. International franchising is growing at a fast rate.Under franchising, an independent organization called the franchisee operates the businessunder the name of another company called the franchisor. Under this agreement, the franchisee paysa fee to the franchisor. The franchisor provides the following services to the franchisee:

- Trade mark
- Operating systems
- Product reputations
- Continuous support systems like advertising, employee training, reservation services,quality assurance programs etc.

Basic issues in Franchising:

- The franchisor has been successful in his home country. McDonalds was successful in the USA due to its popular menu and fast and efficient services.
- The factors for the success of the McDonald are later transferred to other countries.
- The franchisor may have experience in franchising in the home country before going for international franchising.
- Foreign investors should come forward for introducing the product on a franchising basis.

Franchising Agreements:

The franchising agreement should contain important items as follows:

- The franchisee has to pay a fixed amount and royalty based on the sales to the franchisor.
- The franchisee should agree to adhere to follow the franchisor's requirements like appearance, financial reporting, operating procedures, customer service etc.
- The franchisor helps the franchisee in establishing the manufacturing facilities, services facilities, provides expertise, advertising, corporate image etc.
- The franchisor allows the franchisee some degree of flexibility to meet the local tastes and preferences. McDonald's restaurants in Germany sell beer also and McDonald's restaurants in France sell wine also.

Advantages:

- The franchisor can enter global markets with low investment and low risks.
- The franchisor can get information regarding the markets, culture, customs and environmentof the host country.
- The franchisor learns more lessons from the experiences of the franchisees, which he could notexperience in the home country's market. McDonald benefited from the worldwidelearning phenomenon. McDonald's is convinced to open a restaurant in an inner-city officebuilding in Japan. This location has become a more successful one. Based on this lesson,McDonald opened its restaurants in downtown locations in various countries.
- The franchisee can also start a business with low risk as he selects an established and provenproduct and operating system.
- Franchisee gets the benefits of R&D with a low cost.
- Franchisee escapes from the risk of product failure.

Disadvantages:

- International franchising may be more complicated than domestic franchising. McDonaldtaught the Russian farmers the methods of growing potatoes to meet its standards.
- It is difficult to control the international franchisee. As one of the French investors did notmaintain the stores as per the standards, McDonald did revoke the franchise.
- Franchising agents reduce the market opportunities for both the franchisor and thefranchisee.
- Both the parties have the responsibilities to maintain product quality and product promotion.
- There is scope for misunderstanding between the parties.

- There is a problem of leakage of trade secrets

3. International Licensing:

In this mode of entry, the domestic manufacturers lease the right to use their intellectual property,i.e., technology, work methods, patents, copy rights, band names, trade marks etc. to a manufacturerin a foreign country for a fee. Here the manufacturer in the domestic country is called ‘Licensor”and the manufacturer in the foreign country is called “Licensee’.

Licensing is a popular method of entering foreign markets. The cost of entering foreign marketsthrough this mode is less costly. The domestic company need not invest any capital as it hasalready developed intellectual property. As such, the domestic company earns revenue withoutadditional investment. Hence, most of companies prefer this mode of foreign entry.

The domestic company can choose any international location and enjoy the advantages withoutincurring any obligations and responsibilities of ownership, managerial, investment, etc.

Basic issues in International Licensing:

Companies should consider various factors in deciding negations. Each international licensingis unique and has to be decided separately. However, there are certain common factors, whichaffect most international licenses. They are: specifying the agreement’s boundaries,determining the royalty, determining rights, privileges and constraints, defining resolution methods,and specifying the duration of the contract.

- **Boundaries of the agreements:** The companies should clearly define the boundaries ofagreements. They determine which rights and privileges are being conveyed in the agreement.
- **Determination of royalty:** The most important factor in deciding the license is the amount ofroyalty. It is needless to mention that the licensor expects a high rate of royalty while the licenseewould be unwilling to pay much royalty. However, both the parties negotiate for a fair royaltyfor both sides to implement the contract more successfully.
- **Determining rights, privileges and constraints:** Another important factor in granting a license isdetermining clearly and specifically the rights, privileges and constraints. For example, if theIndian licensee of Aiwa TV uses interior inputs to reduce price, and boost sales andprofits, the image of the Japanese licensor would be damaged.
- **Dispute settlement mechanism:** The licensee and licensor should mention themechanism to settle the disputes as disputes are bound to crop up. This is because, the settlement ofdisputes in courts is costly, time-consuming and hinders business interests.
- **Agreement duration:** The two parties of the agreement specify the duration of the agreement.Licensing cannot be a short-term strategy. Hence, the duration of the licensing should not be short-term. It would always be appropriate to have long duration of the licensing. TokyoDisneyland demanded a 100-year licensing agreement with the Walt Disney company.

Advantages:

- Licensing mode carries relatively low investment on the part of licensor.
- Licensing mode carries low financial risk o the licensor.

- Licensor can investigate the foreign market without much efforts on his part.
- Licensee gets benefits with less investment on research and development.
- Licensee escapes himself from the risk of product failure.

Disadvantages:

- Licensing agreements reduce the market opportunities for both the licensor and licensee. Pepsi-cola cannot enter Netherlands and Heineken cannot sell Coca-cola.
- Both the parties have responsibilities to maintain the product quality and promoting the product. Therefore, one part can affect the other through their improper acts.
- Costly and tedious litigation may crop up and hurt both the parties and the market.
- There is scope for misunderstanding between the parties despite the effectiveness of the agreement. The best example is Oleg Cassini and Jovan.
- There is a problem of leakage of the trade secrets of the licensor.
- The licensee may develop0 his reputation.
- The licensee may sell the product outside the agreed territory and after the expiry of the contract.

4. Joint Ventures:

Two or more firms join together to create a new business entity that is legally separate anddistinct from its parents. Joint ventures are established as corporations and owned by the fundingpartners in predetermined proportions. American Motor Corporation entered into a joint venturewith Beijing Automotive Works called Beijing Jeep to enter the Chinese market by producing jeeps andother vehicles. Joint ventures involve shared ownership. Joint ventures are common ininternational business. Various environmental factors like social, technological, economic andpolitical encourage the formation of joint ventures.

Joint ventures provide required strengths in terms of required capital, latest technology,required human talent etc., and enable the companies to share the risk in the foreign markets. Jointventures involve local companies. This act improves the local image in the host country andalso satisfies the governmental requirements regarding joint ventures. Support of the hostcountry's government is essential for the success of the joint venture.

Advantages:

- A joint venture provides large capital funds.
- Joint ventures are suitable for major projects.
- Joint ventures spread the risk between or among partners.
- Different parties to the joint venture being different kinds of skills like technical skills,technology, human skills, expertise, marketing skills or marketing networks.
- Joint ventures make large projects and turn key projects feasible and possible.
- Joint ventures provide synergy due to the combined efforts of varied parties.

Disadvantages:

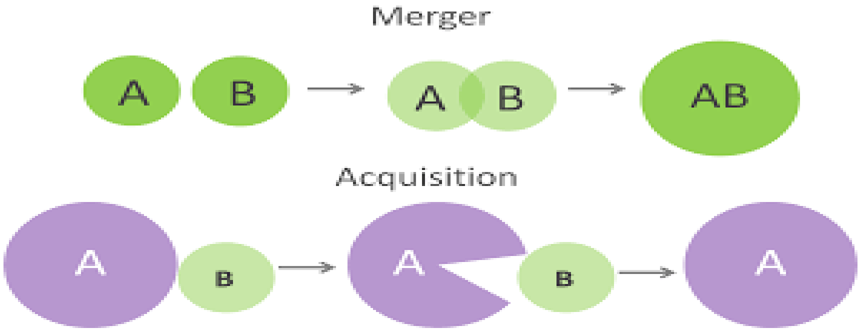
- Joint ventures are also potential for conflicts. They result in disputes between or amongparties due to varied interests. For ex., the interest of a host country's company in developingcountries would be to get the technology from its partner while the interest of a partner of anadvanced country would be to get the marketing expertise from the host country's company.
- The partners delay the decision-making once a dispute arises. Then the operations becomeunresponsive and inefficient.
- Decision-making is normally slowed down in joint ventures due to the involvement of several parties.
- The possibility of the collapse of a joint venture is more due to the entry of competitors, changes in thebusiness environment in the two countries, changes in the partners' strengths etc.
- The life cycle of a joint venture is hindered by many causes of the collapse.

How to make Joint Ventures successful:

It is indicated that joint ventures mostly fail due to potential problems and cultural variations.Harrigan suggests the following measures to make the joint venture successful.

- Don't accept a Joint venture agreement tooquickly, weigh the pros and cons.
- Get to know a partner by initially doing a limited project together, if a small project is successful, bigger projects are more feasible.
- Small companies are vulnerable to having their expertise lost to larger joint venture partners; small companies must structure such deals with great care and guard against potential losses.
- Companies with similar cultures and relatively equal financial resources work best together, keep this in mind when looking for an appropriate partner.
- Protect the company's core business through legal means, such as unassailable partners; if this is not possible, don't let the partner learn your methods.
- The joint enterprise must fit the corporate strategy of both partners, if this is not the case, there will inevitably be conflicts.
- Keep the mission of the joint enterprise small and well-defined and ensure that it does not compete with the partners.
- Give the joint enterprise autonomy to function on its own and set up mechanisms to monitor its results, it should be a separate entity from both parents.
- Learn from the joint enterprise and use this in the parent organization.
- Limit the time frame of the joint enterprise and review its progress frequently

5. Mergers And Acquisitions:



Source: Ricky Chopra International Counsels A Corporate Law (https://rcic.in/mergers-and-acquisitions-in-india/)

Domestic companies enter an international business through mergers and acquisitions. Adomestic company selects a foreign company and merges itself with the foreign company to enter the international business.

Alternatively, the domestic company may purchase the foreign company and acquires itsownership and control.

Domestic business selects this mode of entering the international business as it providesimmediate access to international manufacturing facilities and marketing networks. Otherwise, thedomestic company faces serious problems in gaining access to international markets. For eg. Cocacolaentered the Indian market instantly by acquiring the Parle and its bottling units. In addition, thedomestic company through this strategy of mergers and acquisitions may also get access to newtechnology or a patent right.

Thoughmergers and acquisitions provide easy and instant entry to global business, it wouldbe very difficult to appraise the cases of acquisitions and mergers. Sometimes it would be cheaperfor a domestic company to have an agreed field strategy than by acquisitions. Sometimes mergers andacquisitions also result in purchasing the problems of a foreign company.

Companies adopt this strategy just as a means of entering foreign markets. Procter andGamble entered Mexican tissue products in 1997 by purchasing Loreto Y. Pena Pobre'smanufacturing and marketing systems.

6. Turnkey Project

A turnkey project is a contract under which a firm aggress to fully design, construct and equip amanufacturing/ business/ service facility and turn the project over to the purchaser when it is readyfor operation for a remuneration. The forms of remuneration include:

- A fixed price (firm plans to implement the project below the price)
- Payment on cost-plus basis (total cost incurred plus profit)

In1974, TheIndonesian Governmentinvited global tenders for the construction of a sugar factory inthe country. The Indonesian Government received the tenders from the companies of the USA, the UK,France, Germany, and Japan. One of the Japanese companies quoted the highest price compared to allother companies.

So, the Indonesian Government studied the quotation. this quotation includes: development of thefields for growing sugarcane, development of seedlings, construction of sugar factory, roads,communication, connecting the factory, training the local market, plans for the export of surplus sugar,etc. It also made provision for the transfer of the factory along with the total package to theIndonesian Government and follow-up the activities after it is transferred to the IndonesianGovernment.

The Indonesian Government was very much satisfied with the total package and invited the Japanesecompany to implement the project. The Japanese company Indonesian Government entered anagreement for the implementation of this project by the Japanese company for a price. This project iscalled the “Turnkey Project”.

International Turnkey Projects include:

- Nuclear Power Plants
- Air Ports
- Oil refinery
- National Highways
- Railway Lines

The companies normally approach the host country’s government or International FinanceCorporation, Export-Import Bank, and the like for financial assistance as the turnkey projects requirehuge finances.

The recent approach to turnkey projects is Build, Operate, and Transfer (B-O-T). the companybuilds the manufacturing/services facility, operates it for some time, and then transfers it to the hostcountry’s government.

7. Contract Manufacturing:

Some companies outsource their part of or entire production and concentrate on marketingoperations. This practice is called contract manufacturing or outsourcing.

Advantages:

- International business can focus on the part of the value chain where it has distinctivecompetence.
- It reduces the cost of production as the host country’s companies with their relative costadvantage produce at low cost.
- Small and medium industrial units in the host country can also develop as most of theproduction activities take in these units.
- The international company gets the locational advantages generated by the host country’sproduction.

Disadvantages:

- Host countries' companies may take up the marketing activities also, hindering the interest ofthe international company.
- The host country's companies may not strictly adhere to the production design, quality standards,etc. These factors result in quality problems, design problems, and other surprises.
- The poor working conditions in the host country's companies affect the company's image.For example, Nike has suffered a string of blows to its public image because of reports ofunsafe and harsh working conditions in Vietnamese factories churning our Nike foot ware.

3.8 ORGANIZATIONAL ISSUES OF INTERNATIONAL BUSINESS

Issues and challenges regarding organizational policies are inevitable for any international business. To keep the business profitable, these issues and channels have to be solved and addressed very carefully. Some of the major issues regarding organizational policies are as follows -

Centralization vs. Decentralization

When the authority of the organization is concentrated on only a few central points, it is known as centralization. Only selected people are involved in the decision-making process. The process of centralization involves the following aspects -

- Only the top-level management is involved in decision-making
- The operations are carried out by the mid-level managers
- The top-level management directs the operations of the subordinates.

The top-level management takes decisions regarding the operational activities of the lower management.

When the authority of the organization is distributed among all the levels of management, it is known as decentralization. The important decisions regarding the policies of the organization are mostly taken by the top-level management. The rest is distributed among the mid and lower-level management.

What is the use of a Subsidiary Board of Directors?

The top-level management of the international business is being monitored and directed by a board of directors. This board of directors has assigned certain responsibilities. They are -

- The board of directors has to advise, appraise and approve the decisions relating to the local management.
- Assist the management in facing the local challenges and solving the local issues
- Assist top management in strategic planning
- The ethical issues of the company have to be supervised.

3.9 ORGANIZATIONAL STRUCTURE:

An organizational structure defines how activities such as task allocation, coordination,and supervision are directed towards the achievement of organizational aims. It can also beconsidered as the viewing glass or perspective through which individuals see their organizationand its environment.Organizations are a variant of clustered entities.

An organization can be structured in many different ways, depending on its objectives.The structure of an organization will determine the modes in which it operates and performs.Organizational structure allows the expressed allocation of responsibilities for differentfunctions and processes to different entities such asthe branch, department, workgroup, and individual. It affects organizational action in two bigways. First, it provides the foundation on which standard operating procedures and routines rest.Second, it determines which individuals get to participate in which decision-making processes,and thus to what extent their views shape the organization's actions.

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

1. External environment
2. Overall aims and purpose of the enterprise
3. Objectives
4. Activities
5. Decisions
6. Relationships
7. Organization structure
8. Job structure
9. Organization climate
10. Management style
11. Human resource

Types of organizational structure

1) International division's structure:

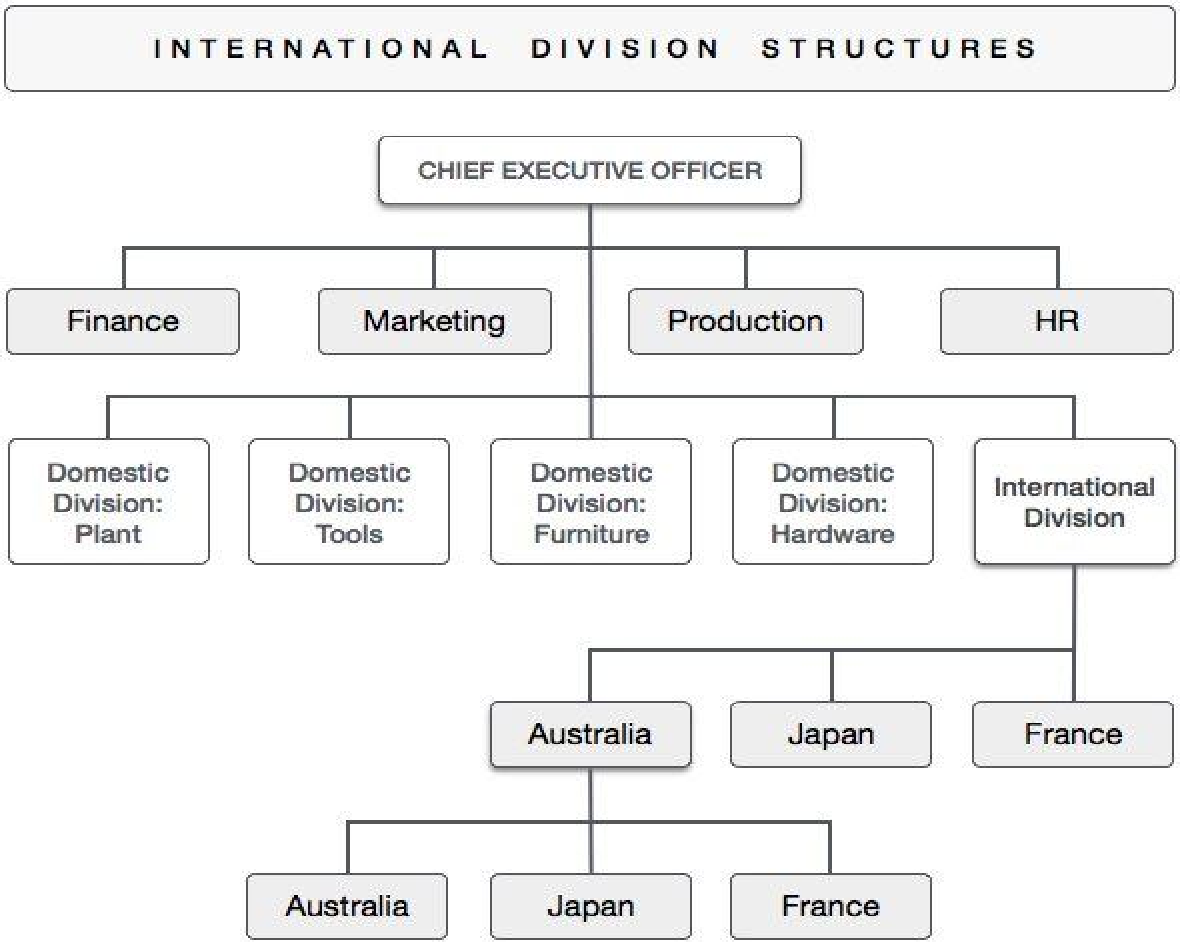
Grouping each international business activity into its division, puts internationallyspecialized personnel together to handle such diverse matters as export documentation, foreignexchangetransactions, and relations with foreign governments.

Advantages

- The top management is exposed to the knowledge about the attitude of the foreign market.
- The international operations are performed united.

Disadvantages

- It requires separate managers locally for managing the international counterparts.
- Global allocation of resources turns out to be very difficult.



2) Functional division's structure:

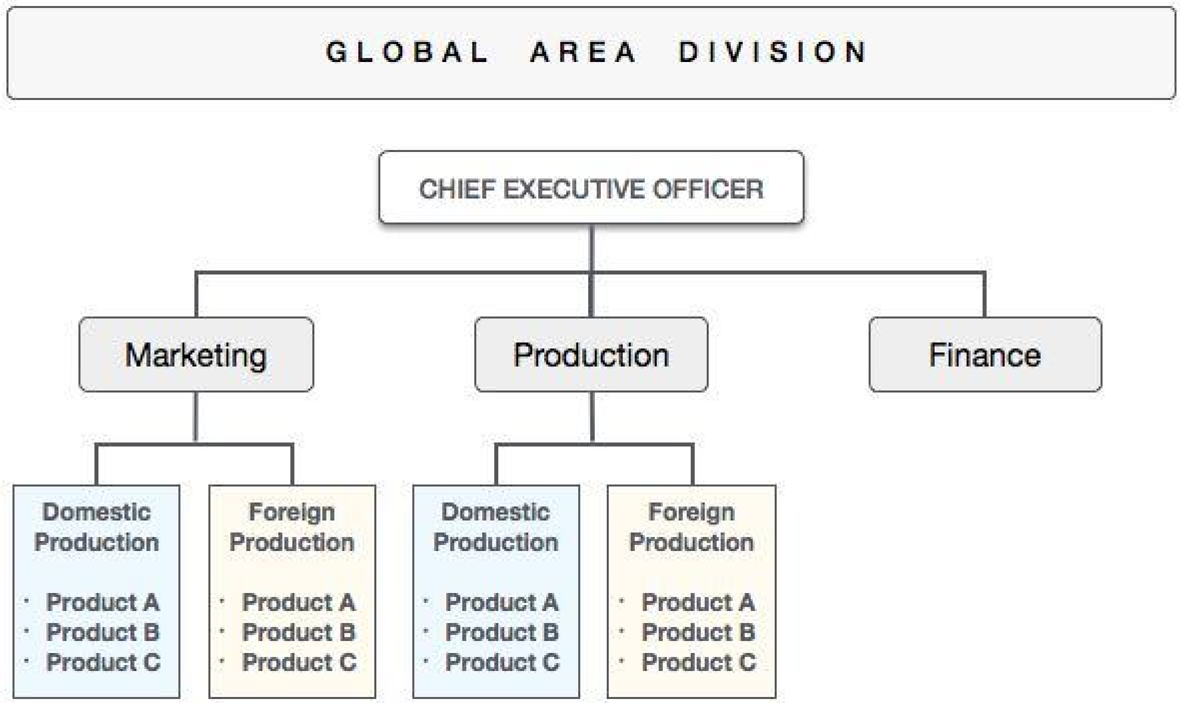
It emphasizes specific functions such as manufacturing, marketing, finance, and so on. It ismore suitable where the products and customers are few and homogeneous.

Advantages

- More emphasis is given to functional leadership, leaner managerial staff, and centralized control.
- The businesses that require control of the integrated production mechanisms adopt this practice of the Global Functional Division.
- This model is best suitable for businesses that involve in the transportation of goods and raw materials.

Disadvantages

- This model is not suitable for all business types. This model best suits only oil and mining firms.
- The coordination of the different processes becomes difficult.
- Since the different processes are not integrated, management of all the processes turns out to be difficult.



3) Product division structure:

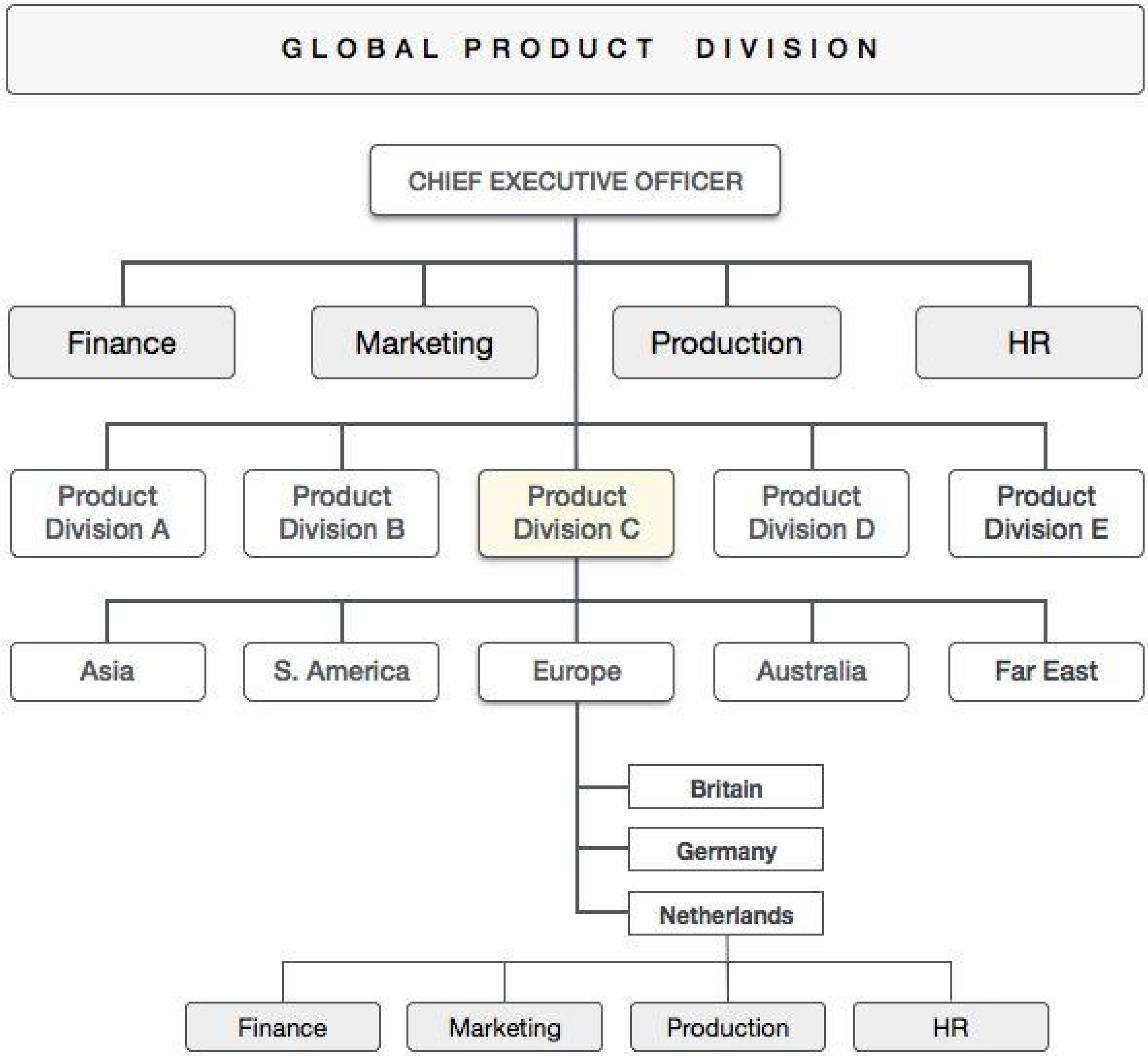
It is more common in international business and more suitable in the case of a multiple brandsystem. In this case, there are different product divisions, in each division, there are subdivisions.

Advantages

- Product, technology, and customer diversity are managed
- All the local needs are catered
- This model facilitates the coordination of all the different departments such as marketing, production, and finance.

Disadvantages

- There is a possibility of the existence of duplication of the staff.
- Usually, the managers get deviated from concentrating on the long-term goals.
- Only the local market is concentrated by the division managers.



4) Geographic (Area) division structure:

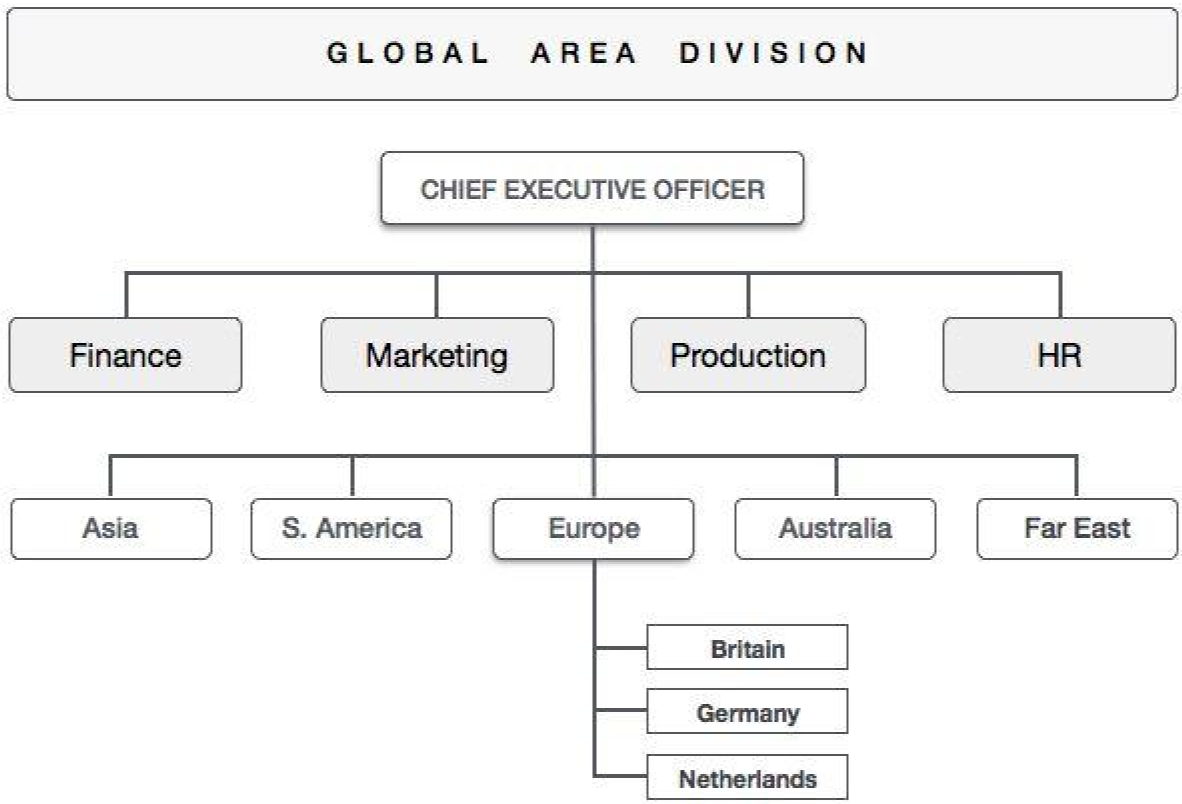
In the case of area structure, the organization is based on the geographic areas, namely, Asia, Africa, Latin America, and so on, and the operation is divided accordingly.

Advantages

- The operations at the domestic and international levels remain to be the same.
- The operations of the specific geographical area are being managed by the global managers
- The unit cost can be reduced.

Disadvantages

- According to the geographic locations, it is very difficult to align the product
- No efforts are being put on R&D.



5) Matrix division structure:

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

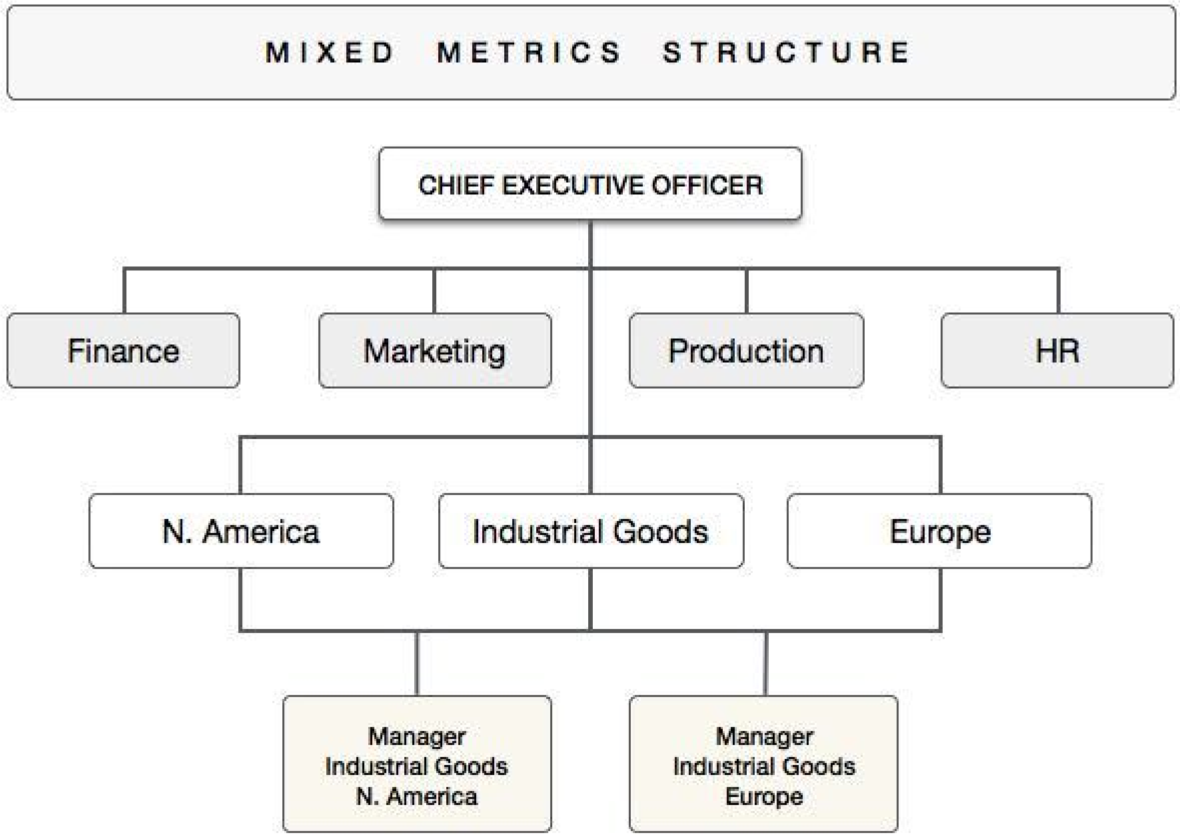
This is found in multi-product firms where one group of products needs the area structure ofthe organization, while the other group of products needs functional structure, and for yet anothergroup, product structure is found more appropriate.

Advantages

- All the individual needs of the business are met.
- By the local needs ad priorities, the approach is tailored-made.

Disadvantages

- The structure is very complex and it is a combination of one or more models.
- The structure involves too many independent groups.



Source: https://www.wisdomjobs.com/e-university/international-business-management-tutorial-2652/organizational-structures-26914.html(Types of organizational structure- figures)

6) Mixed structure:

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

3.10 CONTROLLING OF INTERNATIONAL BUSINESS

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

Types/Methods of control systems:

1. **Personal controls:** It is controlled by personal contact with subordinates.
2. **Bureaucratic controls:** The control through a system of rules and procedures that directsthe actions of sub-units.

3. **Output controls:** It involves setting goals for subsidiaries to achieve; expressing thesegoals in terms of relatively objective criteria such as profitability, productivity, growth,market share, and quality.

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

1) Strategic
2) Organizational
3) Operational

Strategic Control:

Strategic control is intended to monitor both how well an international business formulatesa strategy and how well it goes about implementing that strategy. Strategic control thusfocuses on how well the firm defines and maintains its desired strategic alignment with thefirm’s environmentand how effectively the firm is setting and achieving its strategic goals. Forexample, several years ago Germany’s largest automobile manufacturer, Daimler-Benz, boughtChrysler, the third-largest automaker in the United States. At the time this decision seemedlogical.For instance, managers believed that the firms could learn from each other, that theirexisting product lines and organizational strengths complemented one another, and that thecombinedfirm would be able to compete more effectively in global markets with other behemothssuch as General Motors, Ford, and Toyota. As it turned out, though, this ended up being apoor strategic decision. The anticipated synergies and efficiencies could never be achieved andso Chrysler was subsequently sold to a group of private investors.

Strategic control also plays a major role in the decisions firms make about foreign-marketentry and expansion. This is especially true when the market holds both considerable potentialand considerable uncertainty and risk.

Organizational Control:

Organizational control focuses on the design of the organization itself. As discussed previously,there are many different forms of organization design that an international firm can use.However, selecting and implementing a particular design does not necessarily end the organization'sdesign process. For example, as a firm’s environment or strategy changes, managers mayneed to alter the firm’s design to better enable the firm to function in the new circumstances.Adding new product lines, entering a new market, or opening a new factory—all can dictate theneed for a change in design.

The international firm generally uses one or more of three types of organizational control systems:

A. Responsibility Centre Control:

The most common type of organizational control system is a decentralized one calledresponsibility centre control. Using this system, a firm first identifies fundamentalsresponsibility centers within the organization. Strategic business units are frequentlydefined as responsibility centers, as are geographical regions or product groups.

B. Generic Organizational Control:

A firm may prefer to use a generic organization across its entire organization; that is, thecontrol systems used are the same for each unit or operation, and the locus of authoritygenerally resides at the firm's headquarters.

C. Planning Process Control:

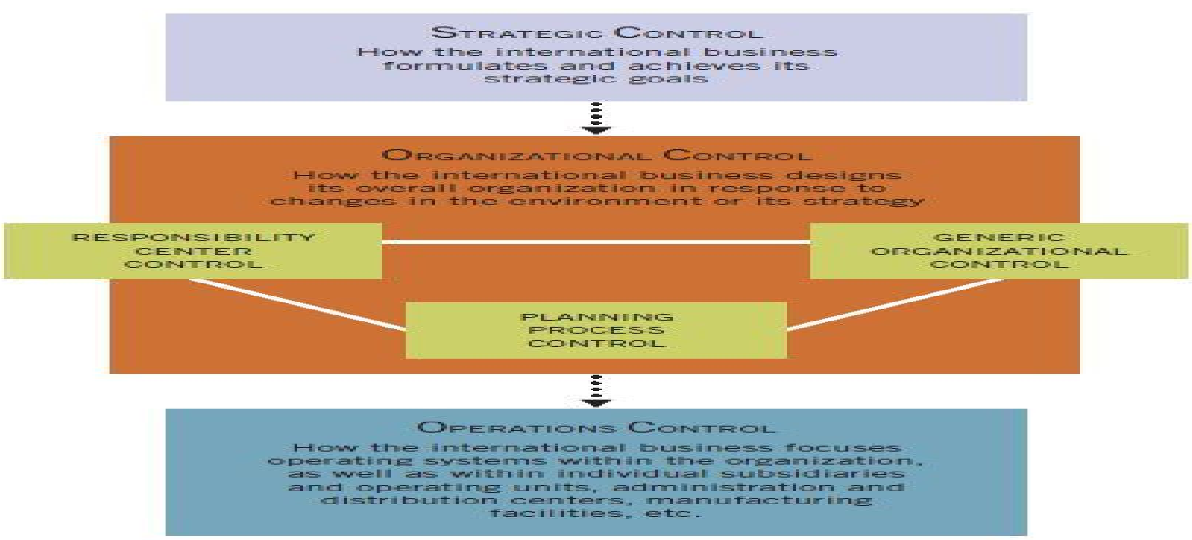
The third type of organizational control, which could be used in combination with eitherresponsibility center control or generic organizational control, focuses on the strategicplanning process itself rather than on outcomes. Planning process control calls for a firmto concentrate its organizational control system on the actual mechanics and processes itsuses to develop strategic plans.

Operations Control:

Operations controlfocuses specifically on operating processes and systems within both the firm and its subsidiariesand operating units. The firm also may need an operations control system for each of its manufacturingfacilities, distribution centers, and administrative centers.

Strategic control often involves periods of several years, while organizational controlmay deal with periods of a few years or months. Operations control, however, involves relativelyshort periods, dealing with components of performance that need to be assessed on aregular—perhaps daily or even hourly—basis. An operations control system is also likely to bemuch more specific and focused than strategic and organizational control systems.

For example, a manufacturing firm may monitor daily output, scrappage, and workerproductivity within a given manufacturing facility, whereas a retail outlet may measuredaily sales. A firm that wants to increase the productivity of its workforce or enhance thequalityof its products or services primarily will use operations control to pursue these goals.Operations control usually focuses on the lower levels of a firm, such as first-line managers andoperating employees.

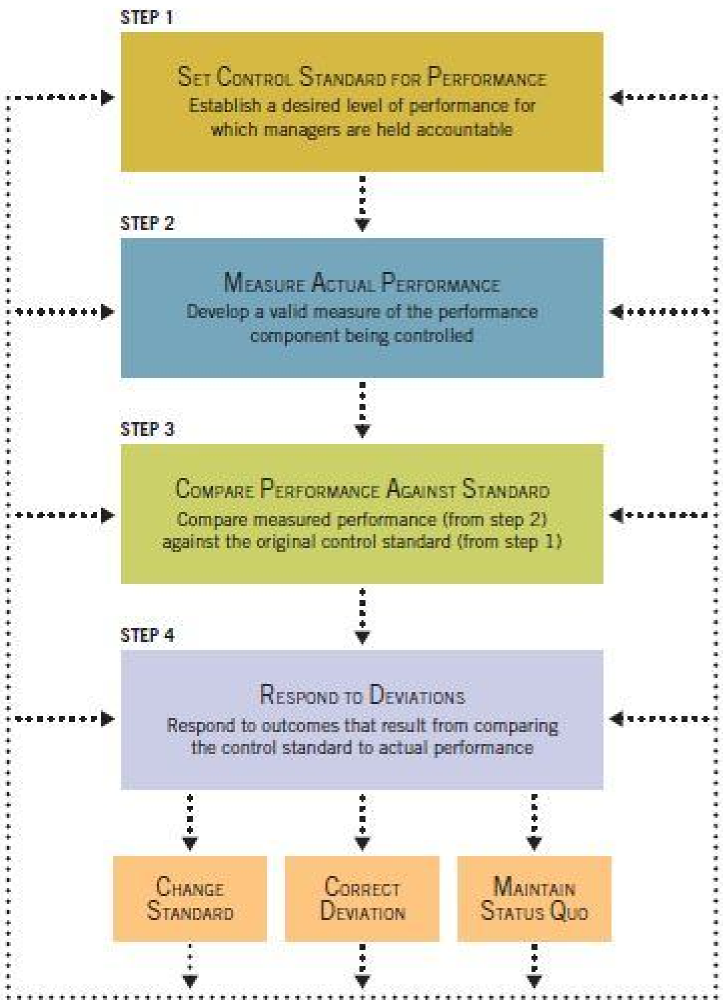


Source: (Griffin)- International Business: A managerial perspective, eight edition

Establishing International Control Systems

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

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



Source: (Griffin)- International Business: A managerial perspective, eight edition

3.11 SET CONTROL STANDARDS FOR PERFORMANCE

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

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

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

Measure Actual Performance

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

Compare Performance Against Standards

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

Responding to Deviations

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

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

Depending on the circumstances, managers have many alternative responses to theseoutcomes. If a standard has not been met and the manager believes it is because of performancedeficiencies on the part of employees accountable for the performance, the manager may mandatehigher performance, increase incentives to perform at a higher level, or discipline or eventerminate those employees.

Essential Controlling Techniques

Because of the complexities of both the international environment and international firmsthemselves, those firms rely on a wide variety of different control techniques. We do notdescribe them all here but introduce a few of the most important ones.

1) **Accounting Systems:**

Accounting is comprehensive for collecting, analyzing, and communicating data abouta firm's financial resources. Accounting procedures are heavily regulated and must followprescribed methods dictated by the national government. Because of these regulations andsystems accounting process can be a good controlling technique.

2) **Procedures:**

Firms also use various procedures to maintain effective control. Policies, standardoperating procedures, rules, and regulations all help managers carry out the controlfunction.

3) **Performance Ratio:**

International firms also use various performance ratios to maintain control. Aperformance ratio is a numerical index of performance that the firm wants to maintain. Acommon performance ratio used by many firms is inventory turnover. Holdingexcessive inventory is dysfunctional because the inventory ties up resources that couldotherwise be used for different purposes and because the longer materials sit in inventory,the more prone they are to damage and loss.

Controlling Quality in International Business

Control also helps firms maintain and enhance quality has become such a significantcompetitive issue in most industries that control strategies invariably have quality as a centralfocus.

Quality is of vital importance for several reasons:

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

Quality consist of eight dimensions:

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

8. **Perceived quality** is the level of quality as seen by the customer.

Quality Improvement Tools

I. **Statistical process control:** is a family of mathematically-based tools for monitoring andcontrolling quality. Its basic purpose is to define the target level of quality, specify anacceptable range of deviation, and then ensure that product quality is hitting the target.
II. **Benchmarking:** is the process of legally and ethically studying how other firms dosomething in a high-quality way and then either imitating or improving on their methods.
III. **Total Quality Management (TQM):** is an integrated effort to systematically andcontinuously improve the quality of an organization's products and /or services. Thecomponents of TQM are – a strategic commitment to quality, employee involvement, high-qualitymaterials, up-to-date technology, and an effective process.

3.12 PERFORMANCE OF GLOBAL BUSINESS:

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

Business Issue Addressed:

Sales & Channel Management

Key Features and Benefits:

- Data from many disparate sources can be harmonized and integrated to give oneconsistent, accurate and actionable view of a company's performance across manydifferent markets.
- Sales, trends, performance, issues, and opportunities can be identified across multiplecountries, regions, and categories a few days after the data is available, rather than weeksor months later.
- This approach ensures the fast identification of global sales, marketing, and supply chainopportunities, and provides the ability to focus on the key issues, and expand the solutionwhen and where required

3.13 PERFORMANCE EVALUATION SYSTEM

It can be defined as, "the periodic review of operations to ensure that the objectives of theenterprise are being accomplished".

Various performance indicators:

1) Financial measures
   a) Return on investment(ROI)
   b) Budget as a success indicator
2) Non-financial measures.

Types of performance evaluation system

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

Case study

The AMSUPP–NIPPONSUPP Story

An American multinational company, “AMSUPP,” had a very strong market position in an industrial supplies business in all major countries except Japan. There they had set up a joint venture with the leading Japanese company in the industry, “NIPPONSUPP.” The venture gave AMSUPP a 45 percent ownership in return for technology transfer as well as capital investment. In discussing global coverage and global market share, the AMSUPP managers included Japan in their calculations. With Japan, AMSUPP’s global market participation looked very complete. Japan’s inclusion was particularly important and AMSUPP’s managers identified the country as the most globally strategic country, even more than the United States. Unfortunately, the way in which the venture was set up and the way in which the AMSUPP managers operated really negated the possibility of genuine participation by AMSUPP.

First, AMSUPP owned a share only of the manufacturing subsidiary of NIPPONSUPP and not a share of the parent company, which was responsible for marketing and sales. AMSUPP, therefore, had no legal right to access NIPPONSUPP’s markets and customers. Second, while NIPPONSUPP had sent marketing representatives to the United States to learn from AMSUPP about the American market, AMSUPP had not done the same in Japan. Many American companies have found that in joint ventures with Japanese companies, the latter have gained far more access to their American partners’ knowledge than have the former to their Japanese partners’ knowledge. In effect, AMSUPP did not participate in the Japanese market in any strategic sense: They merely had a financial investment and not a very profitable one either. When the AMSUPP managers understood their problem and tried to change it, they found that they were in the proverbial position of riding a tiger: they could not get off for fear of being eaten.

In this case, if AMSUPP ended the joint venture, they would lose all their business in Japan. Worse, they had created the tiger themselves by setting up NIPPONSUPP with the best technology. That, combined with NIPPONSUPP’s manufacturing skills, resulted in NIPPONSUPP’s products being of higher quality than AMSUPP’s. AMSUPP now had to maintain the relationship in order to prevent NIPPONSUPP from becoming a fearsome global competitor.

Question: What are the issues in this joint venture? What is your reaction to the following statement: Joint ventures and alliances help much more in strengthening the core strategy and the internationalization strategy than theglobalization strategy.

Source: Marios I. Katsioloudes& Spyros Hadjidakis - International Business: A global perspective

Self-Assessment Questions

1. How does management exercise control of businesses inyour country?

2. Find examples of businesses that use the threecommontypes of international organizational control.Which of the three is more common?

3. If a new organization starts with a globalperspective,will it necessarily experience any of theinitial impacts of international activity on organizationdesign? Why or why not?

4. Discuss the merits and demerits of the following strategies to enter international business: (i) Licensing, (ii) Exporting, and (iii) Joint Venture.

5. What do you mean by merger and acquisition? Give some examples of mergers and acquisitions.

UNIT IV

LESSON-4PRODUCTION, MARKETING, FINANCIAL AND HUMAN RESOURCE MANAGEMENT OF GLOBAL BUSINESS

CONTENTS

Learning Objectives

Overview

4.1 Meaning of Global production

4.2 Global production- Make or Buy decisions

4.3 Globalization of markets- definition and strategy

4.4 Challenges in product development

4.5 Investment decisions

4.6 Training and development

Case Study

Self-Assessment Questions

LEARNING OBJECTIVES

- Understand the Globalisation of markets
- Explain the investment decisions
- Get an overview of international supply chain management
- Discuss the make or buy decisions

Learning outcomes: Upon completion of the lesson, students can demonstrate a good understanding of:

- Basics of international supply chain management and issues
- Analyzing the advantages of global production
- List out the challenges in product development

GLOBAL PRODUCTION STRATEGIES:

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

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

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

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

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

INTERNATIONAL LOCATION DECISIONS:

Major Issues:

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

The major issues in this study are as follows:

1. Identification of motivations of firms that seek to manufacture across the borders.
2. Determination of steps in the international location decision process.
3. Identifying the most difficult problem in making an international location decision andrecommending ways to overcome the problem.
4. Identification of factors relating to international location decisions by asking the expertsindicates the importance of each of the thirteen major factors using a seven-point scale.Explanatory on the importance of sub-factors and the sectors, types of business, or countries inwhich they are most relevant.
5. Identifying factors that need to be considered in international location decisions regardingthe location ofmanufacturing plants in different geographical areas i.e. Western Europe, Eastern Europe, Japan,United States, Middle-East, Far-east, Africa, and Latin America from experts' points of view.
6. Identifying factors that need to be considered in international location decisions under the locationof parent company I United States, United Kingdom, Western Europe, and Japan from experts'points of view.
7. Identifying factors that need to be considered in international location decisions under the type ofbusiness i.e. Automotive/Motor Vehicles, Electronic Products/IT and Software, ElectronicEquipment and Appliances, Textiles/Apparel, Consumer products/ Food and Beverages,Rubber/Plastics, Chemical/Petroleum and Coal and other businesses from experts' points ofview.
8. Identifying factors that need to be considered in international location decisions under the natureof the firm i.e. world-class manufacturing, large company, and medium-sized company byidentifying the top four important factors from experts' points of view.

SCALE OF OPERATIONS:

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

Economies of Scale and International Trade

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

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

The WTO can cut the cost of doing business internationally

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

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

Trade allows a division of labor between countries.

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

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

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

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

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

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

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

“Trade facilitation” has become an important subject in the Doha Round negotiations.Red tape and other obstacles are like a tax on trade. The saving from streamlining procedurescould be 2% –15% of the value of the goods traded, according to estimates by the Organizationfor Economic Cooperation and Development (OECD). The Peterson Institute for InternationalEconomics estimates that it could add $117.8 billion to the world economy (global GDP). TheWorld Bank says that for every dollar of assistance provided to support trade facilitation reformin developing countries, there is a return of up to $70 in economic benefits.

MAKE-OR-BUY DECISION:

When it comes to production activities, MNE managers struggle with a make-or-buy decision:Which should be performed internally and which could be subcontracted to independentcompanies? In the case of subcontracting, a company must also decide whether the activitiesshould be carried out in the home market or abroad. This involves developing a strategy thatinvolves the three flatteners: outsourcing, offshoring, and supply-chaining.

In deciding whether to make or buy, MNEs can focus on those parts of production that arecritical to the product and that they are particularly good at making. They can outsource partswhen suppliers have a distinct comparative advantage, such as greater scale, lower cost structure,or stronger performance incentives. They can also use outsourcing as an implied threat tounderperforming employees: Improve, or we move the business elsewhere. The MNE mustdetermine the design and manufacturing capabilities of potential suppliers compared to itscapabilities. If the supplier has a clear advantage, management needs to decide what itwould cost to catch up to the best suppliers and whether it would make sense to do so.

International businesses invariably face decisions about whether they make all or just some of the components used in their final product and therefore buy-in from other sources (outsourcing) those components they decide not to make. This make-or-buy decision is related to the degree to which a firm is vertically integrated: that is, the extent to which a firm is its supplier and market. At one extreme a firm can make all of its inputs and be its supplier; at the other extreme, it can buy all its inputs and rely on external suppliers. Partial integration implies that some components are made and others bought.

A major benefit of making inputs (backward or upstream integration) is the degree of control maintained over cost, quality, and timeliness of delivery. Major drawbacks are the cost of investment and the expertise needed to provide these inputs. A benefit of buying is the ability to choose one or more suppliers. A corresponding drawback is areliance on suppliers.

Advantages of Make Decisions

- control over costs
- control over quality
- control over delivery
- not competing for supply
- develop new expertise

Drawbacks of Make Decisions

- increased investment

- need for expertise
- need for management
- may be inefficient
- overspecialization

Advantages of Buy Decisions

- choice among suppliers
- avoid their business risks
- no additional investment
- no need to learn about a new business

Drawbacks of Buy Decisions

- reliance on outsiders
- need to compete for supplies
- supplier may go out of business

Make-or-buy decisions in an international firm may be complicated because they are made relative both to the whole company and to each of its subsidiaries. Three make-or-buy options exist:

1. A subsidiary is fully integrated and makes its parts
2. A subsidiary is vertically integrated with other parts of the company and buys inputs from other subsidiaries or the parent company.
3. There is no vertical integration and inputs are obtained from outside suppliers.

The ‘real world is seldom so simple and a wide variety of combinations is possible. However, there is another way to obtain some of the benefits of vertical integration without incurring some of the costs through strategic alliances. The principal cost may be giving away technological know-how.

Strategic alliances in the make-or-buy context may be said to come in two sizes. The larger is between two or more companies of similar size. Alliances between Kodak and Canon to manufacture copiers to be sold by Kodak; between Motorola and Toshiba to cross-license their respective technologies; and between General Motors and Toyota to build the Chevrolet Nova as a joint venture are came under this context. The smaller size strategic alliance is between a large company such as Toyota and several small-parts suppliers, some of whom supply only Toyota while others supply most of their output to Toyota. This is the more likely scenario in the make-or-buy situation, where Toyota does not have production facilities for all of the thousands of parts needed to construct a motor vehicle.

GLOBAL SUPPLY CHAIN MANAGEMENT:

The supply chain is the network that links together the different aspects of the value chainand coordinates materials, information, and funds from the initial raw-material supplier to the ultimate customer.

Supplychain management refers to activities in the value chain that occur outside thecompany, whereas operations management (also known as logistics management) oftenrefers to internal activities.

For example, Toyota assembles parts into a car. The assembly ispart of the operations of the company, and the supply chain gets the parts to the factory andthe final product to consumers worldwide.

Suppliers can be part of the company's organizational structure, such as in a verticallyintegrated company, or they can be independent of it. Direct suppliers have their networks. For example, Foxconn, a contract manufacturer for Apple, has a network ofsuppliers used in the manufacturing of Apple products in its factories in China. In a globalcontext, they can be located in the country where the manufacturing or assembly takes place,or they can be located elsewhere and ship materials to the final assembly facility or anintermediate storage point. Manufacturing process output can be shipped directly to the customersor to a warehouse network and sold directly to the end consumer or a distributor,wholesaler, or retailer, then on to the final consumer. As is the case in the supplier network,the output can be sold domestically or internationally.

GLOBAL SUPPLY CHAIN ISSUES:

Supply chain management (SCM) is "the systemic, strategic coordination of thetraditional business functions and the tactics across these business functions within a particularcompany and across businesses within the supply chain, to improve the longterm performance of the individual companies and the supply chain as a whole." It has alsobeen defined as the "design, planning, execution, control, and monitoring of supply chainactivities to create net value, building a competitive infrastructure,leveraging worldwide logistics, synchronizing supply with demand and measuring performanceglobally."

The main functions of Supply Chain Management are as follows:

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

Factors in Supply Chain Strategy

One piece in the supply chain strategy for both manufacturing and services is operations:the conversion of inputs into outputs. The success of a global operations strategy depends onfour key factors: *compatibility, configuration, coordination, and control.*

Compatibility: Compatibility in this context is the degree of consistency between theforeigninvestment decision and the company's competitive strategy. Here are some factors that companiesmust consider as they align their overall strategy with operations:

- **Efficiency/cost**—reduction of operational costs
- **Dependability**—degree of trust in a company's products, its delivery, and its price promises

- **Quality**—performance reliability, good service, speed of delivery, and dependable productmaintenance
- **Innovation**—ability to develop new products and ideas
- **Flexibility**—the ability of the production process to make a variety of products and adjust the volume of output

Manufacturing Configuration: MNEs must consider three basic configurations in establishinga global manufacturing strategy:

- **Centralized Manufacturing**—A manufacture-and-export strategy that offers aselection of standard, lower-priced products to different markets, centralizing is commonfor companies new to exporting, and is typically done through their home-country facilities.It is also important for expensive items for which economies of scale in manufacturingare important and for which there is little need for localization for consumption indifferent markets, such as aircraft. Samsonite, which will be described in more detail inthe closing case, is a U.S.-based luggage maker that has recently but steadily establisheditself in Asian markets as a brand to contend with, closely following its conquest of theEuropean baggage market.
- **Regional Manufacturing**—These facilities serve customers within a specific region, asSamsonite initially did in Europe with its production facilities in Belgium, and as Toyotais doing in developing countries. Dell assembles computers in Brazil and exports themto different markets in South America—another example of a regional strategy since itdoesn't assemble computers in every country where it sells them.
- **Multidomestic Manufacturing**—Market expansion in individual countries, especially whenthe demand there becomes significant, might entail this approach in which a firm manufacturesproducts close to its customers, using country-specific manufacturing facilities to meet local needs. This is the approach that Philips, the Dutch electronics company,used after World War II. Because there were barriers to entry in European countries, andto maintain market share in the individual countries, Philips had to manufactureon a country-by-country basis. The reduction of trade barriers lessens the need to havemanufacturing facilities in every country, but country size may result in firms establishingmanufacturing facilities to supply the local market. Unless an MNE has such facilities inevery country it operates in, it must combine exporting with manufacturing. In reality,MNEs choose a combination of these approaches depending on their product strategies.

Coordination and Control: Coordination and control fit well together. Coordination is thelinking or integrating of activities into a unified system.16 The activities include everythingalong the global supply chain, from purchasing to warehousing to shipment. It is hard tocoordinate supplier relations and logistics activities if those issues are not considered whenthe manufacturing configuration is set up.

Once the company determines the manufacturing configuration it will use, it must adopta control system to ensure that company strategies are carried out. Control can be the measuringof performance so a firm can respond appropriately to changing conditions.

The Purchasing Function

The purchasing agent is the link between a company's outsourcing decision and its supplierrelationships. Just as companies go through stages of globalization, so does the purchasingagent's scope of responsibilities. Typically, purchasing goes through four phases beforebecoming "global":

1) Domestic purchasing only
2) Foreign buying based on need
3) Foreign buying as part of procurement strategy
4) Integration of global procurement strategy

Phase 4 occurs when the company realizes the benefits that result from the integration andcoordination of purchasing on a global basis and is most applicable to the MNE—as opposedto, say, the exporter.

When purchasing becomes this global, MNEs often face the centralize/decentralizedilemma. Should they allow each subsidiary to make every purchasing decision, or shouldthey centralize all or some of them? The primary benefits of decentralization includeincreased production-facility control over purchases, better responsiveness to facilityneeds, and more effective use of local suppliers. The primary benefits of centralizationare increased leverage with suppliers, better prices, eliminating of administrative duplication,allowing purchasers to develop specialized knowledge in purchasing techniques,reducing the number of orders processed, and enabling purchasing to build solid supplierrelationships.

Major Sourcing Strategies Companies pursue five major sourcing strategies as theymove into phases 3 and 4 in the preceding list. Moving from the simple to the complex(where there is no difference between domestic and foreign sources), they are:

1) Assigning domestic buyer(s) for international purchasing
2) Using foreign subsidiaries or business agents
3) Establishing international purchasing offices
4) Assigning responsibility for global sourcing to a specific business unit or units
5) Integrating and coordinating global sourcing.

Information Technology and Global Supply-Chain Management

A comprehensive supply-chain strategy is most effective with a strong commitment to informationtechnology (IT), which aids in quick and efficient production, proficient inventor management, effective supplier communication, and customer satisfaction. Some of the IT tools are discussed below.

1. **Electronic Data Interchange (EDI):** The electroniclinkage of suppliers,customers, and third-partyintermediaries to expeditedocuments and financial flows.
2. **Enterprise Resource Planning (ERP):** Software that can link information flows from different parts of a business and different geographic areas.

3. **Material requirements planning (MRP):** Computerized informationsystem that addressescomplex inventory situationsand calculates the demandfor parts from the productionschedules of the companiesthat use the parts.
4. **Radiofrequency ID (RFID):** A system that labels productswith an electronic tag,which stores and transmitsinformation regarding theproduct's origin, destination,and quantity
5. **E-commerce:** The use ofthe Internet to join togethersuppliers with companies andcompanies with customers.

QUALITY CONSIDERATIONS IN INTERNATIONAL BUSINESS:

Outsourcing is a strategic management option rather than just another way to cut costs.The decision to outsource is often made in the interests of lowering costs, redirecting orconserving energy directed at the competencies of a particular business, or making moreefficient use of labor, capital, technology, and resources. It aims to help companies achievetheir business objectives through operational excellence.

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

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

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

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

When taking on the challenge of outsourcing your testing, many things should beconsidered and accounted for before any contract is signed.

QUALITY

An important aspect of all levels of the global supply chain is quality management, for servicefirms as well as manufacturers. Quality can be defined here as meeting or exceedingcustomer expectations. More specifically, it is conformance to specifications, value, fitness foruse, support (provided by the company), and psychological impressions (image). Qualityinvolves the careful design of a product or service and ensuring that an organization's systems canconsistently produce the design.48 For example, no one wants to buy computer software thathas a lot of bugs, but they need to get the software to market quickly may mean speeding it there assoon as possible and correcting errors later. In the airline industry, service is key. Some airlines,such as Singapore Air, have developed a worldwide reputation for excellence in service—adistinct competitive advantage, especially when trying to attract business travelers.

Zero Defects

Quality now refers to zero defects, an idea perfected by Japanese manufacturers who refuseto tolerate flaws of any kind. Before this strong emphasis on getting rid of defects, manycompaniesoperateaccording to the premise of Acceptable Quality Level (AQL), whichheld that a few faulty products would be dealt with through repair facilities and servicewarranties. This type of manufacturing/operating environment required buffer inventories,rework stations,and expediting, to push through products as fast as possibleand then deal with the mistakes later. However, world-class companies prefer zero defectsand they realize that taking quality seriously is the only way to beat the competition.

Lean manufacturing

A productive system whose focusis on optimizing processesthrough the philosophy ofcontinual improvement.

Total quality management (TQM)

A process thatstresses customer satisfaction,employee involvement, andcontinuous improvement ofquality. Its goal is to eliminateall defects.

Just-in-time (JIT) approachto inventory management

A system that sources rawmaterials and parts justas they are needed in themanufacturing process.

Kanban

A kanban system facilitates JITby using cards to control theflow of production through afactory.

Six Sigma

A quality controlsystem aimed at eliminatingdefects, slashing product cycletimes, and cutting costs acrossthe board.

QUALITY STANDARDS

There are three different levels of quality standards: g**eneral, industry-specific, and company-specific**.The first is a general standard, such as the Deming Award, which is presented to firmsthat demonstrate excellence in quality, or the Malcolm Baldrige National Quality Award,which is presented annually to companies that demonstrate quality strategies and achievements.However, even more, important than awards is certification of quality.

General-Level Standards

The International Organization for Standardization (ISO)in Geneva was formed in 1947 to facilitate the international coordination and unificationof industrial standards. From the beginning, it has partnered with the IEC (InternationalElectrotechnical Commission), which is the originator of global technical standards. Italso collaborates with the International Telecommunications Union and the World TradeOrganization. As an NGO, the ISO represents a network of standard setters in 162 countriesand has established over 19,500 international quality standards.

- **ISO 9000:** A global set ofquality standards intended topromote quality at every levelof an organization.
- **ISO 14000:** A quality standardconcerned with environmentalmanagement.

Industry-Specific Standards

In addition to the general standards described earlier, thereare industry-specific standards for quality, especially for suppliers to follow. Since ISO standardsare relatively generic, some industries, such as the auto industry, have developed morespecific ones to fit the industry. One such example is QS9000, which was initially requiredfor any supplier of Ford and General Motors. However, it was eventually replaced by ISO/TS16949:2009, which was more applicable to the auto industry. It is supposed to be used in conjunctionwith ISO 9001, and it defines the quality management system requirements for thedesign, development, production, installation, and service of automotive-related products.

Company-Specific Standards

Individual companies also set their standards for suppliersto meet if they are going to continue to supply them.

GLOBALIZATION IN MARKETS:

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

Impact of Globalization

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

Market Globalization & Production Globalization.

Market globalization is the decline in barriers to selling in countries other than thehome country. This change will make it easier for the company to begin selling products internationally since lower tariffs keep consumer prices lower and fewer restrictions when crossing borders make it easier for a company to enter a foreign market. It also means that companies must consider other cultures when developing their business strategies and potentially

According to the Oxford Dictionary, the word '**globalisation**' means "The process by which businesses or other organizations develop international influence or start operating on an international scale."

adjust the product and marketing messages if they aren't appropriate in the target country.

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

INTERNATIONAL MARKETING STRATEGY

Source: FAO.in

No country or organization is sufficient unto itself. Organizations market goods and services that have no domestic demand in international markets and perhaps come back with products that have domestic demand. In some cases, industrial inputs such as labor, raw materials, capital, and technology are imported from foreign lands to complement indigenous industrial inputs for efficiency and effectiveness. The importance of international marketing can never be overemphasized. In acknowledging this fact, Awoniyi (1999) states:

We are all affected by international marketing. We wake up in the morning with the help of a Japanese alarm clock. At breakfast, we eat Indomie or drink Maxwell or Colombian coffee and eat bread made of wheat from America. We glance at an advertisement for French wine in the newspapers. Many of the goods and services we consume each day are imported. And over 70% of products made in this country (Nigeria) face direct foreign competition.

This analogy shows clearly that every individual, organization, even country is affected directly or indirectly by international marketing.

International Marketing Defined

Cateora et al define international marketing as ―the performance of business activities that direct the flow of the company's goods and services to consumers or users in more than one nation‖. It is the performance of business activities including marketing research, product development and management, and marketing intelligence, across national boundaries with the view of satisfying human wants and needs and achieving the company's predefined objectives.

International marketing refers to marketing activities and operations among the countries of the world following different political and economic systems in order to reach global objectives

Majuro stipulates that any company that endeavors to market its products in more than one country such a company is involved in international marketing. What differentiates international marketing from international trade are the operative words ‘sense’, ‘serve’, and‘satisfy’. International marketing takes place when a company senses or identifies currently unfulfilled needs and wants, and design appropriate product to fill the gap and satisfy the consumers at profit. It is innovative and dynamic, hence requires deliberate, holistic, and concerted efforts and programs to make it successful. International trade is more or less individualistic, may not be customer-centered, and may not require deliberate efforts in its operations.

Differences between Domestic and International Markets

In the domestic market, currency, language, and culture are homogeneous. There is little or no government interference; distance poses little or no barrier and the marketing environment is not largely complex; whereas in the international market, there are divergent cultures and languages, many currencies are involved, government interference to protect domestic markets and industries, distance barrier and business or marketing environment is largely complex, dynamic, and multi-dimensional; differences in legal systems, etc.

The Importance of International Marketing

The importance of international marketing can be looked at from two perspectives:

a. Its importance to the nation
b. Its importance to the organization

Its importance to the nation:

> International trade carries out that surplus part of the produce of their land and labour for which there is no demand among them (exports) and brings back in return (imports for it something else for which there is a demand.
>
> - Adam Smith

In this case, international marketing derives its importance from international trade. It gives value to their superfluities by exchanging them for something else which may satisfy a part of their wants, and increase their enjoyment. Thus, international marketing makes available goods and services which are not or sufficiently produced in a given country and encourages even distribution of resources, goods, and services.

It increases the productive base and consumption level of a nation. Italso encourages capital formulation, and accumulation and improves the living standard of the people; increases their per capita income through employment generation and entrepreneurial development. Further, it helps revenue generation for the government through the imposition and collection of taxes, levies, and tariffs. Umoren observes that for the powerless third world countries, international marketing or trade appears to be seen as the only viable route to economic development, economic emancipation, and politico-economicindependence. Hence, international trade is seen to them as a source of earning foreign exchange to accomplish their developmental dreams.

Its Importance to the Organization:

A firm that engages in international marketing benefits in the following areas;

i. Achieving economies of scale through large-scale production and reduced per-unit cost of production.
ii. Prospects for high returns in foreign markets: certainly, a firm that markets internationally tend to generate more revenue and profit than a firm entangled with the domestic market.
iii. Corporate Strategy to escape tough competition at home. A firm can liberate itself from harsh competition at home by venturing into international markets where opportunity abounds for it to explore.
iv. iv Need to Prevent Stagnation and Vulnerability: The home market may not sufficiently provide for the organization’s growth, especially where domestic markets are saturated.
v. Need to prolong the life of its products: A product that has reached its declining stage in India may begin its introductory stage in Srilanka depending on need, time, and marketing programs applied.
vi. National necessity: A firm can venture into international marketing because of the domestic
vii. country’s foreign policy requirement. Nigeria sees Africa as the center piece of her foreign policy, as such can direct all pharmaceutical companies, for instance, to take some of their products to other African states as a means of strengthening her foreign policy.

International Marketing Environment

International marketers operate within the ambits of a complex set of environments (controllable and uncontrollable), which can mar or make their aspirations. The uncontrollable environment includes economic, socio-cultural, politico-legal, and technological factors, while the controllable factors are the popular’ four Ps of marketing, in other words, called the marketing mix.

The Economic Environment:

Every country has unique economic factors that influence business decisions and activities. There are diverse prices for goods and services, diverse purchasing habits, the difference in monetary and fiscal policies, position of GDP, interest rates, the balance of payment business customs and practices, etc. For instance, the investment seems to concentrate more in countries with moderate tax regimes than countries with harsh taxation. Theeconomic system practiced in an economy also influences business decisions and internationalmarketing.

Countries that adopt a free market system tend to be more liberal and easy to penetrate than ones that adopt a centrally planned system. Penetration into centrally planned economies requires government direction, scrutiny, surveillance, and in some cases government interference which may not augur well for the international marketer. A country's position in GDP signifies its level of economic development, investment, and consumption. Countries with high GDP growth rates are prone to high consumption levels whereas countries with low GDP growth rates are prone to low consumption levels and do not encourage investment. This explains why third-world countries have low investment.

-Case Study


DELL Technologies

Cementing a robust backup system for a world-class Ready-Mix Concrete manufacturer

How Dell Technologies and Uniware helped SCHWING Stetter India Pvt. Ltd. refresh their aging backup system

Experiencing growth over a concrete foundation

As a global manufacturing giant, SCHWING Stetter (India) Private Limited, a 100% subsidiary of the SCHWING Group of Companies, has made significant inroads in the Indian market and expanded its export market worldwide. With one of the largest manufacturing facilities in India, located in Tamil Nadu, SCHWING Stetter India currently employs 4000+ people — both on payroll and on contractual basis.

SCHWING Stetter India's enterprise IT set-up includes multiple enterprise

Identifying the blisters

In 2019, SCHWING Stetter India began facing issues in its legacy backup system which consisted of Veritas Backup Exec and Quest DR appliance. They were facing an increase in the backup window, failures on VM level backups, the Quest DR appliance was not functioning properly, and they were unable to achieve deduplication due to space issues. This was a considerable challenge as SCHWING Stetter India had 45TB of data (20TB Structured + 25TB Unstructured). They were unable to restore data from the tape library owing to bad sector formation and

Engraving the proposed solution

For a large manufacturer, having a core backup is necessary, but not enough. This is why SCHWING Stetter India wanted to upgrade to a single backup solution that would integrate all of their applications, mail and file servers, running on VMware environment on multiple physical servers across remote offices, and a few select desktops and laptops across the IT environment.

A typical legacy backup system has a backup server, the software, the switch, and the target device. SCHWING Stetter India

Source: https://www.uniware.net

Socio-Cultural Environment:

This environment houses factors such as culture, social institutors, language, aesthetics, attitude and value, religion, etc. which shape the behavioralpattern of a particular people. Culture has been defined by Vern Terpstra as the man-made part of our environment or the distinctive way of life of a people. Culture consists of material and nonmaterial elements. Material elements of culture are those aspects of culture that can be seen, touched, tasted smelt,and heard e.g. products. Non-material aspects of culture cannot be seen,tasted, touched, or smelt but could be heard e.g. music; thus, non-material elements of culture are abstract.

> The socio-cultural environment may be defined as all the social surroundings that affect the growth and operation of a business directly or indirectly. It is made up of social institutions, class structures, beliefs, values, accepted patterns of behaviour, customs of the people, and their expectations

Culture plays an enormous role in determining and defining a market to ventureinto. An international marketer must be conversant with the people’s total way of life before deciding on what to produce, how to produce, for whom to produce, and what should constitute price, promotional, and distribution strategies. It is on this note that Umoren observesthat there is a need for greater sensitivity on the part of the international marketer to the culturalrealities of his market.

Cateora and Hass called it ―Factual Knowledge which provides themarketer with the knowledge and appreciation of symbols and other meanings of everyday things of life folded in the indigenous people. It determines the acceptance of a product. However, the attitude of third-world countries toward foreign-made products has gone a long way to negating this response. Social institutions such as schools, churches, mosques, the press, government and its agencies, peers (age group, clubs, etc.), and organizations also influence the behavioral pattern of the people.

For instance, the level of education (i.e. literacy level) influences the choice of advertising messages, mode of advertising, marketing strategies to be adopted, and marketing institutions existing in a country. Aesthetics is the beauty of the people expressed in their music, art, and dance. Aesthetics and material culture are important in product type and design, quality, use, packaging, advertising design, effectiveness, and total product presentation. Language showcases verbal and non-verbal expression of culture and it is indispensable to communication effectiveness in marketing. Language is found in product packaging, labeling, and promotion.

> The political-legal environment is a combination of a lot of factors such as the current political party in power, the degree of politicization of trade and industry, the efficiency of the current government, government policies, current legal framework, the public attitude towards the economy, etc.

Politico-Legal Environment:

Another important aspect of the international marketing environment is the politico-legal factors. A country's political structure and practices, as well as her legal framework, have a great influence on an international marketer's decision to market its product there. There are laws regulating business, which make procedures for business registration,ownership, structure, composition, size, and type of business (sole proprietorship, partnership, joint-stock, and cooperative businesses). In many countries, there are laws guiding business practices. An international marketer should be familiar with the laws guiding business activities in the country where he wants to penetrate.

Another subset of this environment is the political setting of a country. It is important to know the form of political system a country adopts before launching in their market. The followingquestions would guide the international marketer in his decision-making process:

– *What is the political system of the country?*
– *What is the country's political structure?*
– *How stable is the government?*
– *Is the judicial system effective?*
– *What are the litigation procedures?*
– *Does the country respect international conventions?*

We must note that international conventions include:

1. The Parish Convention
2. The Inter-American Convention
3. The Madrid Convention
4. The Lame Convention

Technological Environment:

The level of technology prevalence in a country affects the levelof production, innovation, and an assortment of goods and services that a marketer can market there. Today, firms are confronted with the challenge of using modern or improved techniques in production. The modern technique encourages mass production, innovation, and greater returns on investment. For instance, the use of computers has replaced the use of the thumb method which usually involved much paperwork and mistakes. Thus, the use of computers is faster, reliable, accurate, and gives up-to-date information about stocks.

Technology can also be found in the area of communication where different equipment and gadgets have been developed to ease and fasten communication. Today, we have the internet, fax, telephones, etc. which guarantee effective communication. It should be the concern of an international marketer to identify the challenges and opportunities associated with technological advancement and use them to better his lots.

PROBLEMS IN MARKETING INTERNATIONALLY

The probable problems encountered by an international marketer are not different from the international marketing environment and they have been explained above. These problems are: divergent culture, divergent political/legal framework, geographical location, the difference in
currencies, inadequate communication devices, technology, and competition.

DEGREE OF INVOLVEMENT IN INTERNATIONAL MARKETING

There are six ways through which a firm can involve in international marketing, namely: Casual involvement, Indirect export, direct export, foreign involvement without investment, foreign involvement with investment, and multinational operations. This is shown in the diagram below:

Casual Involvement:

The firm in this involvement does not actively or intentionally intend tointernationalize as such it does not sense nor respond to the needs and wants of consumers in the international markets. This firm may fill a one-time order but does not consider or include it in its strategic thrust for long-term investment.

Indirect Export:

In this case, the firm does not intend to go internationally but its products could be taken to international markets by resellers. These resellers are exporters, export merchants, or export brokers who could be used by a firm to expand its sales base.

Direct Export:

In this case, a firm can create an export department that will take its product to the international markets or it can sell to international customers who invariably sell to the host consumers. According to Awoniyi indirect export, a firm begins to view international markets as a long-term opportunity for sales and profits.

Foreign Involvement without Investment:

This occurs when a firm intends to launch its product in a foreign market but does not wish to establish its production facilities in that country. By this, a firm can negotiate to license its production technology to a domestic investor who can establish the production facilities in that country.

Foreign Involvement with Investment:

In this case, a firm finances the establishment of production facilities in a foreign land. This is affected when a firm realizes that the host country is juicy enough to guarantee sizeable returns on investment.

Multinational Operations:

This operation is carried out by multinational corporations. They see the whole world as a global village, and hence make decisions within a global framework. Multinational corporations see the world as a source of supply and a set of markets, as such, doesnot distinguish between national and international markets, e.g. MNC is Unilever Plc.

STRATEGIES FOR ENTRY

The entry strategy to adopt is one of the fundamental decision areas in international marketing. This decision requires the international marketer to consider factors such as cost, risk, and control. A rational marketer would always want his programs to incur a less operational cost, low degree of risk, and exercise larger control.The entry strategy adopted by an international marketer goes a long way to shaping his program, as such; a holistic approach should be employed if he was to make a reliable and rewarding decision.

Osuagwu and Eniola identify factors necessary for entry strategy decision to include; the company's objectives and expectations of the volume of business to be generated, the size of the company and its financial resources, patterns of involvement in other foreign markets, the managerial culture and levels of international marketing expertise within the company, the nature and degree of competition within the market, the nature of the product and whether it has any distinct competitive advantage either in terms of its technology, patent production, or trademarks and the market's political infrastructure and whether any tariff or non-tariff barriers exist or are likely to be introduced.

Other factors that need consideration according to them are; the investment needs of each market, the manpower requirements, levels of political and financial risk, the administrative needs, the marginal marketing cost, and the degree of flexibility and control that is possible. All these and many more guide international marketers in their entry strategy decisions. Below are the international market entry strategies available to a marketer.

Source: theintactone.com

Exporting: This is the most popular strategy in developing countries and in countries where the government takes an active part in business ownership. This strategy involves direct and indirectexporting. In**direct export**, a firm sells its product to international customers. In this case, thefirm is beginning to view international markets as goldmines, long-term opportunities for sales, and profits (Awoniyi, 1999).

Indirect export entails selling to domestic customers. These customers can be organizations or individuals who sell the products in the international markets. In indirect export, the firm has no intention of internationalizing and does not view international markets as opportunities for sales and profits and does not include it in its long-term strategy thrust. Exporting strategy is best for companies with complementary products. Many firms adopt this strategy to earn foreign exchange, which aids in the importation of required raw materials and other inputs.

Licensing and Franchising agreements: Licensing is a contract or agreement between an international firm and a firm in a host country in which the international firm grants a host country's firm the permission to use its patent, trademark, manufacturing process and technical assistance for a payment called royalty. This agreement gives the host country's firm a degree of freedom to produce and market its products. Coca-Cola (a USA Multinational Corporation) has granted a license to many firms in the third world countries. Licensing is mostly applied to themarketing of physical products.

Franchising on the other hand is mostly applied to service firms but retains all other characteristics of licensing. The franchisee honors specification on the nature of operation directed by the franchiser. A good example is McDonald's, which franchised its hamburger operation in many countries in Europe and Asia.

Piggyback Operations: Here an international marketer uses his foreign distribution network to sell another company's products alongside his. It is mostly adopted when he realizes that the other product can complement and smoothen the sale of his products. To an extent, this strategy is similar to exporting strategy. This strategy is beneficial to the marketer in that it guarantees greater economies of scale, expands product range, and boosts sales.

Contract Manufacturing and Management Contracting: An international marketer may decide to hand over the manufacturing of a product to the host country's firm(s) while retaining the marketing of the product. This is called contract manufacturing. It is usually adopted where local labor is efficient and cheap and there are stringent government restrictions on foreign manufacturers.

Management contracting entails a situation where a firm provides managementskills and proficiency while domestic firms own the production facilities. This strategy is mostlyseen in the service industries such as hotels and airlines. For example, Imo Concorde Hotel ismanaged by a foreign firm. There is a relatively low risk associated with this strategy.

Assembly Operations: This is another strategy for entering the international market. This strategy involves product assembly and manufacturing in a host country. Many factors encourage the decision to adopt this strategy, namely, the need to avoid tariff and non-tariff barriers, the existence of cheap labor and other inputs, favorable tax rates, cheap capital, favorable business laws, unsaturated and less competitive market, etc. Local assembly involves the manufacturing of parts in a parent country and coupling them with the host country.

The local assembly is expensive to operate as it involves multiple labor and operational costs, especially in shipping, tariff, and labor (domestic and abroad). Local manufacturing is cheaper, especially where the host country provides a good source of raw materials and labor. Peugeot and General Motors are using a local assembly strategy in Nigeria.

Joint Ventures: Joint Ventures approach is another strategy for entering into international markets. It is very popular in developing countries. In the Joint Ventures strategy, a foreign firm looks for a local firm with which it can pool resources together to run a program in the host country. It is a form of partnership in which a foreign firm enters into business with one or more domestic firms to achieve specific objectives.

The problem with joint ventures is that of control and tendency for loss of investment. Control is shared between host firms and the foreign firm and there is the possibility of losing out, especially where the alliance is with the government or aggressive domestic partner owing to political, legal, and economic trends in the host country. However, it allows for greater economies of scale in technology, production, marketing, and information generation

.

Wholly-Owned Subsidiaries: A company may decide to wade into the international markets\ by building its (wholly-owned) subsidiaries there. This gives complete control over marketing, administrative and production decisions. Before a firm adopts this strategy, there is a need to assess the potentiality and viability of the market and macro-environmental factors prevailing in the host country. There is a high risk associated with this strategy, particularly in the area of financial commitment and operation. It is mostly adopted by multinational corporations.

Multinational Operations: When a firm operates in more than one country and makes its production, marketing, and administrative decisions within a global framework, it is called a multinational corporation. A multinational corporation views the world as a set of markets and sources of supply (Awoniyi, 1999). Its decisions (production, marketing, and administrative) are cantered on the entire world, hence it has no room for distinctive marketing programs for different market segments.

Global Marketing: This strategy is related to multinational operations strategy. It is defined as selling the same product, the same way, everywhere. The customers are seen the same way; thus the notion that they are similar and have the same preferences and that developing standardized products and applying of the integrated marketing mix to all markets can guarantee customer and organization satisfaction. Coca-Cola is a good example of a Multinational Corporation adopting global marketing. Others are General Motors, Exxon, IBM, Toyota Motor Co; etc.

Marketing Mix Decisions in International Marketing

The marketing mix is fundamental to marketing decisions. They shape all marketing activities and performance. The marketing mix as propounded by McCarthy is a product, price, place, and promotion. A lot has been said about these 4Ps, as such, decisions areas will be highlighted only.

- **Product:** Decision areas include quality, packaging, features, labeling, sizes, brand name, servicing, product policies, design, uses, and usage.
- **Price:** Decision areas include price list, discount, payment period, credit terms and allowances,pricing policies, strategies, and methods. Factors affecting price in international marketing aregovernment legislation, competition, the buyer’s level of disposable income, demand elasticity of the product, nature of the market, cost of production, and pricing objective (pricing strategy andpricing policy).
- **Place (also called distribution):** Decision areas cover channel of distribution, location, and coverage, inventory, transportation, warehousing, etc.
- **Promotion:** This covers advertising, personal selling, sales promotion, public relations, and publicity.

Taking decisions on the marketing mix requires the international marketer to understand the market he intends to serve; the culture of the people, consumer behavior and dispositions, taste and preferences, business customs, and laws guiding business activities in the host country.

Source: theintactone.com

Toyota’s progression into global business

Toyota motors started out as a domestic marketer in Japan. Eventually it began exporting its cars to a few regional markets. As it saw greater success, Toyota became adept as a multinational marketer, and today is a true global marketer. Today, Toyota operates manufacturing plants in foreign countries that appeal to each country’s market segments and consumer needs. As Toyota progressed through each stage of global expansion, it revised its attitudes and approach to marketing and its underlying philosophy of business.

Organizing for International Marketing

Organization for domestic marketing shares similarities with organizing for international marketing except in geographical expansiveness. Therefore, the reader is referred to marketing planning, organizing, and control. This section will only serve as a reminder. There are six major organizational structures, namely:

1. Functional structure
2. Product groupings structure
3. Market or customer groupings structure
4. Geographical or territorial structure
5. Channel of distribution-based structure
6. Matrix approach: This combines functional structure with any other organizationalstructure.

Other Areas of Consideration
Apart from the marketing mix, there are other important areas that an international marketer should prioritize to achieve his objective. These areas are summarized as the 12Cs of international marketing. They include:

Country: The marketer must be acquainted with the country where he intends to sell his product. He should know the country's policy to import, business customs, business laws, the country's marketing, and business infrastructure.

Culture: Looks at the people's culture as expressed in their norms and values, language, behavior, aesthetics, arts, music, technology, etc.

Concentration: Looks at the geographical concentration of the people in the target country showing age distribution, income distribution, access to channels of distribution, access to decision-makers, the density of population, etc.

Communication: Available communication media, channel media, language, and the choice of promotional media.

Channels of Distribution: Direct or Indirect marketing channel, distribution strategy to adopt, mode of transportation, etc.

Capacity: Capacity of the consumer to pay; capacity of customers or clients to reach contractual agreements.

Currency: The acceptability and stability of local currency; the use of hard currency.

Control and Coordination: The ability of the international marketer to exercise a degree of control over international marketing activities goes a long way to influence the success of his venture. There should be clarity and coordination of plans, policies, objectives, and strategies; coordination of agencies and individuals involved in the chain of command and distribution channel; ensure effective communication, set and reach performance measurement criteria (standard).

Commitment: Commitment to quality and service.

Choices: The international marketer must consider the marketing mix choices available in the prospective or target markets and use them to satisfy the market at profit.

Contractual Obligations: This looks at payment terms and conditions, credit terms and period, warrantees, guarantees of delivery; stages of payments to be made by the customers, penalties for late delivery or failure to deliver; financial deposits (in hard currency) required as evidence of the marketers' good faith.

Caveats: This has to do with the important aspect of the marketing environment which the international marketer should not ignore. The international marketer should pay attention to:

a. His company's reputation; the quality of its products, delivery on time, long term presence
b. in the market.
c. The motivation of export salesmen.
d. Local risk
e. Political stability
f. Economic trends state of the economy
g. How business is done in the target country. (Morden; A. R., 1991).

CHALLENGES IN PRODUCT DEVELOPMENT

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

CHALLENGES IN PRODUCT DEVELOPMENT

1. Cost of	**6. Competition**
2. Place of Production	**7. Business Environment**
3. Currency Exchange	**8. Market Size**
4. Product Price	**9. Cultural Differences**

5. Business Objectives	10. Regulations

4. **The price** that the international consumer is willing to pay for the product.
5. **The manufacturer's business objectives**. For example, large international companies such as Starbucks may be willing to operate at a loss in some locations because they need a local presence to maintain their economies of scale, as well as their reputation as a global player. Some hearing aid manufacturers act similarly to become "world players."
6. **The price that competitors** in international markets are already charging.
7. **Business environment** factors such as government policy and taxation.
8. **National Market Size –** A company will often attempt to use the potential volume of sales to estimate the price at which it will need to market a product to break even. For larger countries with the potential for more sales, this price may be set lower; for smaller countries, the price may be higher.
9. **Cultural Differences –** One of the more complicated factors in international pricing is cultural variation among companies. Cultural variations that affect pricing can take many forms, most of which have to do with how members of certain cultures perceive the value of certain products, which in turn affects how much they are willing to pay for them. Some cultures do not value amplification products and they are seen with significant stigma. Thus, hearing aid prices can be greatly affected depending upon whether a manufacturer's device is large and obvious or invisible.
10. **Regulations –** When setting prices in other countries, companies must research all national regulations relevant to their product, as many countries set price ceilings as well as price floors on certain products. Others require Value Added Tax (VAT) and other taxes that must be considered during the pricing decisions.

INVESTMENT DECISIONS:

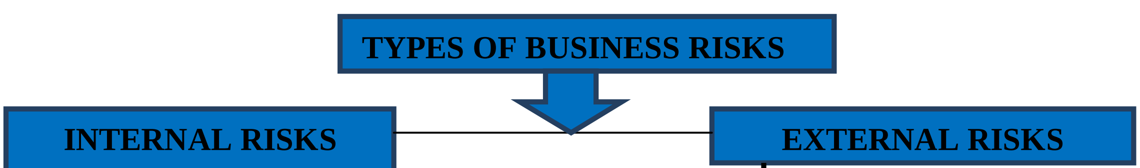
The proliferation of multinational corporations (hereinafter referred to as MNCs) began 200 years ago, but they were making only a part of the foreign investment in different countries in the form of a portfolio rather than long-term Greenfield or joint venture investments.

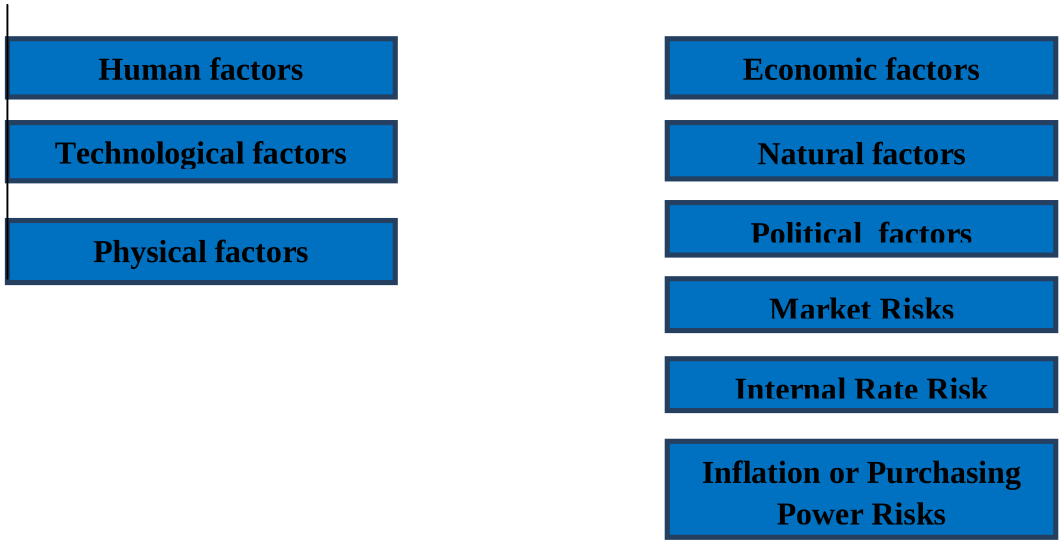
1. With the increase of globalization, which is both the cause and the effect of internationalization of world trade.
2. MNCs have become dominant players in the global economy. After the economic and financial crisis; and the end of the Cold War which led to the liberalization of the developing markets and opening of their economies with the removal of foreign investment barriers, privatization of the state economic enterprises, and development of FDI attractive policies, has increased the investment of MNCs, especially in the developing countries. Latin America, Eastern Europe, and Asian economies have become predominantly FDI-focused first with labor-intensive manufacturing industries and then with market-seeking FDI by the 1990s.

3. While MNCs are struggling to get an accurate answer for the "where to invest"
    - The question, countries have got into the competition of "attracting more FDI"
    - To "become hosts to branch plants of MNCs as well as to small- and medium-sized firms from developed countries".
4. Particularly after the 1990s. FDI not only "has become by far the single largest component of their net capital inflows" but it also has become critical for these countries in terms of their effects on the human capital of the economies.
5. These countries not only try to benefit from the financial aspects of investment, they also try to get best practices, transfer knowledge with new ideas and technologies and adopt managerial skills and new methods of managing companies.
6. Additionally, investments of the MNCs in developing countries have played a significant role in the process of integration of developing countries with other countries of the world, which is referred to as economic openness, via increasing imports and exports and integrating firms, particularly SMEs into the global supply chain.
7. In this global picture, it would be better to analyze the evolution of investment of MNCs in Turkey after the early 1980s, when markets were liberalized and import substitution policies were left. The decrease in the importance of the government’s role in the overall economy with the privatization of state enterprises and commercial and legal reforms aimed at attracting MNCs to Turkey, but the share Turkey had from worldwide FDI investments remained low until the 2000s.
8. After structural reforms, the political stability, and economic growth of the domestic market, increased annually by 6% from 2002 to 2008 in terms of annual average real GDP.
9. An increase in the government focus on FDI and as a result increased openness of the country tothe local competitive environment.
10. Have changed the figures and Turkey has become the "target for foreign direct investment as it is both an efficient production base and an important market for delivery of goods and services."
11. Depositary Receipts, exchange-traded funds, mutual funds, U.S.-traded foreign stocks, or direct investments in foreign markets. This online brochure explains the basic facts about international investing and how you can learn more about foreign companies and markets. Although this brochure covers foreign stocks, much of it also applies to foreign bonds

TYPES OF BUSINESS RISKS

Business risks are diverse and arise due to innumerable factors. In other words, the Business risk is the exposure a company or organization has to factor(s) that will lower its profits or lead it to fail. Anything that threatens a company's ability to achieve its financial goals is considered a business risk. These risks may be broadly classified into two types i.e. internal and external risks (depending upon their place of origin.)





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

- **Human factors** are an important cause of internal risks. They may result from strikes and lock-outs by trade unions; negligence and dishonesty of an employee; accidents or deaths in the industry; incompetence of the manager or other important people in the organization, etc. Also, the failure of suppliers to supply the materials or goods on time or default in payment by debtors may adversely affect the business enterprise.

- **Technological factors** are unforeseen changes in the techniques of production or distribution. They may result in technological obsolescence and other business risks. For example, if there is some technological advancement that results in products of higher quality, then a firm that is using the traditional technique of production might face the risk of losing the market for its inferior quality product.

- **Physical factors** are the factors that result in loss or damage to the property of the firm. They include the failure of machinery and equipment used in business; fire or theft in the industry; damages in transit of goods, etc. It also includes losses to the firm arising from the compensation paid by the firm to the third parties on account of intentional or unintentional damages caused to them.

External risks are those risks that arise due to the events occurring outside the business organization. Such events are generally beyond the control of an entrepreneur. Hence, the resulting risks cannot be forecasted and the probability of their occurrence cannot be determined with accuracy. The various external factors which may give rise to such risks are:

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

- **Natural factors** are the unforeseen natural calamities over which an entrepreneur has very little or no control. They result from events like earthquakes, floods, famine, cyclones, lightning, tornadoes, etc. Such events may cause loss of life and property to the firm or they may spoil its goods. For example, the Gujarat earthquake caused irreparable damage not only to the business enterprises but also adversely affected the whole economy of the State.

- **Political factors** have an important influence on the functioning of a business, both in the long and short term. They result from political changes in a country like a fall or change in the Governmentpolicies and regulations, communal violence or riots in the country, civil war as well as hostilities with the neighboring countries. For instance, changes in industrial and Trade policy annual announcements of the budget amendments to various legislations, etc. may enhance or reduce the profits of a business enterprise.

- **Market Risk**: The risk that the value of your investment will decline as a result of market conditions. This type of risk is primarily associated with stocks. You might buy the stock of a promising or successful company only to have its market value fall with a generally falling stock market.

- **Interest Rate Risk**: The risk caused by changes in the general level of interest rates in the marketplace. This type of risk is most apparent in the bond market because bonds are issued at specific interest rates. Generally, a rise in interest rates will cause a decline in market prices of existing bonds, while a decline in interest rates tends to cause bond prices to rise. For example, say you buy a 30-year bond today with a 6% annual yield. If interest rates rise, a new 30-year bond may be issued with an 8% annual yield. The price of your bond drops because investors aren’t willing to pay full value for a bond that yields less than the current rate of interest.

- **Inflation or Purchasing Power Risk**: The risk that the return on your investment will fail to outpace inflation. This type of risk is most closely associated with cash/stable value investments. Thus, although you may think a traditional bank savings account is relatively risk-free, you actually could be losing purchasing power unless the interest rate on the account exceeds the current rate of inflation.

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

- **Business Risk**: This is the risk that issuers of an investment may run into financial difficulties and not be able to live up to market expectations. For example, a company’s profits may be hurt by a lawsuit, a change in management, or some other event.

- **Credit Risk**: For bonds, this is the risk that the issuer may default on periodic interest payments and/or the repayment of principal. For stocks, it is the risk that the company might reduce or eliminate dividend payments due to financial troubles.

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

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

SOURCES OF FUND:

There are myriad financing sources available for American entrepreneurs (www.uentrepreneurs.com)

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

2. **Smart leases**: Leasing fixed assets conserves cash for working capital (to cover inventory), which is generally tougher to finance, especially for an unproven business. Warning: Don't put so much money down that you end up spending the same amount of cash as you would have had you bought the asset with a down payment. The cost of a lease may be slightly higher than bank financing, but the cost of the down payment you did not have to make is likely to be less painful than the dilution you suffer from giving away equity.

3. **Bank loans**: Banks are like the supermarket of debt financing. They provide short-, mid-, or long-term financing, and they finance all asset needs, including working capital, equipment, and real estate. This assumes, of course, that you can generate enough cash flow to cover the interest payments (which are tax-deductible) and return the principal. Banks want assurance of repayment by requiring personal guarantees and even a secured interest (such as a mortgage) on personal assets. Unlike other financing relationships, banks offer some flexibility: You can pay off your loan early and terminate the agreement. VCs and other institutional investors may not be so amenable.

4. **SBA loans:** Of all the federally sponsored debt-financing programs, this is the most popular, and perhaps the best. It loosens the flow of credit by guaranteeing the lender against a portion of any loss incurred on the loan. Not to say that banks aren't careful when making 4(a) loans: They are required to keep the non-guaranteed portion on their books. The interest rate can vary based on the size of the loan, with smaller amounts costing a little more. Shop around. Some banks reap servicing fees and nice profits by selling the guaranteed portion of the loan

to insurance companies and pension funds; in those cases, a lender may be willing to offer you a better rate.

5. **Local and state economic development organizations:** Economicdevelopment organizations can charge tantalizingly low-interest rates when lending alongside a bank. Say a company needs to raise $200,000 for a building. A bank may offer $150,000 on a first mortgage at a variable interest rate of prime, now 3.25%, plus 200 basis points, for a total of 5.25%. The local development entity might lend you another $30,000 on a second mortgage at a fixedinterest rate of 4%, without seeking equity shares or warrants. (Without the development corporation's contributions, you would have to scare up $50,000 in equity–expensive.) If you don't have the cash flow to cover the interest, the development organization may offer extended terms. Some loans are interest-only for the first year or two, and even the interest payments can be accrued for a certain time period. Development groups may not agree to finance an entire operation, but they make snagging the remainder from other private sources a lot easier. Talk to your local chamber of commerce to find these programs. (Also checkwww.infinancing.com for a list of the types of development finance organizations).

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

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

8. **Friends and family members:** If you're lucky, friends and family members might be the most lenient investors of the bunch. They don't tend to make you pledge your house, and they might even agree to sell their interest in your company back to you for a nominal return.

9. **Small Business Innovation Research (SBIR) grants**: Getting past the paper-intensive application process and SBIR grants can be a great way to turn your intellectual property into mailbox money. For more on these grants, check out How to Get Uncle Sam to Fund Your Start-Up.

10. **Tax Increment Financing**: TIF subsidies are geared toward real estate development in targeted areas. Depending on the state, the subsidies can be as large as 20% to 30% of the cost of the project. Better yet, you may even be able to borrow against this subsidized value. If your community does not offer a TIF program, look at communities that do. You may end up a little farther from your home or office, but it could be worth your while.

11. **Internal Revenue Service**: The IRS does not lend money. But it does allow you to deduct expenses. If you are paying a heap in taxes, evaluate whether you can use your profits to expand your business–and reduce your tax bill.

12. **Bootstrapping**: Many billion-dollar entrepreneurs find a way to grow without external financing so that financiers don't control their destinies or grab a disproportionate slice of the wealth pie.

SELECTION OF EXPATRIATE MANAGERS:

An expatriate (often shortened to ex-pat) is a person temporarily or permanently residing in a country other than that of the person's upbringing. The word comes from the Latin terms ex ("out of") and Patria ("country, fatherland"). In common usage, the term is often used in the context of professionals or skilled workers sent abroad by their companies, rather than for all 'immigrants' or 'migrant workers.

The differentiation found in common usage usually comes down to socio-economic factors, so skilled professionals working in another country are described as expatriates, whereas a manual laborer who has moved to another country to earn more money might be labeled an 'immigrant' or 'migrant worker'. There is no set definition and usage varies with context, for example, the same person may be seen as an "expatriate" in their home country and a "migrant worker" where they work. Retirement abroad, in contrast, usually makes one an "expatriate".

ROLE OF EXPATRIATE MANAGERS:

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

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

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

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

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

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

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

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

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

INTERNATIONAL TRAINING AND DEVELOPMENT:

- International training and management development are always closely associated in the management literature. Gregerson et al. (1998) proposed four strategies for developing global managers: international travel; the formation of diversified teams; international assignments and training.

- These four strategies relate to expatriation management, particularly integrating international training and management development. The training aims to improve current work skills and behavior, whereas development aims to increase abilities concerning some future position or job, usually a managerial one (Dowling et al., 1999, p. 155). A truly global manager needs a set of context-specific abilities, such as industry-specific knowledge, and a core of certain characteristics, such as cultural sensitivity, and the ability to handle responsibility.

- Develop subordinates and the ability to exhibit and demonstrate (Baumgarten, 1992). These characteristics and skills are considered important international competencies and all can be developed through effective international training and management development. International training refers to training for international assignments.

There are three broad types of international training in MNEs.

1. Preparatory training for expatriates: once a person has been appointed for an international assignment, pre-departure training is normally used to ensure the candidate has adequate skills and knowledge that are necessary for working abroad effectively.

2. Post-arrival training for expatriates: after an expatriate has gone abroad, further on-site training is often used to familiarize the expatriate with the local working environment and procedures.

3. Training for host-country nationals (HCNs) and third-country nationals (TCNs): Training should be provided to HCNs and TCNs to facilitate understanding of corporate strategy, corporate culture, and socialization.

4. Preparatory training for expatriates has received the most attention in the international literature as expatriate failure (i.e. the premature return of an expatriate manager before the period of assignment is completed) is always regarded as due to a lack of adequate training for expatriates and their spouses.

5. The expatriate failure rate is an important indicator for measuring the effectiveness of expatriation management.

6. The costs of expatriate failure are high and involve both direct and indirect elements. In the case of expatriate recalls, the direct costs include salary, training costs, and travel and relocation expenses. Mendenhall and Oddou (1985) stated that the average cost per failure to the parent company ranges between US$55,000 and US$80,000, depending on currency exchange rates and location of assignment.

7. Indirect costs may be considerable and un-quantified, such as damaging relations with the host country government and other local organizations and customers, as well as loss of market share, damage to corporate reputation, and lost business opportunities. The literature indicates that expatriate failure is a persistent and recurring problem and failure rates remain high.

- International management development can also be expected to play a central role in MNEs because of its importance in developing a cross-national corporate culture and integrating international operations.

- According to Bartlett and Ghoshal (2000), global firms can enhance their inter-unit linkages by creating a pool of global managers from anywhere in the world. Management development in MNEs is the "glue" bonding together otherwise loose and separate entities.

- Pucik (1984) argued that probably the most formidable task facing many multinational firms in the development of a cadre of managers and executives who have an understanding of the global market environment deep enough to enable them to survive and come out ahead.

- International training provision although many have highlighted the importance of international training, international training is often neglected or poorly handled in MNEs. McEnery and DesHarnais's (1990) survey shows that between 50 and 60 percent of US companies operating abroad at that time did not provide any pre-departure training. Tung (1981) also observed that only 32 percent of the US companies surveyed provided some international training. The 1997-1998 Price Waterhouse survey revealed that only 13 percent of European firms surveyed always provided their expatriates with access to cultural awareness courses, though a further 47 percent provided briefings for culturally "challenging" postings.

- To aggravate the situation even further, most training is of very short duration, generally lasting only a few days (Baumgarten, 1995). Torbiorn (1982) and Tung (1982) confirmed that European MNEs provide more training than US companies.

- About half of European corporations provide formal training. Taking China as an example of a developing country, there is generally low awareness of the importance of training for expatriates in Chinese MNEs.

- The majority of Chinese MNEs tend to provide very limited or ad hoc pre-departure training for expatriates. Most Chinese companies provide only irregular briefings or do not provide training programs for expatriates at all. Where training is offered, the training duration is usually short, such as two days or one to two weeks, due to the limited training programs provided.

- Normally, expatriates are often not given adequate preparation time between notification of the posting and relocation. No formal and compulsory policy about post-arrival training for expatriates is made at the corporate level in any of the selected Chinese firms.

- Headquarters normally leave local managers to decide if there is a need to provide such post-arrival training. Chinese firms are also very weak in providing training for HCNs, spouses, and families. The majority of International training and MD 659Chinese MNEs provide only job briefings for HCN employees instead of proper training. Reasons for not providing adequate training

The scarcity of cross-national comparative research may be attributed to several reasons including:

1. The large quantity of effort, skills, and resources required to develop, translate, and back-translated surveys while achieving functional item equivalence;

2. The challenge of acquiring multiple-data collection sites in multiple nations;

3. The high-touch approach required to obtain data sites in many countries reduces sample comparability which contributes to an inability to publish research in the "best" journals;

4. The issue of expatriate compensation is in debate and has overshadowed issues of the larger workforce;

5. Ethnocentrism has resulted in the exportation of compensation programs (Hyer, 1993);

6. Multinationals find it convenient to assume that duplicating local practices will maximally motivate workers (Abdullah & Gallagher, 1995).

Case study

Make or Buy Decision at the Boeing Company

The Boeing Company is the world's largest manufacturer of commercial jet aircraft with a 55 to 60 per cent share of the global market. Despite its large market share, in recent years, Boeing has found the going tough competitively. The company's problem is two fold. First, Boeing faces very aggressive competition from Europe's Airbus industry. The dog fight between Boeing and Airbus for market share has enabled major airlines to play the two companies off against each other in an attempt to bargain down the price for commercial jet aircraft. Secondly, several of the world's major airlines have gone through some very rough years during the 1990s and many lack the financial resources required to purchase a new aircraft. Instead, they are holding onto their used aircraft for much longer than has typically been the case. Thus, while the typical service life of Boeing 737 was once reckoned to be about 15 years, many airlines are now making the aircraft last as long as 25 years. This translates into lower orders for new aircraft. Confronted with this new reality, Boeing has concluded that the only way it can persuade cash-starved airlines to replace their used airlines with new aircraft is if it prices the aircraft very aggressively.

Thus, Boeing has had to face the fact that its ability to raise prices for commercial jet aircraft, which was once quite strong, has now been severely limited. Falling prices might even be the norm. If prices are under pressure, the only way Boeing can continue to make a profit is if it also drives down its cost structure. With this in mind, in the early part of the 1990s, Boeing undertook a companywide review of its make or buy decisions. The objective was to identify activities that could be outsourced to subcontractors, both in the United States and abroad to drive down its production costs.

many industries. For example, Boeing decided to outsource the production of certain components to China. This decision was influenced by the fact that current forecasts suggest that the Chinese will purchase over $100 billion worth of commercial jets over the next 20 years. Boeing's hope is that pushing some subcontracting work in China's way will help it gain a larger share of this market than its global competitor, Airbus.

One of the first decisions to come put of this process was the decision to outsource the production of insulation blankets for 737 and 757 aircraft to suppliers in Mexico. Insulation blankets are wrapped around the inside of the fuselage of an aircraft to keep the interior warm at high altitudes, Boeing has traditionally made these blankets in-house, but it found that it can save $50 million per year by outsourcing production to a Mexican supplier. In total, Boeing reckons that outsourcing cut its cost structure by $500 million per year between 1994 and 1997. By the time the outsourcing is complete, the amount of an aircraft that Boeing builds will have been reduced from 52 per cent to 48 per cent.

Questions

1. What are the main problems Boeing has been facing due to intense competition during 1990s?

2. What was the objective of Boeing to review its make or buy decision during 1990s?

3. What were the major considerations in making outsourcing decision by Boeing?

4. Why Boeing decided to outsource the production of certain components to China and Mexico?

5. What are the implications of outsourcing policy of Boeing?

Source: Charles W L Hill, International Business, p.517.

Self-Assessment Questions

1. Define market globalization
2. Write a short note on production globalization
3. Explain the international marketing strategies
4. What are the challenges in product development? Explain.
5. Describe the role of expatriate managers.
6. Explain the importance of international training and development.

UNIT V

LESSON III – CONFLICT MANAGEMENT AND ETHICS IN INTERNATIONAL BUSINESS MANAGEMENT

CONTENTS

Learning Objectives

Overview

5.1 Disadvantages of international business

5.2 Conflict in international business- Sources and types

5.3 Conflict resolutions – Negotiation

5.4 Conflict resolutions- Role of international agencies

5.5 Ethical issues in international business

5.6 Ethical decision-making

Case Study

Self-Assessment Questions

Learning Objectives

- Enumerate the concept of conflict management.
- Learn the concept and process of negotiation.
- Discuss the ethics in international business management.

INTRODUCTION

Conflict is actual or perceived opposition of needs, values, and interests. A conflict can be internal (within oneself) and external (between two or more parties). 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.

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CONFLICT MANAGEMENT

Conflict management is the practice of being able to identify and handle conflicts sensibly, fairly, and efficiently

Conflict management refers to the long-term management of intractable conflicts. Since conflicts in a business are a natural part of the workplace.It is the label for the variety of ways by which people handle grievances-standing up for what they consider to be right and against what they consider to be wrong.

Those ways include such diverse phenomena as gossip, ridicule, lynching, terrorism, warfare, feuding, genocide, law, mediation, and avoidance.Which forms of conflict management will be used in any given situation can be somewhat predicted and explained by the social structure-or social geometryof the case. Conflict management is important in today's market more than ever. Everyone is striving to show how valuable they are to the company they work for and at times, this can lead to disputes with other members of the team.

ADVANTAGES & DISADVANTAGES OF INTERNATIONAL BUSINESS

Advantages of international business:

1. **Earning valuable foreign currency:** A country can earn valuable foreign currency by exporting its goods to other countries.

2. **Division of labor:** International business leads to specialization in the production of goods. Thus, quality goods for which it has the maximum advantage.

3. **Optimum utilization of available resources:** International business reduces the waste of national resources. It helps each country to make optimum use of its natural resources. Every country produces those goods for which it has the maximum advantage.

4. **Increase in the standard of living of people:** The sale of surplus production of one country to another country leads to an increase in the incomes and savings of the people of the former country. This raises the standard of living of the people of the exporting country.

5. **Benefits to consumers:** Consumers are also benefited from international business. A variety of goods of better quality is available to them at reasonable prices. Hence, consumers of importing countries are benefited as they have a good scope of choice of products.

6. **Encouragement to industrialization:** Exchange of technological know-how enables underdeveloped and developing countries to establish new industries with the assistance of foreign aid. Thus, international business helps in the development of the industry.

7. **International peace and harmony:** International business removes rivalry between different countries and promotes international peace and harmony. It creates dependence on each other and improves confidence and good faith.

8. **Cultural development:** International business fosters the exchange of culture and ideas between countries having greater diversities. A better way of life, dress, food, etc. can be adopted from other countries.

9. **Economies of large-scale production:** International business leads to production on a large scale because of extensive demand. All the countries of the world can obtain the advantages of large-scale production.

10. **Stability in prices of products:** International business irons out wide fluctuations in the prices of products. It leads to the stabilization of prices of products throughout the world.

11. **Widening the market for products:** International business widens the market for products all over the world. With the increase in the scale of operation, the profit of the business increases.

12. **Advantageous in emergencies:** International business enables us to face emergencies. In the case of natural calamity, goods can be imported to meet necessaries.

13. **Creating employment opportunities:** International business boosts employment opportunities in an export-oriented market. It raises the standard of living of the countries dealing with international business.

14. **Increase in Government revenue:** The Government imposes import and export duties for this trade. Thus, Government can earn a great deal of revenue from international business.

15. **Other advantages: a)** Effective business education **b)** Improvement in production systems. **c)** Elimination of monopolies, etc.

Disadvantages of international business:

1. **Adverse effects on the economy:** One country affects the economy of another country through international business. Moreover, large-scale exports discourage the industrial development of importing countries. Consequently, the economy of the importing country suffers.

2. **Competition with developed countries:** Developing countries are unable to compete with developed countries. It hampers the growth and development of developing countries unless the international business is controlled.

3. **Rivalry among nations:** Intense competition and eagerness to export more commodities may lead to rivalry among nations. As a consequence, international peace may be hampered.

4. **Colonization:** Sometimes, the importing country is reduced to a colony due to economic and political dependence and industrial backwardness.

5. **Exploitation:** International business leads to the exploitation of developing countries the developed countries. The prosperous and dominant countries regulate the economy of poor nations.

6. **Legal problems:** Varied laws regulations and customs formalities followed by different countries, have a direct b earring on their export and import trade.

7. **Publicity of undesirable fashions:** Cultural values and heritages are not identical in all the countries. There are many aspects, which may not be suitable for our atmosphere, culture, tradition, etc. This, indecency is often found to be created in the name of cultural exchange.

8. **Language problems:** Different languages in different countries create barriers to establishing trade relations between various countries.

9. **Dumping policy:** Developed countries often sell their products to developing countries below the cost of production. As a result, industries in developing countries close down.

10. **Complicated technical procedure:** International business is highly technical and it has a complicated procedure. It involves various uses of important documents. It required expert services to cope with complicated procedures at different stages.

11. **Shortage of goods in the exporting country:** Sometimes, traders prefer to sell theirgoods to other countries in a state of in their own country to earn more profits. This results in a shortage of goods within the home country.

12. **Adverse effects on the home industry:** International business poses a threat to the survival of the infant and nascent industries. Due to foreign competition and unrestricted imports upcoming industries in the home country may collapse.

TYPES & SOURCES OF CONFLICT:

Conflict is also defined 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 the needed information is available.

Functional conflict: works toward the goals of an organization or group

Dysfunctional conflict: blocks an organization or group from reaching its goals

1. **Dysfunctional high conflict:** what you typically think about conflict
2. **Dysfunctional low conflict:** A typical view. Levels vary among groups

Functional conflict

- "Constructive Conflict" Mary Parker Follett (1925)
- Increases information and ideas
- Encourages innovative thinking
- Unshackles different points of view
- Reduces stagnation

Dysfunctional high conflict

- Tension, anxiety, stress
- Drives out low conflict tolerant people
- Reduced trust
- Poor decisions because of withheld or distorted information
- Excessive management focus on the conflict

Dysfunctional low conflict

- Few new ideas
- Poor decisions from lack of innovation and information
- Stagnation
- Business as usual

LEVELS AND TYPES OF CONFLICT

Intra-organization conflict

- The conflict that occurs within an organization
- At interfaces of organization functions
- Can occur along the vertical and horizontal dimensions of the organization
- Vertical conflict: between managers and subordinates
- Horizontal conflict: between departments and workgroups

Intra-group conflict

- Conflict among members of a group
- Early stages of group development
- Ways of doing tasks or reaching group's goals

Intergroup conflict: between two or more groups

Interpersonal conflict

- Between two or more people
- Differences in views about what should be done
- Efforts to get more resources
- Differences in orientation to work and time in different parts of an organization

Intrapersonal conflict - occurs within an individual

- Threat to a person's values
- The feeling of unfair treatment
- Multiple and contradictory sources of socialization
- Related to the Theory of Cognitive Dissonance and negative inequity

Inter-organization conflict

- Between two or more organizations
- Not competition
- Examples: suppliers and distributors, especially with the close links now possible

TYPES AND SOURCES OF CONFLICTS:

TYPES OF CONFLICT	SOURCES OF CONFLICT
Community conflict	Communication failure
Diplomatic conflict	Personality conflict
Environmental resources conflict	Value differences
External conflict	Goal differences
Interpersonal conflict	Methodological differences
Organizational conflict	Substandard performance
Intra-societal conflict	Lack of cooperation
Military conflict	Differences regarding authority
Religious-based conflict	Differences regarding responsibility
Workplace conflict	Competition over resources
Relationship conflict	Non-compliance with rules

WAYS OF ADDRESSING CONFLICT

1. **Accommodating**: Individuals who enjoy solving the other party's problems and preserving personal relationships. Accommodators are sensitive to the emotional states, body language, and verbal signals of the other parties. They can, however, feel taken advantage of in situations when the other party places little emphasis on the relationship. Individuals who enjoy solving the other party's problems and preserving personal relationships. Accommodators are sensitive to the emotional states, body language, and verbal signals of the other parties. They can, however, feel taken advantage of in situations when the other party places little emphasis on the relationship

2. **Avoiding**: Individuals who do not like to negotiate and don't do it unless warranted. When negotiating, avoiders tend to defer and dodge the confrontational aspects of negotiating; however, they may be perceived as tactful and diplomatic. Individuals who do not like to negotiate and don't do it unless warranted. When negotiating, avoiders tend to defer and dodge the confrontational aspects of negotiating; however, they may be perceived as tactful and diplomatic.

3. **Collaborating**: Individuals who enjoy negotiations that involve solving tough problems in creative ways. Collaborators are good at using negotiations to understand the concerns and interests of the other parties. They can, however, create problems by transforming simple situations into more complex ones. Individuals who enjoy negotiations that involve solving tough problems in creative ways. Collaborators are good at using negotiations to understand the concerns and interests of the other parties. They can, however, create problems by transforming simple situations into more complex ones

4. **Competing**: Individuals who enjoy negotiations because they present an opportunity to win something. Competitive negotiators have strong instincts for all aspects of negotiating and are

often strategic. Because their style can dominate the bargaining process, competitive negotiators often neglect the importance of relationships. Individuals who enjoy negotiations because they present an opportunity to win something. Competitive negotiators have strong instincts for all aspects of negotiating and are often strategic. Because their style can dominate the bargaining process, competitive negotiators often neglect the importance of relationships

5. **Compromising**: Individuals who are eager to close the deal by doing what is fair and equal for all parties involved in the negotiation. Compromisers can be useful when there is limited time to complete the deal; however, compromisers often unnecessarily rush the negotiation process and make concessions too quickly. Individuals who are eager to close the deal by doing what is fair and equal for all parties involved in the negotiation. Compromisers can be useful when there is limited time to complete the deal; however, compromisers often unnecessarily rush the negotiation process and make concessions too quickly.

CONFLICT RESOLUTION

Conflict resolution is a range of methods for alleviating or eliminating sources of conflict. The term "conflict resolution" is sometimes used interchangeably with the term dispute resolution or alternative dispute resolution. Processes of conflict resolution generally include negotiation, mediation, and diplomacy.

The processes of arbitration, litigation, and formal complaint processes such as ombudsman processes, are usually described with the term dispute resolution, although some refer to them as "conflict resolution." Processes of mediation and arbitration are often referred to as alternative dispute resolution.

Methods of Dispute Resolution include:

1. lawsuits (litigation)
2. arbitration
3. collaborative law
4. mediation
5. conciliation
6. many types of negotiation
7. facilitation

One could theoretically include violence or even war as part of this spectrum, but dispute resolution practitioners do not usually do so; violence rarely ends disputes effectively, and indeed, often only escalates them. Some individuals, notably Joseph Stalin, have stated that all problems emanate from man, and absent man, no problems ensue. Hence, violence could theoretically end disputes, but alongside it, life.

CONFLICT RESOLUTION PROCESSES:

1. **Adjudicative processes**, such as litigation or arbitration, in which a judge, jury or arbitrator determines the outcome.

2. **Consensual processes**, such as collaborative law, mediation, conciliation, or negotiation, in which the parties attempt to reach an agreement. A **Lawsuit** is a civil action brought before a court of law in which a plaintiff, a party who claims to have received damages from a defendant's actions, seeks a legal or equitable remedy. The defendant is required to respond to the plaintiff's complaint. If the plaintiff is successful, judgment will be given in the plaintiff's favor, and a range of court orders may be issued to enforce a right, award damages, or impose an injunction to prevent an act or compel an act.

- **Arbitration**, a form of alternative dispute resolution (ADR), is a legal technique for the resolution of disputes outside the courts, wherein the parties to a dispute refer it to one or more persons (the "arbitrators", "arbiters" or "arbitral tribunal"), by whose decision (the "award") they agree to be bound. It is a settlement technique in which a third party reviews the case and imposes a decision that is legally binding for both sides. Other forms of ADR include mediation (a form of settlement negotiation facilitated by a neutral third party) and non-binding resolution by experts.

- **Collaborative Law** (also called Collaborative Practice, Collaborative Divorce, and Collaborative Family Law) was originally a family law procedure in which the two parties agreed that they would not go to court, or threaten to do so.

- **Mediation**, a form of alternative dispute resolution (ADR) or "appropriate dispute resolution", aims to assist two (or more) disputants in reaching an agreement. The parties themselves determine the conditions of any settlements reached— rather than accepting something imposed by a third party. The disputes may involve (as parties) states, organizations, communities, individuals, or other representatives with a vested interest in the outcome.

- **Conciliation** is an alternative dispute resolution (ADR) process whereby the parties to a dispute (including future interest disputes) agree to utilize the services of a conciliator, who then meets with the parties separately in an attempt to resolve their differences. He does this by lowering tensions, improving communications, interpreting issues, providing technical assistance, exploring potential solutions, and bringing about a negotiated settlement.

NEGOTIATION

Negotiation is a dialogue intended to resolve disputes, produce an agreement upon courses of action, bargain for individual or collective advantage, or craft outcomes to satisfy various interests. It is the primary method of alternative dispute resolution. In other words, “integrative bargaining” refers to win-win negotiation where both or all parties involved can end up with equally beneficial or attractive outcomes. It is more related to a problem-solving approach, where both parties involved perceive the process of negotiation as a process to find a solution to a common problem. In integrative bargaining, however, if negotiations are not properly handled, both parties can end up with a jointly inferior deal. With negotiation, both parties can achieve their objectives, and one party’s gain is not dependent upon the other party’s concession. Business negotiation is considered by many authors as being this type of negotiation (Fisher &Ury 1991; Pruitt 1983; Ghauri 1983 1986; Lewicki*et al.* 1991)

Characteristics of negotiation:

1. Every negotiation involves two or more parties.
2. The objective of negotiation must be definite.
3. Negotiation must be conducted on an equal basis.
4. A consensus must be built based on mutual concession.
5. Negotiation involves the exchange of ideas, communication, persuasion, compromise, and suchlike (process).

Business negotiation is a process of conferring in which the participants of business activities communicate, discuss, and adjust their views, settle differences and finally reach a mutually acceptable agreement to close a deal or achieve a proposed financial goal.

Characteristics of Business Negotiation:

1. The objective of business negotiation is to obtain a financial interest
2. The core of business negotiation is price
3. Its principle is equality and mutual benefit
4. Items of contract should keep strictly accurate and rigorous.

BARRIERSTO INTERNATIONAL BUSINESS NEGOTIATION:

1. Language barrier
2. Cultural differences
3. International laws and domestic laws are both in force
4. International political factors must be taken into account
5. The difficulty and the cost are greater than that of domestic business negotiations

APPROACHES TO NEGOTIATION

The advocate's approach: In the advocacy approach, a skilled negotiator usually serves as an advocate for one party tothe negotiation and attempts to obtain the most favorable outcomes possible for that party. In thisprocess the negotiator attempts to determine the minimum outcome(s) the other party is (orparties are) willing to accept, then adjusts their demands accordingly. The "successful" negotiationin the advocacy approach is when the negotiator can obtain all or most of the outcomestheir party desires, but without driving the other party to permanently break off negotiations,unless the best alternative to a negotiated agreement (BATNA) is acceptable.

Indeed, the ten new rules for global negotiations were advocated by Hernandez and Graham.

1. Accept only creative outcomes
2. Understand cultures, especially your own.
3. Don't just adjust to cultural differences, exploit them.
4. Gather intelligence and reconnoiter the terrain.
5. Design the information flow and process of meetings.
6. Invest in personal relationships.
7. Persuade with questions. Seek information and understanding.
8. Make no concessions until the end.
9. Use techniques of creativity
10. Continue creativity after negotiations

Emotion in negotiation

Emotions play an important part in the negotiation process, although it is only in recent years that their effect is being studied. Emotions have the potential to play either a positive or negative role in negotiation. During negotiations, the decision as to whether or not to settle rests in part on emotional factors. Negative emotions can cause intense and even irrational behavior, and can cause conflicts to escalate and negotiations to break down, while positive emotions facilitate reaching an agreement and help to maximize joint gains.

Positive effect on negotiation

Even before the negotiation process starts, people in a positive mood have more confidence, and higher tendencies to plan to use a cooperative strategy. During the negotiation,

negotiators who are in a positive mood tend to enjoy the interaction more, show less contentious behavior, and use less aggressive tactics and more cooperative strategies. This in turn increases the likelihood that parties will reach their instrumental goals, and enhance the ability to find integrative gains.

Indeed, compared with negotiators with negative or natural affectivity, negotiators with positive affectivity reached more agreements and tended to honor those agreements more. Those favorable outcomes are due to better Decision-Making processes, such as flexible thinking, creative Problem Solving, respect for others' perspectives, willingness to take risks, and higher, confidence.

Post negotiation positive affect has beneficial consequences as well. It increases satisfaction with achieved outcomes and influences one's desire for future interactions. The PA aroused by reaching an agreement facilitates the dyadic relationship, which results in the affective commitment that sets the stage for subsequent interactions. PA also has its drawbacks: it distorts the perception of self-performance; such that performance is judged to be relatively better than it is. Thus, studies involving self-reports on achieved outcomes might be biased.

Negative effectsof negotiation

The negative effect has detrimental effects on various stages in the negotiation process. Although various negative emotions affect negotiation outcomes, by far the most researched is anger. Angry negotiators plan to use more competitive strategies and cooperate less, even before the negotiation starts. These competitive strategies are related to reducing joint outcomes. During negotiations, anger disrupts the process by reducing the level of trust, clouding parties' judgment, narrowing parties' focus of attention, and changing their central goal from reaching an agreement to retaliating against the other side.

Angry negotiators pay less attention to the opponent's interests and are less accurate in judging their interests, thus achieving lower joint gains. Moreover, because anger makes negotiators more self-centered in their preferences, it increases the likelihood that they will reject profitable offers. Anger doesn't help in achievingnegotiation goals either: it reduces joint gains and does not help to boost personal gains, as angry negotiators don't succeed in claiming more for themselves.

Moreover, negative emotions lead to acceptance of settlements that are not in the positive utility function but rather have a negative utility. However, the expression of negative emotions during negotiation can sometimes be beneficial: legitimately expressed anger can be an effective way to show one's commitment, sincerity, and needs. Moreover, although NA reduces gains in integrative tasks, it is a better strategy than PA in distributive tasks (such as zero-sum). In his work on negative affect arousal and white noise, Seidner found support for the existence of a negative affect arousal mechanism through observations regarding the devaluation of speakers from other ethnic origins." Negotiation may be negatively affected, in turn, by submerged hostility toward an ethnic or gender group.

Conditions for emotional effect in negotiation

Research indicates that a negotiator's emotions do not necessarily affect the negotiation process. Albarracın et al. (2003) suggested that there are two conditions for emotional effect, both related to the ability (presence of environmental or cognitive disturbances) and the motivation:

1. Identification of the effect: requires high motivation, high ability, or both.
2. The determination that the effect is relevant and important for the judgment: requires that either the motivation, the ability, or both are low.

According to this model, emotions are expected to affect negotiations only when one is high and the other is low. When both ability and motivation are low the effect will not be identified, and when both are high the effect will be identified but discounted as irrelevant for judgment. Apossible implication of this model is, for example, that the positive effects PA has on negotiations (as described above) will be seen only when either motivation or ability is low. Cultural differences cause four kinds of problems in international business negotiations, at the levels of:

1. Language
2. Nonverbal behaviors
3. Values
4. Thinking and decision-making processes

The order is important; the problems lower on the list are more serious because they are subtler. For example, two negotiators would notice immediately if one were speaking Japanese and the other German. The solution to the problem may be as simple as hiring an interpreter or talking in a common third language, or it may be as difficult as learning a language. Regardless of the solution, the problem is obvious.

Non-verbal Behaviours

Anthropologist Ray L. Birdwhistell demonstrated that less than 35% of the message in conversations is conveyed by the spoken word while the other 65% is communicated nonverbally. Albert Mehrabian, a UCLA psychologist, also parsed where meaning comes from in face-to-face interactions. He reports:

1. 7% of the meaning is derived from the words spoken
2. 38% from paralinguistic channels, that is, tone of voice, loudness, and other aspects of how things are said.
3. 55% from facial expressions

Of course, some might quibble with the exact percentages (and many have), but our work also supports the notion that nonverbal behaviors are crucial – how things are said is often more important than what is said. Exhibit 2 provides analyses of some linguistic aspects and nonverbal behaviors for the 15 videotaped groups, that is, how things are said. Although these efforts merely scratch the surface of these kinds of behavioral analyses, they still provide indications of substantial cultural differences.

Differences in managerial values as pertinent to negotiations

Four managerial values objectivity, competitiveness, equality, and punctuality are held strongly and deeply by most Americans seem to frequently cause misunderstandings and bad feelings in international business negotiations.

Objectivity

Americans make decisions based upon the bottom line and on cold, hard facts. Americans don't play favorites. Economics and performance count, not people. Business is business. Such statements well reflect American notions of the importance of objectivity. The single most successful book on the topic of negotiation, getting to Yes, is highly recommended for both American and foreign readers. The latter will learn not only about negotiations but, perhaps more importantly, about how Americans think about negotiations.

The authors are quite emphatic about separating the people from the problem, and the state, every negotiator has two kinds of interests: the substance and the relationship. This advice is probably quite worthwhile in the United States or perhaps in Germany, but in most places in the world, such advice is nonsense. In most places in the world, particularly in collectivistic, high contextcultures, personalities and substance are not separate issues and cannot be made so.

Competitiveness and Equality

Simulated negotiations can be viewed as a kind of experimental economics wherein the values of each participating cultural group are roughly reflected in the economic outcomes. The simple simulation used in this part of our work represents the essence of commercial negotiations it has both competitive and cooperative aspects. At least 40 businesspeople from each culture played the same buyer-seller game, negotiating over the prices of three products. Depending on the agreement reached, the —negotiation pie could be made larger through cooperation (as high as $10,400 in joint profits) before it was divided between the buyer and seller.

Time

Just make them wait. Everyone else in the world knows that no negotiation tactic is more useful with Americans, because no one places more value on time, no one has less patience when things slow down, and no one looks at their wristwatches more than Americans do. Edward T. Hall in his seminal writing is best at explaining how the passage of time is viewed differently across cultures and how these differences most often hurt Americans.

Differences in thinking and decision-making processes

When faced with a complex negotiation task, most Westerners (notice the generalization here) divide the large task up into a series of smaller tasks. Issues such as prices, delivery, warranty, and service contracts may be settled one issue at a time, with the final agreement being the sum of the sequence of smaller agreements.

In Asia, however, a different approach is more often taken wherein all the issues are discussed at once, in no apparent order, and concessions are made on all issues at the end of the discussion. The Western sequential approach and the Eastern holistic approach do not mix well.

THE ROLE OF INTERNATIONAL AGENCIES

1. The 'Hand-Shake'

Many New Zealand exporters confirm their agent or distributor's appointment and theterms of their relationship on the strength of a handshake. New Zealand Trade and Enterprise does not recommend this approach. If there is no written document the relationship can run into difficulties in areas such as measuring performance, sorting out differences of opinion, or terminating the arrangement. It is important to have a written agreement that covers the keycomponents of your relationship.

2. Heads of Agreement/Exchange of Letters

In the majority of cases, a Heads of Agreement or Exchange of Letters is the best starting point in terms of an export and agent/distributor agreement. Such an agreement implies trust and a formal relationship and is a good mechanism to protect your interests. However, it does not involve the time and cost of working through lawyers.

The Heads of Agreement should include the following:

- Products involved – description
- The territory covered by the representative
- The timeframe of the agreement
- Termination clauses – it is important to think about these at the start of the relationship when you and your representative are on good terms.
- Review Clauses – when you want to review the agreement and what you want to review
- Performance targets – these could cover such things as the number of sales, number of customers, number of advertising campaigns, etc.

3. Formal Agent/Distributor Agreement

This is a formal agreement that requires the services of a lawyer, as well as considerable time and money on your behalf. Just as too many New Zealand exporters rely on the handshake agreement, too many also jump in at this stage. While the handshake is too flimsy, the formal agreement at the outset can be a waste of time and money if the relationship only lasts for a few months. It is usually better to start with a Heads of Agreement or Letters of Exchange and progress to this stage once the relationship has proved itself to be ongoing.

Be aware, however, that formal agent/distributor agreements should not be seen as legally binding, except perhaps for Australia. It would normally be too expensive for a New Zealand company to sue an offshore partner who breaks such an agreement, despite its legal basis.The key advantage of a formal agreement is that it is a written statement of intent that ensures everyone understands the rules and is working toward the same objectives. A checklist of items that should be included in an agent/distributor agreement can be found at the end of this document.

4. Joint Venture

Once you have an established and successful relationship with your representative, you could consider entering into a joint venture with them. This is a public show of your commitment to each other and sends good market signals. For information on joint ventures, see the New Zealand Trade and Enterprise

Measure the agent or distributor's performance:

While the sales figures and trends will give you a good indication of how well your product and your distributor or agent are performing, it makes good sense to have a more formal performance arrangement in place so you can quickly and easily identify areas for attention.

- Request regular reports on a monthly, quarterly and annual basis. These reports should cover such things as sales, inventory after-sales service, distribution and warehousing, freight, competitor activity, new products, and consumer and audience trends.
- Regular visits to the market should be part of a performance review.
- Encourage open, two-way communication so problems can be highlighted and dealt with quickly and constructively.
- Talk to customers to find out how they think your representative is performing.
- Use your time in the market to ascertain how quickly and accurately your representative is reporting back market trends

ETHICS IN INTERNATIONAL BUSINESS

Business Ethics:

Business ethics are principles of right or wrong governing the conduct of business people. The text says, "The accepted principles of right and wrong" But there are many differences of opinion among highly ethical business people.

Ethical Issues in International Business

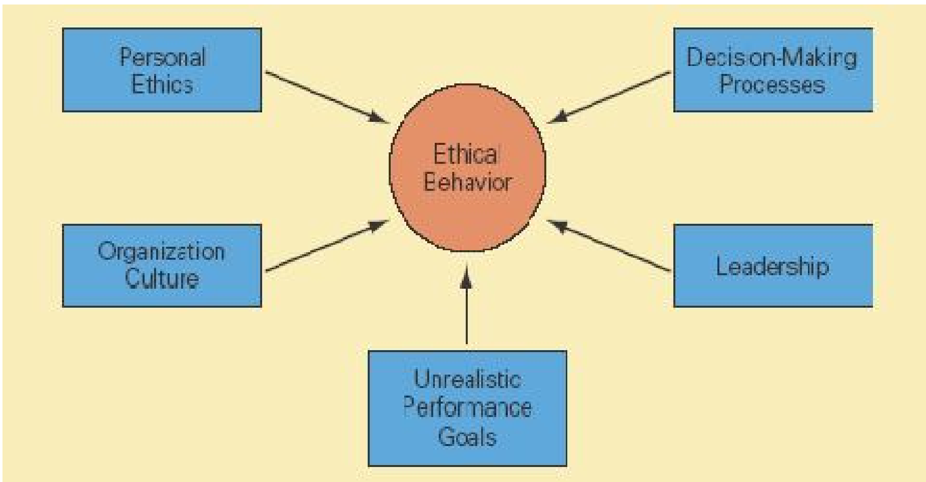
- Many ethical issues and dilemmas are rooted in differences in political systems, law, economic development, and culture. Some key ethical issues in international business
- Employment Practices

When work conditions in a host nation are inferiorto those in a multinational's home nation, what standards should be applied? How much divergence is acceptable?

Determinants of Ethical Behaviour:

- Organization culture
- Personal ethics
- Decision making processes
- Leadership
- Unrealistic / realistic performance goals

The Roots of Unethical Behaviour:



Ethical Decision Making-Five things that an international business and its managers can **do** to make sure ethical issues are considered

- Favor hiring and promoting people with a well-grounded sense of personal ethics
- Build an organizational culture that places a high value on ethical behavior
- Make sure that leaders within the business not only articulate the rhetoric of ethical behavior but also act in a manner that is consistent with that rhetoric
- Implement decision-making processes that require people to consider the ethical dimension of business decisions
- Develop moral courage

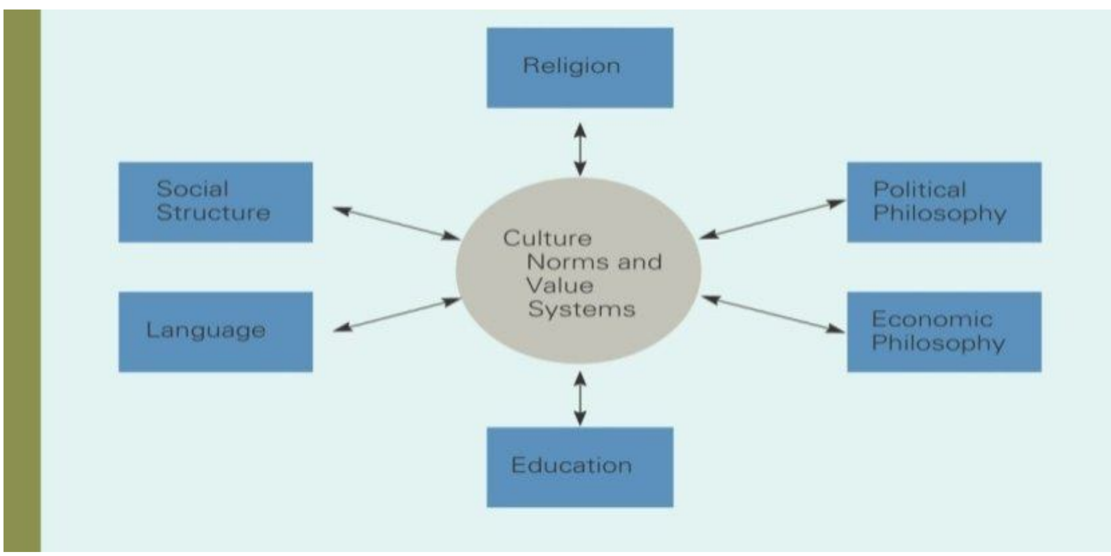
What is culture?

“A system of values and norms that are shared among a group of people and that when taken together constitute a design for living.”

Different components of culture:

- Values: Abstract ideas/assumptions about what a group believes to be good, right, and desirable.
- Norms: social rules and guidelines that prescribe appropriate behavior in particular situations
- Folkways: Routine conventions of everyday life.
    - Little moral significance
    - Generally, social conventions such as dress codes, social manners, and neighborly behavior
- Mores: Norms central to the functioning of society and its social life
    - Greater significance than folkways
    - Violation can bring serious retribution, Theft, adultery, incest, and cannibalism

Determinants of culture



IMPROVING GLOBAL BUSINESS ETHICS

Seven Moral Guidelines for MNCs

- Inflict no intentional or direct harm.
- Produce more good than bad for the host country.
- Contribute to the host country's development.
- Respect the human rights of their employees.
- Pay their fair share of taxes.
- Respect local cultural beliefs that do not violate moral norms.
- Cooperate with the government to develop and enforce background institutions

The Role of Ethics in International Business

International business ethics has several open questions and dilemmas. Today it is characterized by the following elements: Every culture and nation has its values, history, customs, and traditions, thus it has developed its ethical values and understanding of ethical principles; There is no international ethical code of conduct, accepted and followed by all the countries;

There is a lack of governments' initiative to create an ethical cooperation framework and thus enhance ethical behavior in international business; It is hard to outline those ethical values which would be understandable, acceptable, and important for representatives of all the continents simultaneously within different types of international cooperation projects.

Following an approach to international business ethics:

Every individual and every corporate body must outline its ethical values; every individual and company should ensure understanding of ethical values and belief in their effectiveness and importance;

Employees of every organization must participate in creating a corporate code of conduct, which in this case represents corporate culture, rather than only the personal views of a company's leader; Every individual and company must monitor compliance with the outlined values at all times.

All the ethical values must be divided into two categories – rigid and flexible. Rigid thosevalues which cannot be renounced under any circumstances (honesty, integrity, professionalism), and flexible ones, which are those moral principles that may be interpreted in different ways in different situations (will to understand other cultures' values, remuneration policies).

ETHICAL DECISIONS IN INTERNATIONAL BUSINESS:

Business Description (What):

Business decision-making tools yield more coherent and justifiable results when usedwith an understanding of the ethical, social and environmental aspects of the decision-makingprocess. Using a case study approach, this subject is designed to look at such non-financial elements in decisions made within the international business context. Its premise is that to succeed in international business, both corporations and individuals need broad decision-making abilities.

This applies in various situations in the international business setting, including business relations with governments, customers, employees, and NGOs. This subject considers ethics in terms of Corporate Social Responsibility (CSR) in international business.The subject provides an experience-based environment where students work on personal application of knowledge. Responsibility for student learning is placed on the students themselves, allowing self-directed choices to be made while at the same time supporting peerlearning.

Student teams work with nominated industry partners on real-life ethical challenges in international business, as well as providing industry partners with fresh analyses of future challenges. The subject requires an environment where no pre-existing' right' answers exist and where the search for answers is built upon a continuous process rather than any discrete event.

Objectives (Why):

- Equip students to deal with ethical questions arising in everyday professional situations in international business contexts, with international business partnerships encouraging students to improve their employability and gain unique access to real-life corporate decision-making.

- Support transference of learning from the classroom to the workplace through student interaction with business partners and focusing of assignments on applied topics, the learning journal in particular deepening students' generic ability to learn from experience.

- Help students synthesize their theoretical knowledge into a vision of the ethical challenges that may face business in the future, as well as provide tentative solutions to foreseen challenges.

There are mutual and synchronous benefits for all stakeholders, including:

- For the company: a leadership opportunity for those organizations and individuals involved, bringing current CSR issues to curriculum content within a business faculty. On the other hand, partnered organizations have an opportunity to gain an academic understanding of business ethics, and the Gen Y perspective and to build an on-campus profile.

- For the students: by having actual companies involved students gain an authentic understanding of corporate responsibility and sustainability issues facing business today. The development of their ethical, professional, and social understanding will then translate into individual employability. For the faculty: a leadership opportunity for business schools in the Australian higher education sector.

Practice (How):

- This subject has no formal lectures. Face-to-face teaching time is organized as workshops where teams, supported by the teaching staff, work through technical and ethical questions and challenges. Students are given an extensive reading list consisting of core ethical texts and their applications. They also have access to podcast lectures. Each team has a nominated industry partner with which it liaises throughout the unit.

- Class time is divided into weekly themes (2x3hr sessions each). In the first session, ethical, theory taken from the readings is applied to universal questions in business ethics. In the second session, each team applies its knowledge to the particular ethical challenges faced by their dedicated industry partner. At the start of the semester industry partners provide each team with an information pack containing key corporate facts and figures, a CSR report, and links for further research. Students can ask questions of the industry partner halfway through the subject during a visit to their office/production facilities. At the end of the semester, each team presents its findings to the industry partner and engages in dialogue about them. Presentations are held at the offices of the partner company.

- Direct engagement by student teams with several businesses operating in an international context. Participating businesses in this subject were sourced through the University's Careers and Employer Relations Office.

- Team assignments are the key learning tool. They are designed so that students can work through ethical questions in a structured and focused manner, benefiting from the experience and expertise of their team members. The questions set for teams require all team members to work cohesively and reach decisions in situations where there is no one right answer. In addition to the team assignment, students are assessed in individual and team quizzes, team presentations, and an individual reflective journal and report.

Industry Engagement:

- Direct engagement by student teams with several businesses operating in an international context.
- Participating businesses in this subject were sourced through the University's Careers and Employer Relations Office

Enablers:

- Continuity in a unit of study 'ownership', facilitating the constitution, development, and permanence of the teaching team.
- Promotional and annual review decisions that reflect the role of learning and teaching activities (L&T), i.e. L&T career pathways encouraged and rewarded

Impediments:

- Short, unpredictable ownership cycles and inappropriate decisions on teaching loads.
- Barriers inadequately recognizing L&T development, e.g. scholarship indices for allocating research awards that are not geared to L&T, which only recognize discipline-specific research, restricting scholarly research into T&L

Good Practice Principles:

- Non-financial elements of business decision making as the focus
- Student teams work with a business operating in an international context
- Student teams are allocated an industry partner as a client
- Business clients supply an information pack to students
- Team-based learning increases the diversity of skills and experience
- Peer support, review and self-reflection
- Students experience real-life business decision making in an international context
- Extensive student preparation for a site visit
- Exploration of a range of solutions rather than any single, predictable answer
- Application focus that develops transferable learning, knowledge, and skills
- Practice-based teaching in workshop format supported by podcast lectures
- Presentation of findings and recommendations to business clients on their premises
- Businesses get fresh, independent analyses of their future business challenges
- Faculties deal with business organizations in a corporate manner
- Participating organizations engage at different points in the design, delivery, and evaluation of the subject.

Self-Assessment Questions:

1. Write on the Conflict in International Business.
2. What are the factors causing conflict?
3. Write short notes on Negotiation.
4. What are the ethical issues in International Business?

5. Mention any three conflict resolution mechanisms followed in International business.
6. Explain training and development of managers in InternationalBusiness.
7. What are the sources of conflict? Explain.
8. Discuss the ethical issues in International Business

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GLOSSARY

Absolute advantage

A country has an absolute advantage when it is moreefficient than any other country at producing a product.

ASEAN Free Trade Area (AFTA)

Established in January1993 to promote intra-ASEAN trade.

Balance of payments accounts

National accounts that track both payments to andreceipts from foreigners.

Bill of lading

A document issued to an exporter by a common carriertransporting merchandise.

Common market

A group of countries committed to the pursuit of acommon external trade policy.

Comparative advantage

The theory is that countries should specialize in the production of goods and services they can produce most efficiently.

Economic risk

The likelihood that events, including economic mismanagement, will cause drastic changes in a country’sbusiness environment that adversely affects the profit andother goals of a particular business enterprise.

European Union (EU)

An economic group of 15 European nations: Austria,Belgium, Great Britain, Denmark, Finland, France, Germany, Greece, the Netherlands, Ireland, Italy, Luxembourg, Portugal, Spain, and Sweden.

Exchange rate

The rate at which one currency is converted into another.

Expatriate manager

A national of one country is appointed to a managementposition in another country.

Exporting

Sale of products produced in one country to residents ofanother country.

Fixed exchange rates

A system under which the exchange rate for convertingone currency into another is fixed.

Floating exchange rates

A system under which the exchange rate for convertingone currency into another is continuously adjusteddepending on the laws of supply and demand.

Free trade

The absence of barriers to the free flow of goods andservices between countries.

General Agreement on Tariffs and Trade (GATT)

An international treaty that committed signatories to lower barriers to the free flow of goods across nationalborders led to the WTO.

Globalization of markets

Moving away from an economic system in which nationalmarkets are distinct entities.

Horizontal foreign direct investment

Foreign direct investment in the same industry abroad asa firm operates in at home.

Import quota

A direct restriction on the quantity of a good that can beimported into a country.

International Accounting Standards Committee (IASC)

Organization of representatives of 106 professionalaccounting organizations from 79 countries that isattempting to harmonize accounting standards acrosscountries.

International Monetary Fund (IMF)

The international institution was set up to maintain order in theinternational monetary system.

International strategy

Trying to create value by transferring core competenciesto foreign markets where indigenous competitors lackthose competencies.

Lead strategy

Collecting foreign currency receivables early when aforeign currency is expected to depreciate, and payingforeign currency payables before they are due when a currency is expected to appreciate.

Local content requirement

A requirement that some specific fraction of a good beproduced domestically

Mercantilism

An economic philosophy advocating that countriesshould simultaneously encourage exports and discourageimports.

Merchandise export

Sale of a good to a resident of a foreigncountry.

Minimum efficient scale

The level of output at which most plant-level scaleeconomies are exhausted.

Mixed economy

Certain sectors of the economy are left to private ownership and free-market mechanisms, while other sectorshave significant government ownership and governmentplanning.

A multinational enterprise (MNE)

A firm that owns business operations in more than onecountry.

Multidomestic strategy

Emphasizing the need to be responsive to the uniqueconditions prevailing in different national markets.

Nonconvertible currency

A currency is not convertible when both residents andnonresidents are prohibited from converting their

holdings of that currency into another currency.

North American Free Trade Agreement (NAFTA)

Free trade area between Canada, Mexico, and the UnitedStates.

Political risk

The likelihood that political forces will cause drasticchanges in a country's business environment thatadversely affect the profit and other goals of a particularbusiness enterprise.

Polycentric staffing

A staffing policy in an MNE in which host-countrynationals are recruited to manage subsidiaries in their

own country, while parent-country nationals occupy keypositions at corporate headquarters.

Positive sum game

A situation in which all countries can benefit even if somebenefit more than others.

Predatory pricing

Reducing prices below fair market value as a competitiveweapon to drive weaker competitors out of the market.

Price discrimination

The practice of charging different prices for the sameproduct in different markets.

Smoot-Hawley Tariff

Enacted in 1930 by the U.S. Congress, this tariff erected awall of barriers against imports into the United States.

Specific tariff

Tariff levied as a fixed charge for each unit of a goodimported.

Structural Impediments Initiative

A 1990 agreement between the United States and Japanaimed at trying to decrease non-tariff barriers restrictingimports into Japan.

Subsidy

Government financial assistance to a domestic producer

systematic risk

Movements in a stock portfolio's value are attributable tomacroeconomic forces affecting all firms in an economy,rather than factors specific to an individual firm.

Tariff

Tax placed on a good involved in international trade.

Tax haven

A country with exceptionally low, or no, income taxes.

Tax treaty

An agreement specifying what items of income will betaxed by the authorities of the country where the incomeis earned.

Temporal method

Translating assets valued in a foreign currency into thehome currency using the exchange rate that existed whenthe assets were originally purchased.

Total quality management (TQM)

Integrated effort tosystematically and continuously improve the quality of anorganization's products and/or services.

Trade

Voluntary exchange of goods, services, assets, ormoney between one person or organization and another.

Transaction exposure

The extent to which income from individual transactionsis affected by fluctuations in foreign exchange values.

Translation exposure

The extent to which the reported consolidated resultsand balance sheets of a corporation are affected by

fluctuations in foreign exchange values.

Transnational corporation

A firm that tries to simultaneously realize gains fromexperience curve economies, location economies, andglobal learning, while remaining locally responsive.

Turkey project

A project in which a firm agrees to set up an operatingplant for a foreign client and hand over the "key" whenthe plant is fully operational.

Uruguay Round

GATT negotiations (1986–1994) createdthe World Trade Organization, slashed tariff rates, andstrengthened enforcement of intellectual property rights.

Voluntary export restraint (VER)

A quota on trade imposed from the exporting country'sside, instead of the importer's; usually imposed at therequest of the importing country's government

World Bank

International institutionsare set up to promote generaleconomic development in the world's poorer nations.

World Trade Organization (WTO)

The organization that succeeded the General Agreementon Tariffs and Trade (GATT) as a result of the successfulcompletion of the UraguayRound of GATT negotiations.

Zero-sum game

A situation in which an economic gain by one countryresults in an economic loss by another.