BBA(CAM)

GGS Indraprastha University

BBA (CAM) 304-International Business

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Global Human Resource Management- Selection, Development, Performance Appraisal and compensation, Motivating employees in the global context and managing groups across cultures, Multicultural management.

Books Recommended:

1. Bhalla, V.K. and S. Shivaramu; *International Business: Environment and Management*, Anmol Publication Pvt. Ltd., 2003 Seventh Revised Edition.
2. Rao, P. Subba; *International Business*, Himalaya Publishing House, 2002 Second Revised Edition.
3. Radriqupes, Corl; *International Management* – A, Cultural Approach, South West College Publishers, 2001.
4. Francis, Cherunilam; *International Marketing*, Himalaya Publication House, 1998.
5. Hibbert, Edgar P; *International Business*: Strategy and Operations, MacMilan Press Ltd.
6. Goldsmith, Arthur A; *Business Government Society*, Erwin Book Team.
7. Berry, Brian J L, Edgar C Conkling & D Michael Ray; *The Global Economy in Transition*, Prentice Hall International Ltd.

Website:

1) http://sbaer.uca.edu/publications/international_business/pdf/01.pdf

2) http://pdfcast.org/pdf/what-is-global-business

3) http://www.kinindia.com/university/wp-content/uploads/2013/02/Ba9209-International-Business-Management.pdf

4) http://www.referenceforbusiness.com/management/Gr-Int/International-Business.html

5) http://www.democraticunderground.com/111632366

UNIT -1

Definition of International Business

1. The exchange of goods and services among individuals and businesses in multiple countries.
2. A specific entity, such as a multinational corporation or international business company that engages in business among multiple countries.

International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports.

INTRODUCTION & CONCEPT TO INTERNATIONAL BUSINESS

International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations. These transactions take on various forms, which are often interrelated. Primary types of international business are export–import trade and direct foreign investment. The latter is carried out in varied forms, including wholly owned subsidiaries and joint ventures. Additional types of international business are licensing, franchising, and management contracts. The definition of international business focuses on transactions. The use of this term recognizes that doing business internationally is an activity, not merely a passive observation. Closely linked to activity is the term "satisfaction." It is crucial that the participants in international business are satisfied. Only if they feel they are better off after the transaction than they were before, will individual business transactions develop into a business relationship. The fact that the transactions are *across national borders* highlights a key difference between domestic and international business. The international executive is subject to a new set of macro environmental factors, to different constraints, and to quite frequent conflicts resulting from different laws, cultures, and societies. The basic principles of business are still relevant, but their application, complexity, and intensity vary substantially.

An international business has many options for doing business, it includes,

1. Exporting goods and services.
2. Giving license to produce goods in the host country.
3. Starting a joint venture with a company.
4. Opening a branch for producing & distributing goods in the host country.
5. Providing managerial services to companies in the host country.

Today, business is acknowledged to be international and there is a general expectation that this will continue for the foreseeable future. International business may be defined simply as business transactions that take place across national borders. This broad definition includes the very small firm that exports (or imports) a small quantity to only one country, as well as the very large global firm with integrated operations and strategic alliances around the world. Within this broad array, distinctions are often made among different types of international firms, and these distinctions are helpful in understanding a firm's strategy, organization, and functional decisions (for example, its financial, administrative, marketing, human resource, or operations decisions). One distinction that can be helpful is the distinction between multi-domestic operations, with independent subsidiaries which act essentially as domestic firms, and global operations, with integrated subsidiaries which are closely related and interconnected. These may be thought of as the two ends of a continuum, with many possibilities in between. Firms are unlikely to be at one end of the continuum, though, as they often combine aspects of multi-domestic operations with aspects of global operations.

International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier. In terms of liberalization, the General Agreement on Tariffs and Trade (GATT) negotiation rounds resulted in trade liberalization, and this was continued with the formation of the World Trade Organization (WTO) in 1995. At the same time, worldwide capital movements were liberalized by most governments, particularly with the advent of electronic funds transfers.

In addition, the introduction of a new European monetary unit, the euro, into circulation in January 2002 has impacted international business economically. The euro is the currency of the European Union, membership in March 2005 of 25 countries, and the euro replaced each country's previous currency. As of early 2005, the United States dollar continues to struggle against the euro and the impacts are being felt across industries worldwide.

In terms of ease of doing business internationally, two major forces are important:

1. technological developments which make global communication and transportation relatively quick and convenient; and
2. The disappearance of a substantial part of the communist world, opening many of the world's economies to private business.

SCOPE OF INTERNATIONAL BUSINESS

International business comprises all commercial transactions

(private and governmental, sales, investments, logistics,andtransportation) that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc.

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than a country. An MNE is often called multinational corporation (MNC) or transnational company (TNC). Well known MNCs include fast food companies such as McDonald's and Yum Brands, vehicle manufacturers such as General Motors, Ford Motor Company andToyota, consumer electronics companies

like Samsung, LG and Sony, and energy companies such as ExxonMobil, Shell and BP. Most of the largest corporations operate in multiple national markets.

Areas of study within this topic include differences in legal systems, political systems, economic policy, language, accounting standards, labor standards, living standards, environmental standards, local culture, corporate culture, foreign exchange market, tariffs,import and export regulations, trade agreements, climate, education and many more topics. Each of these factors requires significant changes in how individual business units operate from one country to the next.

CHALLENGES & OPPORTUNITIES IN INTERNATIONAL BUSINESS

Global Trade - Challenge, Scheduling and Approach:

The very first challenge for a global enterprise is to formulate an international approach and then execute it. The administrators and those at decision-making positions often find it hard to alter their thought pattern, which is not good to work in international paradigm. There are numerous worldwide businesses but only a few of them have really accepted a good international approach. Though the situation is improving with more and more professionals and trained graduates taking on the management positions. Nevertheless, global business management needs additional ordinary management, foreseeing and control talents.

Foreign Politics:

Political expertise is a must for everyone but it becomes all so vital when working at global stage. If some plans were appropriate for your trade, a change in ruling government can bring strong changes in those plans. Political disarray will bring down the financial system and that can affect your business. To avoid safeguard business from such unhelpful bangs, you need to make sound political decisions.

Economic and Financial Challenges:

It begins from organizing the resources to initiate global trade and consist of everything like variation in exchange rate, international financial crisis (or some financial crises in the host nation), change in oil rates, international price rises or tariff barriers imposed by the host ruling party, also the export related rules of your own government.

Natural Catastrophe, Environment and War or Terrorism:

Various multinational businesses have to countenance severe opposition by some environment friendly organizations. Citizens are more worried about water and air pollution these days as it is becoming a severe danger to their health. Some natural calamity such as earthquake and floods or some kind of civil war breaking out in the host nation is also in the catalog of potential challenges. A fresh challenge that a global trade business has to bear these days in some specific nation is the danger of bombing, violence or terror campaigns.

TRENDS IN INTERNATIONAL BUSINESS

Growing Emerging Markets

Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favor.

Demographic Shifts

The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

Innovation

The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

Communication

More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

Increased Competition

As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

Slower Growth

The motor of rapid growth has been the Western economies and the largest of the emerging markets, such as China and Brazil. Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

Clean Technology

Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.

DOMESTIC VS. INTERNATIONAL BUSINESS

Domestic and international enterprises, in both the public and private sectors, share the business objectives of functioning successfully to continue operations. Private enterprises seek to function profitably as well. Why, then, is international business different from domestic? The answer lies in the differences across borders. Nation-states generally have unique government systems, laws and regulations, currencies, taxes and duties, and so on, as well as different cultures and practices. An individual traveling from his home country to a foreign country needs to have the proper documents, to carry foreign currency, to be able to communicate in the foreign country, to be dressed appropriately, and so on. Doing business in a foreign country involves similar issues and is thus more complex than doing business at home. The following sections will explore some of these issues. Specifically, comparative advantage is introduced, the international business environment is explored, and forms of international entry are outlined.

MEANING OF INTERNATIONAL COMPETITIVE ADVANTAGE

In order to understand international business, it is necessary to have a broad conceptual understanding of why trade and investment across national borders take place. Trade and investment can be examined in terms of the comparative advantage of nations.

Comparative advantage suggests that each nation is relatively good at producing certain products or services. This comparative advantage is based on the nation's abundant factors of production—land, labor, and capital—and a country will export those products/services that use its abundant factors of production intensively. Simply, consider only two factors of production,

labor and capital, and two countries, X and Y. If country X has a relative abundance of labor and country Y a relative abundance of capital, country X should export products/services that use labor intensively, country Y should export products/services that use capital intensively.

This is a very simplistic explanation, of course. There are many more factors of production, of varying qualities, and there are many additional influences on trade such as government regulations. Nevertheless, it is a starting point for understanding what nations are likely to export or import. The concept of comparative advantage can also help explain investment flows. Generally, capital is the most mobile of the factors of production and can move relatively easily from one country to another. Other factors of production, such as land and labor, either do not move or are less mobile. The result is that where capital is available in one country it may be used to invest in other countries to take advantage of their abundant land or labor. Firms may develop expertise and firm specific advantages based initially on abundant resources at home, but as resource needs change, the stage of the product life cycle matures, and home markets become saturated, these firms find it advantageous to invest internationally.

IMPORTANCE OF INTERNATIONAL COMPETITIVE ADVANTAGE

Competitive advantage management is a set of methods and strategies that work to not only position your company or business but also make it stand out in the market. Understanding the competitive advantage of your company over its rival companies is the key to creating a dominant position in your market. The business plan that you have sketched as an outline of the future progress of your business should incorporate competitive advantage management. Without it, your business plan is incomplete and will be ineffective as well.

*** Cost leadership -** in most markets, most competition is based around price. However, cost leadership is very difficult to sustain, unless you can develop a proprietary technology or monopolize suppliers. Using competitive advantage management as the focal point of your business plan, you can develop a unique selling proposition that eliminates the need for

competing on the basis of cost leadership. By creating a unique value proposition, you can elicit huge response from a mass of customers.

* **Promotion of the business -** a focus on the management of competitive advantages will help you promote your product and service by implementing effective marketing strategies. Promotion of product and service plays an instrumental part in the marketing of your business.

* **Continual assessment -** one of the requirements of competitive advantage management, continual assessment of your product and service strategies, will help you sustain your edge over your competitors. Assessing the quality perceptions of the product keeps you aware of your image in the market and the market value of the product.

* **Image enhancement -** managing competitive advantages over your rivals works for the enhancement of your image in the market. Product positioning, quality checking and effective marketing are the means of gaining competitive advantages over others. It helps set your company or business on the road to sustainable success.

MULTIDIMENSIONAL VIEW OF COMPETITIVENESS

Competitiveness is considered as a key criterion for appraising the success degree of countries, industries and enterprises in the political, economical and commercial competition fields. Research findings show that competitiveness has been discussed in three levels of national, industry and enterprise (organization or company). Among all the enterprise level seems to more considerable. In this study enterprise competitiveness has been viewed from two main perspectives: construct and behavioral. According to construct perspective, competitiveness includes two groups of factors which are composing and affecting factors. National competitiveness as "the catchphrase in the global world" refers to a country's ability to create, produce, distribute and service products in the international trade while earning rising returns on its resources. Although there are different criteria in determining the national competitiveness of the countries, competitiveness is substantially related with the productivity growth of the

countries both at the macro and micro level. In this regard, national competitiveness is well enlightened by defining the national competitiveness at the firm level, at the industrial level and at the international level. National competitiveness at the firm level implies the ability to make production at lower costs and higher quality. Therefore, the most important determinants of the competitiveness at the firm level are quality, cost (such as labor costs and cost of capital) and the price levels. For a country to be more competitive, the development of countries should be improved at the firm level with the help of firms' increasing performance. National competitiveness at the industrial level is generally defined as the ability of an industry to achieve the highest level of efficiency to meet challenges posed by foreign rivals. Although there are different theoretical approaches to the measurement of competitiveness, three well known indices such as Global Competitiveness Report prepared by World Economic Forum (WEF), The World Competitiveness Yearbook prepared by Institute for Management Development (IMD) and Business Competitiveness- Ease of Doing Business Report prepared by International Finance Corporation (IFC) are substantially prominent. However, owing to different definitions, indices and data sources they use, rankings of competitiveness of countries are different. For example, Turkey is at the 39th position according to the World Competitiveness Yearbook by IMD, at the 59th rank according to the Global Competitiveness Yearbook by WEF and at the 65th position according to Business Competitiveness - Ease of Doing Business Report by IFC. So, it is necessary to analyze how these indices are generated to determine the source of this difference and also show the correlations between the ranks of these series.

FINANCIAL PERSPECTIVE

INTERNATIONAL MONETARY SYSTEM & FINANCIAL MARKET

International monetary systems are sets of internationally agreed rules, conventions and supporting institutions, that facilitate international trade, cross border investment and generally the reallocation of capital between nation states. They provide means of payment acceptable between buyers and sellers of different nationality, including deferred payment. To operate

successfully, they need to inspire confidence, to provide sufficient liquidity for fluctuating levels of trade and to provide means by which global imbalances can be corrected. The systems can grow organically as the collective result of numerous individual agreements between international economic factors spread over several decades. Alternatively, they can arise from a single architectural vision as happened at Bretton Woods in 1944. The rules and procedures for exchanging national currencies are collectively known as the international monetary system. This system doesn't have a physical presence, like the Federal Reserve System, nor is it as codified as the Social Security system. Instead, it consists of interlocking rules and procedures and is subject to the foreign exchange market, and therefore to the judgments of currency traders about a currency. Yet there are rules and procedures—exchange rate policies—which public finance officials of various nations have developed and from time to time modify. There are also physical institutions that oversee the international monetary system, the most important of these being the International Monetary Fund.

Exchange Rate Policies

In July 1944, representatives from 45 nations met in Bretton Woods, New Hampshire to discuss the recovery of Europe from World War II and to resolve international trade and monetary issues. The resulting Bretton Woods Agreement established the International Bank for Reconstruction and Development (the World Bank) to provide long-term loans to assist Europe's recovery. It also established the International Monetary Fund (IMF) to manage the international monetary system of fixed exchange rates, which was also developed at the conference.

The new monetary system established more stable exchange rates than those of the 1930s, a decade characterized by restrictive trade policies. Under the Bretton Woods Agreement, IMF member nations agreed to a system of exchange rates that pegged the value of the dollar to the price of gold and pegged other currencies to the dollar. This system remained in place until 1972. In 1972, the Bretton Woods system of pegged exchange rates broke down forever and was replaced by the system of managed floating exchange rates that we have today. The Bretton Woods system broke down because the dynamics of supply, demand, and prices in a nation

affect the true value of its currency, regardless of fixed rate schemes or pegging policies. When those dynamics are not reflected in the foreign exchange value of the currency, the currency becomes overvalued or undervalued in terms of other currencies. Its price—fixed or otherwise—becomes too high or too low, given the economic fundamentals of the nation and the dynamics of supply, demand, and prices. When this occurs, the flows of international trade and payments are distorted.

In the 1960s, rising costs in the United States made U.S. exports uncompetitive. At the same time, western Europe and Japan emerged from the wreckage of World War II to become productive economies that could compete with the United States. As a result, the U.S. dollar became overvalued under the fixed exchange rate system. This caused a drain on the U.S. gold supply, because foreigners preferred to hold gold rather than overvalued dollars. By 1970, U.S. gold reserves decreased to about $10 billion, a drop of more than 50 percent from the peak of $24 billion in 1949. In 1971, the U.S. decided to let the dollar float against other currencies so it could find its proper value and imbalances in trade and international funds flows could be corrected. This indeed occurred and evolved into the managed float system of today. A nation manages the value of its currency by buying or selling it on the foreign exchange market. If a nation's central bank buys its currency, the supply of that currency decreases and the supply of other currencies increases relative to it. This increases the value of its currency. On the other hand, if a nation's central bank sells its currency, the supply of that currency on the market increases, and the supply of other currencies decreases relative to it. This decreases the value of its currency.

THE INTERNATIONAL BUSINESS ENVIRONMENT

International business is different from domestic business because the environment changes when a firm crosses international borders. Typically, a firm understands its domestic environment quite well, but is less familiar with the environment in other countries and must invest more time and resources into understanding the new environment. The following considers some of the important aspects of the environment that change internationally.

The economic environment can be very different from one nation to another. Countries are often divided into three main categories: the more developed or industrialized, the less developed or third world, and the newly industrializing or emerging economies. Within each category there are major variations, but overall the more developed countries are the rich countries, the less developed the poor ones, and the newly industrializing (those moving from poorer to richer). These distinctions are usually made on the basis of gross domestic product per capita (GDP/capita). Better education, infrastructure, and technology, health care, and so on are also often associated with higher levels of economic development.

In addition to level of economic development, countries can be classified as free-market, centrally planned, or mixed. Free-market economies are those where government intervenes minimally in business activities, and market forces of supply and demand are allowed to determine production and prices. Centrally planned economies are those where the government determines production and prices based on forecasts of demand and desired levels of supply. Mixed economies are those where some activities are left to market forces and some, for national and individual welfare reasons, are government controlled. In the late twentieth century there has been a substantial move to free-market economies, but the People's Republic of China, the world's most populous country, along with a few others, remained largely centrally planned economies, and most countries maintain some government control of business activities.

Clearly the level of economic activity combined with education, infrastructure, and so on, as well as the degree of government control of the economy, affect virtually all facets of doing business, and a firm needs to understand this environment if it is to operate successfully internationally. The political environment refers to the type of government, the government relationship with business, and the political risk in a country. Doing business internationally thus implies dealing with different types of governments, relationships, and levels of risk. There are many different types of political systems, for example, multi-party democracies, one-party states, constitutional monarchies, dictatorships (military and nonmilitary). Also, governments change in different ways, for example, by regular elections, occasional elections, death, coups, war. Government-

business relationships also differ from country to country. Business may be viewed positively as the engine of growth, it may be viewed negatively as the exploiter of the workers, or somewhere in between as providing both benefits and drawbacks. Specific government-business relationships can also vary from positive to negative depending on the type of business operations involved and the relationship between the people of the host country and the people of the home country. To be effective in a foreign location an international firm relies on the goodwill of the foreign government and needs to have a good understanding of all of these aspects of the political environment.

A particular concern of international firms is the degree of political risk in a foreign location. Political risk refers to the likelihood of government activity that has unwanted consequences for the firm. These consequences can be dramatic as in forced divestment, where a government requires the firm give up its assets, or more moderate, as in unwelcome regulations or interference in operations. In any case the risk occurs because of uncertainty about the likelihood of government activity occurring. Generally, risk is associated with instability and a country is thus seen as more risky if the government is likely to change unexpectedly, if there is social unrest, if there are riots, revolutions, war, terrorism, and so on. Firms naturally prefer countries that are stable and that present little political risk, but the returns need to be weighed against the risks, and firms often do business in countries where the risk is relatively high. In these situations, firms seek to manage the perceived risk through insurance, ownership and management choices, supply and market control, financing arrangements, and so on. In addition, the degree of political risk is not solely a function of the country, but depends on the company and its activities as well—a risky country for one company may be relatively safe for another.

The cultural environment is one of the critical components of the international business environment and one of the most difficult to understand. This is because the cultural environment is essentially unseen; it has been described as a shared, commonly held body of general beliefs and values that determine what is right for one group, according to Kluckhohn and Strodtbeck. National culture is described as the body of general beliefs and values that are

shared by a nation. Beliefs and values are generally seen as formed by factors such as history, language, religion, geographic location, government, and education; thus firms begin a cultural analysis by seeking to understand these factors.

Firms want to understand what beliefs and values they may find in countries where they do business, and a number of models of cultural values have been proposed by scholars. The most well-known is that developed by Hofstede in1980. This model proposes four dimensions of cultural values including individualism, uncertainty avoidance, power distance and masculinity. Individualism is the degree to which a nation values and encourages individual action and decision making. Uncertainty avoidance is the degree to which a nation is willing to accept and deal with uncertainty. Power distance is the degree to which a national accepts and sanctions differences in power. And masculinity is the degree to which a nation accepts traditional male values or traditional female values. This model of cultural values has been used extensively because it provides data for a wide array of countries. Many academics and managers found this model helpful in exploring management approaches that would be appropriate in different cultures. For example, in a nation that is high on individualism one expects individual goals, individual tasks, and individual reward systems to be effective, whereas the reverse would be the case in a nation that is low on individualism. While this model is popular, there have been many attempts to develop more complex and inclusive models of culture.

The competitive environment can also change from country to country. This is partly because of the economic, political, and cultural environments; these environmental factors help determine the type and degree of competition that exists in a given country. Competition can come from a variety of sources. It can be public or private sector, come from large or small organizations, be domestic or global, and stem from traditional or new competitors. For the domestic firm the most likely sources of competition may be well understood. The same is not the case when one moves to compete in a new environment. For example, in the 1990s in the United States most business was privately owned and competition was among private sector companies, while in the People's Republic of China (PRC) businesses were owned by the state. Thus, a U.S. company in the PRC

could find itself competing with organizations owned by state entities such as the PRC army. This could change the nature of competition dramatically. The nature of competition can also change from place to place as the following illustrate: competition may be encouraged and accepted or discouraged in favor of cooperation; relations between buyers and sellers may be friendly or hostile; barriers to entry and exit may be low or high; regulations may permit or prohibit certain activities. To be effective internationally, firms need to understand these competitive issues and assess their impact.

An important aspect of the competitive environment is the level, and acceptance, of technological innovation in different countries. The last decades of the twentieth century saw major advances in technology, and this is continuing in the twenty-first century. Technology often is seen as giving firms a competitive advantage; hence, firms compete for access to the newest in technology, and international firms transfer technology to be globally competitive. It is easier than ever for even small businesses to have a global presence thanks to the internet, which greatly expands their exposure, their market, and their potential customer base. For economic, political, and cultural reasons, some countries are more accepting of technological innovations, others less accepting.

INTERNATIONAL ENTRY CHOICES

International firms may choose to do business in a variety of ways. Some of the most common include exports, licenses, contracts and turnkey operations, franchises, joint ventures, wholly owned subsidiaries, and strategic alliances. Exporting is often the first international choice for firms, and many firms rely substantially on exports throughout their history. Exports are seen as relatively simple because the firm is relying on domestic production, can use a variety of intermediaries to assist in the process, and expects its foreign customers to deal with the marketing and sales issues. Many firms begin by exporting reactively; then become proactive when they realize the potential benefits of addressing a market that is much larger than the domestic one. Effective exporting requires attention to detail if the process is to be successful;

for example, the exporter needs to decide if and when to use different intermediaries, select an appropriate transportation method, preparing export documentation, prepare the product, arrange acceptable payment terms, and so on.

Most importantly, the exporter usually leaves marketing and sales to the foreign customers and these may not receive the same attention as if the firm itself under-took these activities. Larger exporters often undertake their own marketing and establish sales subsidiaries in important foreign markets. Licenses are granted from a licensor to a licensee for the rights to some intangible property (e.g. patents, processes, copyrights, trademarks) for agreed on compensation (a royalty payment). Many companies feel that production in a foreign country is desirable but they do not want to undertake this production themselves. In this situation the firm can grant a license to a foreign firm to undertake the production. The licensing agreement gives access to foreign markets through foreign production without the necessity of investing in the foreign location. This is particularly attractive for a company that does not have the financial or managerial capacity to invest and undertake foreign production. The major disadvantage to a licensing agreement is the dependence on the foreign producer for quality, efficiency, and promotion of the product—if the licensee is not effective this reflects on the licensor. In addition, the licensor risks losing some of its technology and creating a potential competitor. This means the licensor should choose a licensee carefully to be sure the licensee will perform at an acceptable level and is trustworthy. The agreement is important to both parties and should ensure that both parties benefit equitably.

Contracts are used frequently by firms that provide specialized services, such as management, technical knowledge, engineering, information technology, education, and so on, in a foreign location for a specified time period and fee. Contracts are attractive for firms that have talents not being fully utilized at home and in demand in foreign locations. They are relatively short-term, allowing for flexibility, and the fee is usually fixed so that revenues are known in advance. The major drawback is their short-term nature, which means that the contracting firm needs to develop new business constantly and negotiate new contracts. This negotiation is time

consuming, costly, and requires skill at cross-cultural negotiations. Revenues are likely to be uneven and the firm must be able to weather periods when no new contracts materialize.

Turnkey contracts are a specific kind of contract where a firm constructs a facility, starts operations, trains local personnel, then transfers the facility (turns over the keys) to the foreign owner. These contracts are usually for very large infrastructure projects, such as dams, railways, and airports, and involve substantial financing; thus they are often financed by international financial institutions such as the World Bank. Companies that specialize in these projects can be very profitable, but they require specialized expertise. Further, the investment in obtaining these projects is very high, so only a relatively small number of large firms are involved in these projects, and often they involve a syndicate or collaboration of firms.

Similar to licensing agreements, franchises involve the sale of the right to operate a complete business operation. Well-known examples include independently owned fast-food restaurants like McDonald's and Pizza Hut. A successful franchise requires control over something that others are willing to pay for, such as a name, set of products, or a way of doing things, and the availability of willing and able franchisees. Finding franchisees and maintaining control over franchisable assets in foreign countries can be difficult; to be successful at international franchising firms need to ensure they can accomplish both of these.

Joint ventures involve shared ownership in a subsidiary company. A joint venture allows a firm to take an investment position in a foreign location without taking on the complete responsibility for the foreign investment. Joint ventures can take many forms. For example, there can be two partners or more, partners can share equally or have varying stakes, partners can come from the private sector or the public, partners can be silent or active, partners can be local or international. The decisions on what to share, how much to share, with whom to share, and how long to share are all important to the success of a joint venture. Joint ventures have been likened to marriages, with the suggestion that the choice of partner is critically important. Many joint ventures fail because partners have not agreed on their objectives and find it difficult to work out conflicts.

Joint ventures provide an effective international entry when partners are complementary, but firms need to be thorough in their preparation for a joint venture.

Wholly-owned subsidiaries involve the establishment of businesses in foreign locations which are owned entirely by the investing firm. This entry choice puts the investor parent in full control of operations but also requires the ability to provide the needed capital and management, and to take on all of the risk. Where control is important and the firm is capable of the investment, it is often the preferred choice. Other firms feel the need for local input from local partners, or specialized input from international partners, and opt for joint ventures or strategic alliances, even where they are financially capable of 100 percent ownership.

Strategic alliances are arrangements among companies to cooperate for strategic purposes. Licenses and joint ventures are forms of strategic alliances, but are often differentiated from them. Strategic alliances can involve no joint ownership or specific license agreement, but rather two companies working together to develop a synergy. Joint advertising programs are a form of strategic alliance, as are joint research and development programs. Strategic alliances seem to make some firms vulnerable to loss of competitive advantage, especially where small firms ally with larger firms. In spite of this, many smaller firms find strategic alliances allow them to enter the international arena when they could not do so alone. International business grew substantially in the second half of the twentieth century, and this growth is likely to continue. The international environment is complex and it is very important for firms to understand this environment and make effective choices in this complex environment. The previous discussion introduced the concept of comparative advantage, explored some of the important aspects of the international business environment, and outlined the major international entry choices available to firms. The topic of international business is itself complex, and this short discussion serves only to introduce a few ideas on international business issues.

Features of International Business

1. **Large scale operations**: In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.

2. **Integration of economies**: International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.

3. **Dominated by developed countries and MNCs**: International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.

4. **Benefits to participating countries**: International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this

results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.

5. **Keen competition**: International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favorable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.

6. **Special role of science and technology**: International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries.

7. **International restrictions**: International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.

8. **Sensitive nature**: The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. have a huge impact on it.

Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

Importance of international business

1. **Earn foreign exchange**: International business exports its goods and services all over the world. This helps to earn valuable foreign exchange. This foreign exchange is used to pay for imports. Foreign exchange helps to make the business more profitable and to strengthen the economy of its country.

2. **Optimum utilization of resources**: International business makes optimum utilization of resources. This is because it produces goods on a very large scale for the international market. International business utilizes resources from all over the world. It uses the finance and technology of rich countries and the raw materials and labour of the poor countries.

3. **Achieve its objectives**: International business achieves its objectives easily and quickly. The main objective of an international business is to earn high profits. This objective is achieved easily. This it because it uses the best technology. It has the best employees and managers. It produces high-quality goods. It sells these goods all over the world. All this results in high profits for the international business.

4. **To spread business risks**: International business spreads its business risk. This is because it does business all over the world. So, a loss in one country can be balanced by a profit in another country. The surplus goods in one country can be exported to another

country. The surplus resources can also be transferred to other countries. All this helps to minimise the business risks.

5. **Improve organization's efficiency**: International business has very high organization efficiency. This is because without efficiency, they will not be able to face the competition in the international market. So, they use all the modern management techniques to improve their efficiency. They hire the most qualified and experienced employees and managers. These people are trained regularly. They are highly motivated with very high salaries and other benefits such as international transfers, promotions, etc. All this results in high organizational efficiency, i.e. low costs and high returns.

6. **Get benefits from Government**: International business brings a lot of foreign exchange for the country. Therefore, it gets many benefits, facilities and concessions from the government. It gets many financial and tax benefits from the government.

7. **Expand and diversify**: International business can expand and diversify its activities. This is because it earns very high profits. It also gets financial help from the government.

8. **Increase competitive capacity**: International business produces high-quality goods at low cost. It spends a lot of money on advertising all over the world. It uses superior technology, management techniques, marketing techniques, etc. All this makes it more competitive. So, it can fight competition from foreign companies.

IMF – International Monetary Fund

The **International Monetary Fund** (**IMF**) is an international organization that was created on July 22, 1944 at the Bretton Woods Conference and came into existence on December 27, 1945 when 29 countries signed the Articles of Agreement. It originally had 45 members. The IMF's stated goal was to stabilize exchange rates and assist the reconstruction of the world's international payment system post-World War II. Countries contribute money to a pool through a quota system from which countries with payment imbalances can borrow funds temporarily. Through this activity and others such as surveillance of its members' economies and policies, the IMF works to improve the economies of its member countries. The IMF describes itself as "an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The organization's stated objectives are to promote international economic cooperation, international trade, employment, and exchange rate stability, including by making financial resources available to member countries to meet balance of payments needs. Its headquarters are in Washington, D.C., United States.

Functions

The IMF works to foster global growth and economic stability. It provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty. The rationale for this is that private international capital markets function imperfectly and many countries have limited access to financial markets. Such market imperfections, together with balance of payments financing, provide the justification for official financing, without which many countries could only correct large external payment imbalances through measures with adverse effects on both national and international economic prosperity. The IMF can provide other sources of financing to countries in need that would not be available in the absence of an economic stabilization program supported by the Fund.

Upon initial IMF formation, its two primary functions were: to oversee the fixed exchange rate arrangements between countries, thus helping national governments manage their exchange rates and allowing these governments to prioritize economic growth, and to provide short-term capital to aid balance-of-payments. This assistance was meant to prevent the spread of international economic crises. The Fund was also intended to help mend the pieces of the international economy post the Great Depression and World War II. The IMF's role was fundamentally altered after the floating exchange rates post 1971. It shifted to examining the economic policies of countries with IMF loan agreements to determine if a shortage of capital was due to economic fluctuations or economic policy. The IMF also researched what types of government policy would ensure economic recovery. The new challenge is to promote and implement policy that reduces the frequency of crises among the emerging market countries, especially the middle-income countries that are open to massive capital outflows. Rather than maintaining a position of oversight of only exchange rates, their function became one of "surveillance" of the overall macroeconomic performance of its member countries. Their role became a lot more active because the IMF now manages economic policy instead of just exchange rates.

In addition, the IMF negotiates conditions on lending and loans under their policy of conditionality, which was established in the 1950s. Low-income countries can borrow on concessional terms, which means there is a period of time with no interest rates, through the Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF). Non concessional loans, which include interest rates, are provided mainly through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility. The IMF provides emergency assistance via the newly introduced Rapid Financing Instrument (RFI) to all its members facing urgent balance of payments needs.

WORLD BANK

The **World Bank** is an international financial institution that provides loans to developing countries for capital programs. The World Bank's official goal is the reduction of poverty. According to the World Bank's Articles of Agreement (as amended effective 16 February 1989), all of its decisions must be guided by a commitment to promote foreign investment, international trade, and facilitate capital investment.

The World Bank differs from the World Bank Group, in that the World Bank comprises only two institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), whereas the latter incorporates these two in addition to three more: International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and International Centre for Settlement of Investment Disputes (ICSID). The World Bank is one of four institutions created at the Bretton Woods Conference in 1944. The International Monetary Fund (IMF), a related institution, is another. Delegates from many countries attended the Bretton Woods Conference. The most powerful countries in attendance were the United States and United Kingdom, which dominated negotiations.

Although both are based in Washington, D.C., the World Bank is traditionally headed by a citizen of the United States while the IMF is led by a European citizen.

Features of World Bank

1. **Eradicate Extreme Poverty and Hunger**: From 1990 through 2004, the proportion of people living in extreme poverty fell from almost a third to less than a fifth. Although results vary widely within regions and countries, the trend indicates that the world as a whole can meet the goal of halving the percentage of people living in poverty. Africa's poverty, however, is expected to rise, and most of the 36 countries where 90% of the world's undernourished children live are in Africa. Less than a quarter of countries are on track for achieving the goal of halving under-nutrition.

2. **Achieve Universal Primary Education**: The number of children in school in developing countries increased from 80% in 1991 to 88% in 2005. Still, about 72 million children of primary school age, 57% of them girls, were not being educated as of 2005.

3. **Promote Gender Equality**: The tide is turning slowly for women in the labor market, yet far more women than men- worldwide more than 60% – are contributing but unpaid family workers. The World Bank Group Gender Action Plan was created to advance women's economic empowerment and promote shared growth.

4. **Reduce Child Mortality**: There is somewhat improvement in survival rates globally; accelerated improvements are needed most urgently in South Asia and Sub-Saharan Africa. Estimated 10 million-plus children under five died in 2005; most of their deaths were from preventable causes.

5. **Improve Maternal Health**: Almost the entire half million women who die during pregnancy or childbirth every year live in Sub-Saharan Africa and Asia. There are numerous causes of maternal death that require a variety of health care interventions to be made widely accessible.

6. **Combat HIV/AIDS, Malaria, and Other Diseases**: Annual numbers of new HIV infections and AIDS deaths have fallen, but the number of people living with HIV continues to grow. In the eight worst-hit southern African countries, prevalence is above 15 percent. Treatment has increased globally, but still meets only 30 percent of needs (with wide variations across countries). AIDS remains the leading cause of death in Sub-Saharan Africa (1.6 million deaths in 2007). There are 300 to 500 million cases of malaria each year, leading to more than 1 million deaths. Nearly all the cases and more than 95 percent of the deaths occur in Sub-Saharan Africa.
7. **Ensure Environmental Sustainability**: Deforestation remains a critical problem, particularly in regions of biological diversity, which continues to decline. Greenhouse gas emissions are increasing faster than energy technology advancement.
8. **Develop a Global Partnership for Development**: Donor countries have renewed their commitment. Donors have to fulfill their pledges to match the current rate of core program development. Emphasis is being placed on the Bank Group's collaboration with multilateral and local partners to quicken progress toward the MDGs' realization.

IBRD

The International Bank for Reconstruction and Development (IBRD) aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services. Established in 1944 as the original institution of the World Bank Group, IBRD is structured like a cooperative that is owned and operated for the benefit of its 188 member countries. IBRD raises most of its funds on the world's financial markets and has become one of the most established borrowers since issuing its first bond in 1947. The income that IBRD has generated over the years has allowed it to fund development activities and to ensure its financial strength, which enables it to borrow at low cost and offer client's good borrowing terms. The **International Bank for Reconstruction and Development** (**IBRD**) is an international financial institution which offers loans to middle-income developing countries. The IBRD is the first of

five member institutions which compose the World Bank Group and is headquartered in Washington, D.C., United States. It was established in 1944 with the mission of financing the reconstruction of European nations devastated by World War II. Together, the International Bank for Reconstruction and Development and its concessional lending arm, the International Development Association, are collectively known as the World Bank as they share the same leadership and staff. Following the reconstruction of Europe, the Bank's mandate expanded to advancing worldwide economic development and eradicating poverty. The IBRD provides commercial-grade or concessional financing to sovereign states to fund projects that seek to improve transportation and infrastructure, education, domestic policy, environmental consciousness, energy investments, healthcare, access to food and potable water, and access to improved sanitation.

The IBRD is owned and governed by its member states, but has its own executive leadership and staff which conduct its normal business operations. The Bank's member governments are shareholders which contribute paid-in capital and have the right to vote on its matters. In addition to contributions from its member nations, the IBRD acquires most of its capital by borrowing on international capital markets through bond issues. In 2011, it raised $29 billion USD in capital from bond issues made in 26 different currencies. The Bank offers a number of financial services and products, including flexible loans, grants, risk guarantees, financial derivatives, and catastrophic risk financing. It reported lending commitments of $26.7 billion made to 132 projects in 2011.

IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines our policies. Our work in more than a 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental

performance, and contribute to their local communities. IFC's vision is that people should have the opportunity to escape poverty and improve their lives. The **International Finance Corporation** (**IFC**) is an international financial institution which offers investment, advisory, and asset management services to encourage private sector development in developing countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C., United States. It was established in 1956 as the private sector arm of the World Bank Group to advance economic development by investing in strictly for-profit and commercial projects which reduce poverty and promote development. The IFC's stated aim is to create opportunities for people to escape poverty and achieve better living standards by mobilizing financial resources for private enterprise, promoting accessible and competitive markets, supporting businesses and other private sector entities, and creating jobs and delivering necessary services to those who are poverty-stricken or otherwise vulnerable. Since 2009, the IFC has focused on a set of development goals which its projects are expected to target. Its goals are to increase sustainable agriculture opportunities, improve health and education, increase access to financing for microfinance and business clients, advance infrastructure, help small businesses grow revenues, and invest in climate health.

The IFC is owned and governed by its member countries, but has its own executive leadership and staff which conduct its normal business operations. It is a corporation whose shareholders are member governments which provide paid-in capital and which have the right to vote on its matters. Originally more financially integrated with the World Bank Group, the IFC was established separately and eventually became authorized to operate as a financially autonomous entity and make independent investment decisions. It offers an array of debt and equity financing services and helps companies face their risk exposures, while refraining from participating in a management capacity. The corporation also offers advice to companies on making decisions, evaluating their impact on the environment and society, and being responsible. It advises governments on building infrastructure and partnerships to further support private sector development.

The corporation is assessed by an independent evaluator each year. In 2011, its evaluation report recognized that its investments performed well and reduced poverty, but recommended that the corporation define poverty and expected outcomes more explicitly to better-understand its effectiveness and approach poverty reduction more strategically. The corporation's total investments in 2011 amounted to $18.66 billion. It committed $820 million to advisory services for 642 projects in 2011, and held $24.5 billion worth of liquid assets. The IFC is in good financial standing and received the highest ratings from two independent credit rating agencies in 2010 and 2011.

IDA

The **International Development Association** (**IDA**) is an international financial institution which offers concessional loans and grants to the world's poorest developing countries. The IDA is a member of the World Bank Group and is headquartered in Washington, D.C., United States. It was established in 1960 to complement the existing International Bank for Reconstruction and Development by lending to developing countries which suffer from the lowest gross national income, from troubled creditworthiness, or from the lowest per capita income. Together, the International Development Association and International Bank for Reconstruction and Development are collectively known as the World Bank, as they follow the same executive leadership and operate with the same staff.

The association shares the World Bank's mission of reducing poverty and aims to provide affordable development financing to countries whose credit risk is so prohibitive that they cannot afford to borrow commercially or from the Bank's other programs. The IDA's stated aim is to assist the poorest nations in growing more quickly, equitably, and sustainably to reduce poverty. The IDA is the single largest provider of funds to economic and human development projects in the world's poorest nations. From 2000 to 2010, it financed projects which recruited and trained 3 million teachers, immunized 310 million children, funded $792 million in loans to 120,000 small and medium enterprises, built or restored of 118,000 kilometers of paved roads, built or

restored 1,600 bridges, and expanded access to improved water to 113 million people and improved sanitation facilities to 5.8 million people. The IDA has issued a total $238 billion USD in loans and grants since its launch in 1960. Thirty six of the association's borrowing countries have graduated from their eligibility for its concessional lending. However, eight of these countries have relapsed and have not re-graduated. The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions.

IDA complements the World Bank's original lending arm—the International Bank for Reconstruction and Development (IBRD). IBRD was established to function as a self-sustaining business and provides loans and advice to middle-income and credit-worthy poor countries. IBRD and IDA share the same staff and headquarters and evaluate projects with the same rigorous standards. IDA is one of the largest sources of assistance for the world's 82 poorest countries, 40 of which are in Africa. It is the single largest source of donor funds for basic social services in these countries. IDA-financed operations deliver positive change for 2.5 billion people, the majority of whom survive on less than $2 a day.

IDA lends money on concessional terms. This means that IDA charges little or no interest and repayments are stretched over 25 to 40 years, including a 5- to 10-year grace period. IDA also provides grants to countries at risk of debt distress. In addition to concessional loans and grants, IDA provides significant levels of debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Since its inception, IDA has supported activities in 108 countries. Annual commitments have increased steadily and averaged about $15 billion over the last three years, with about 50 percent of that going to Africa. For the fiscal year ending on June 30, 2012, IDA commitments reached $14.8 billion spread over 160 new operations.

EXISTING INTERNATIONAL ARRANGEMENTS

In accordance with the request of the Conference of the Parties to the WHO Framework Convention on Tobacco Control in decision FCTC/COP2(12), this document examines existing agreements and arrangements relevant to the objective of the Intergovernmental Negotiating Body established by the Conference of the Parties to draft and negotiate a protocol on illicit trade in tobacco products. The objective is to elaborate a protocol that will build upon and complement the provisions of Article 15 of the WHO Framework Convention on Tobacco Control. Mutual assistance is seen in a wide range of day-to-day international cooperative activities (including enhanced law enforcement and technical assistance and cooperation), which does not necessarily fall into the scope of criminal investigations or court procedures. The exchange of information and the provision of other types of assistance, intended to ensure the proper application of customs laws and to prevent, combat and investigate customs offences, including illicit trafficking in tobacco products, are normally referred as “mutual administrative assistance”. This differs from “mutual legal assistance”, which is provided, for instance, when information is required for evidentiary purposes for criminal proceedings. Customs administrations operate on the basis of their national legislation, which normally grants wide-ranging powers but only within national territories and for domestic purposes. Legal systems and customs administrations’ competencies can differ widely among states. Practices in administrative and legal assistance related to customs offences also differ, thereby creating possible complications in the exchange of information. To facilitate and provide a legal basis for such exchange, an instrument for bilateral or multilateral exchange of information and provision of assistance is often needed. The World Customs Organization has adopted two international conventions in this sphere, namely, the International Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offences, with 50 Parties, and the International Convention on Mutual Administrative Assistance in Customs Matters (also known as the Johannesburg Convention). More generally, the World Customs Organization developed the Model Bilateral Agreement on Mutual Administrative Assistance in Customs Matters in June 2004. These instruments include provisions on exchange of information on, among other things,

new enforcement techniques that have proved their effectiveness; new trends or methods of tobacco and cigarette smuggling; transport and storage methods used in smuggling; people known to have conducted illicit trade in tobacco and cigarettes or suspected of being about to do so; and any other data that can assist customs administrations and other law enforcement authorities with risk assessment for control purposes.

GLOBALIZATION AND FOREIGN INVESTMENT

Over several decades the discussion of globalisation and Foreign Direct Investment (FDI) has focused on the regulatory framework, internationally and nationally, that has sought to balance the structural power of trans-national corporations (TNCs) in particular and the evident convergence of national policies to enable enhanced mobility of capital. In this article, FDI is regarded as predominantly a source of finance, which has impact on the balance of payments and macroeconomic management of the global economy. Restriction on capital flows is a huge topic with many controversial areas that are wide in scope and can only be commented upon briefly here. In this discussion, comment is made upon the role of TNCs in particular and the crucial need for improved risk management governance at a particularly vulnerable time in the globalisation process.

In principle—and in contrast to portfolio investments—by definition FDI is considered as a stable source of finance (UNCTAD 1999; Lipsey, R.E. The Role of FDI in International Capital Flows, NBER Paper, No 7094, April (1999)). FDI is meant to reflect a long term commitment, as it usually involves a stake of 10 percent or more in a host country enterprise, along with managerial control. A significant characteristic of FDI is that it has become a key source of external finance for developing countries (DCs). Some argue, therefore, that there should be appropriate regulation, at both national and international level, to benefit DCs. In the 1970s, for example, many critics were concerned about the growing power of the TNCs in the world economy and the related loss of power on the part of states and communities, thereby resulting in lower employment and environmental legal requirements and standards.

Impacts of FDI and Globalisation

This article extends the usual debate on globalisation, FDI, trade regulation, and relationships, by introducing topical issues of sustainable development and risk management and considering their impact, both positively and negatively. Supporters of globalisation often argue that the competition for FDI between countries explains the trend towards the liberalisation of inward FDI rules. For instance, other studies have shown why FDI can improve international relations. The results, in fact, show that FDI plays a similar role to trade, in affecting international interaction. More specifically, it has been found that the flow of FDI has reduced the degree of international conflict and encouraged co-operation between countries during the late 1980s and throughout the 1990s. This is an especially important finding, since one of the main characteristics of globalisation has been the reduction of barriers to international capital flows. Any substantive discussion of globalisation and FDI goes beyond the analysis of the formal rules to consider issues that are relevant to a much broader range of stakeholders, given the very fast changing trends in the world economy. Such issues include sustainable development, climate change, risk management, governance and transparency. Nowadays, the mobility of capital should be intended to enhance standards and achieve, as far as possible, positive convergence and solutions so that the responsible players in this debate can be proactive rather than reactive. This has been vividly witnessed in today's global economic crises, in which there is a major concern that the world's key economies will return to protectionist policies, strategies and legislative frameworks.

It can be argued that if companies are keen to maximise profits and lower the costs of business—in and across different jurisdictions—they would prefer certain aspects associated with "strong states", such as transparent and enforceable rules. Weak and corrupt judicial and political systems increase the costs of doing business, particularly for "outsiders". Moreover, recent sector and case studies have demonstrated that for a much stronger and sustainable global economy to exist, the integrity of the financial services sector is a core issue. It is the author's view that these matters are interrelated and that an improved and enlightened interdisciplinary approach is

urgently required. In addition, this can lead to a positive business climate, whereby macro-economic conditions include: a greater propensity for FDI, more efficient markets, a lower cost of capital, higher economic growth and greater economic confidence.

FDI

Foreign direct investment (**FDI**) is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. Foreign direct investment has many forms. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable.

As a part of the national accounts of a country, and in regard to the national income equation Y=C+I+G+(X-M), I is investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a *net* FDI *inflow* (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements.

Importance and barriers to FDI

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has not been matched by similar increases in per-capita income and access to the basics of modern life, like education, health care, or - for too many - even sanitary water and waste disposal.

FDI has proven — when skillfully applied — to be one of the fastest means of, with the highest impact on, development. However, given its many benefits for both investing firms and hosting countries, and the large jumps in development were best practices followed, eking out advances with even moderate long-term impacts often has been a struggle. Recently, research and practice are finding ways to make FDI more assured and beneficial by continually engaging with local realities, adjusting contracts and reconfiguring policies as blockages and openings emerge.

NATIONAL FDI POLICY FRAMEWORK

A recent meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies. Foreign direct investment may be politically controversial or difficult because it partly reverses previous policies intended to protect the growth of local investment or of infant industries. When these kinds of barriers against outside investment seem to have not worked sufficiently, it can be politically expedient for a host country to open a small "tunnel" as focus for FDI. The nature of the FDI tunnel depends on the country's or jurisdiction's needs and policies. FDI is not restricted to developing countries. For example, lagging regions in the France, Germany, Ireland, and USA have for a half century maintained offices to recruit and incentivize FDI primarily to create jobs. China, starting in 1979, promoted FDI primarily to import modernizing technology, and also to leverage and uplift its huge pool of rural workers. To secure greater benefits for lesser costs, this tunnel need be focused on a particular industry and on closely negotiated, specific terms. These terms define the trade offs of certain levels and types

of investment by a firm, and specified concessions by the host jurisdiction. The investing firm needs sufficient cooperation and concessions to justify their business case in terms of lower labor costs, and the opening of the country's or even regional markets at a distinct advantage over (global) competitors. The hosting country needs sufficient contractual promises to politically sell uncertain benefits—versus the better-known costs of concessions or damage to local interests. The benefits to the host may be: creation of a large number of more stable and higher-paying jobs; establishing in lagging areas centers of new economic development that will support attracting or strengthening of many other firms without costly concessions; hastening the transfer of premium-paying skills to the host country's work force; and encouraging technology transfer to local suppliers. Concessions to the investor commonly offered include: tax exemptions or reductions; construction or cheap lease-back of site improvements or of new building facilities; and large local infrastructures such as roads or rail lines; More politically difficult (certainly for less-developed regions) are concessions which change policies for: reduced taxes and tariffs; curbing protections for smaller-business from the large or global; and laxer administration of regulations on labor safety and environmental preservation. Often these un-politick "cooperation's" are covert and subject to corruption.

The lead-up for a big FDI can be risky, fraught with reverses, and subject to unexplained delays for years. Completion of the first phase remains unpredictable — even after the contract ceremonies are over and construction has started. So, lenders and investors expect high risk premiums similar to those of junk bonds. These costs and frustration have been major barriers for FDI in many countries. On the implicit "marriage" market for matching investors with recipients, the value of FDI with some industries, some companies, and some countries varies greatly: in resources, management capacity, and in reputation. Since, as common in such markets, valuations can be mostly perceptual, then negotiations and follow-up are often rife with threats, manipulation and chicanery.

FPI

In economics, **foreign portfolio investment** is the entry of funds into a country where foreigners make purchases in the country's stock and bond markets, sometimes for speculation. It is a usually short term investment (sometimes less than a year, or with involvement in the management of the company), as opposed to the longer term Foreign Direct Investment partnership (possibly through joint venture), involving transfer of technology and "know-how". For example, Ford Motor Company may invest in a manufacturing plant in Mexico, yet not be in direct control of its affairs. Foreign Portfolio Investment (FPI): passive holdings of securities and other financial assets, which do NOT entail active management or control of the securities's issuer. FPI is positively influenced by high rates of return and reduction of risk through geographic diversification. The return on FPI is normally in the form of interest payments or non-voting dividends.

FDI- Foreign Direct Investment refers to international investment in which the investor obtains a lasting interest in an enterprise in another country.

Most concretely, it may take the form of buying or constructing a factory in a foreign country or adding improvements to such a facility, in the form of property, plants, or equipment.

FDI is calculated to include all kinds of capital contributions, such as the purchases of stocks, as well as the reinvestment of earnings by a wholly owned company incorporated abroad (subsidiary), and the lending of funds to a foreign subsidiary or branch. The reinvestment of earnings and transfer of assets between a parent company and its subsidiary often constitutes a significant part of FDI calculations.

FDI is more difficult to pull out or sell off. Consequently, direct investors may be more committed to managing their international investments, and less likely to pull out at the first sign of trouble.

On the other hand, **FPI (Foreign Portfolio Investment)** represents passive holdings of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control of the securities' issuer by the investor.

Unlike FDI, it is very easy to sell off the securities and pull out the foreign portfolio investment. Hence, FPI can be much more volatile than FDI. For a country on the rise, FPI can bring about rapid development, helping an emerging economy move quickly to take advantage of economic opportunity, creating many new jobs and significant wealth. However, when a country's economic situation takes a downturn, sometimes just by failing to meet the expectations of international investors, the large flow of money into a country can turn into a stampede away from it.

IMPACT OF GLOBALIZATION

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, ***Liberalization, Privatization and Globalization*** (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient.

With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.

This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values held since Independence in 1947, such as self reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of

governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. This, despite the fact that India has always had the potential to be on the fast track to prosperity.

Now that India is in the process of restructuring her economy, with aspirations of elevating herself from her present desolate position in the world, the need to speed up her economic development is even more imperative. And having witnessed the positive role that Foreign Direct Investment (FDI) has played in the rapid economic growth of most of the Southeast Asian countries and most notably China, India has embarked on an ambitious plan to emulate the successes of her neighbors to the east and is trying to sell herself as a safe and profitable destination for FDI.

Globalization has many meanings depending on the context and on the person who is talking about. Though the precise definition of globalization is still unavailable a few definitions are worth viewing, Guy Brainbant: says that the process of globalization not only includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNCs, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution. The term globalization refers to the integration of economies of the world through uninhibited trade and financial flows, as also through mutual exchange of technology and knowledge. Ideally, it also contains free inter-country movement of labor. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India, allowing Indian companies to enter into foreign collaborations and also encouraging them to set up joint ventures abroad; carrying out massive import liberalization programs by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

The Important Reform Measures (Step Towards liberalization privatization and Globalization)

Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost $1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programs. Major measures initiated as a part of the liberalization and globalization strategy in the early nineties included the following:

Devaluation: The first step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 percent against major currencies in the international foreign exchange market. In fact, this measure was taken in order to resolve the BOP crisis

Disinvestment-In order to make the process of globalization smooth, privatization and liberalization policies are moving along as well. ***Under the privatization scheme, most of the public sector undertakings have been/ are being sold to private sector***

UNIT – 2

GLOBALIZATION –TECHNOLOGY & ITS IMPACT

Globalization (or Globalization) is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Globalization describes the interplay across cultures of macro-social forces. These forces include religion, politics, and economics. Globalization can erode and universalize the characteristics of a local group. Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalization, generating further interdependence of economic and cultural activities.

TECHNOLOGY TRANSFER

Technology Transfer also called **Transfer of Technology (TOT)** and **Technology Commercialization**, is the process of transferring skills, knowledge, technologies, methods of manufacturing, samples of manufacturing and facilities among governments or universities and other institutions to ensure that scientific and technological developments are accessible to a wider range of users who can then further develop and exploit the technology into new products, processes, applications, materials or services. It is closely related to (and may arguably be considered a subset of) knowledge transfer.

Some also consider technology transfer as a process of moving promising research topics into a level of maturity ready for bulk manufacturing or production

Technology brokers are people who discovered how to bridge the disparate worlds and apply scientific concepts or processes to new situations or circumstances. A related term, used almost synonymously, is "technology valorization". While conceptually the practice has been utilized for many years (in ancient times, Archimedes was notable for applying science to practical

problems), the present-day volume of research, combined with high-profile failures at Xerox PARC and elsewhere has led to a focus on the process itself.

ENHANCING TECHNOLOGICAL CAPABILITIES - TECHNOLOGY GENERATION

Agricultural innovations and diffusion of new technologies are important factors in developing countries' quests for food security. Public agricultural research, both national and international, like much of development strategy, has bypassed the needs of small and marginal farmers and concentrated primarily on better endowed regions, commodity-intensive production systems, and commercial crops. Small producers, particularly those operating in resource-poor areas, have benefitted much less from the recent technological breakthroughs in agriculture. In order to attack poverty and hunger, it is critical to redirect and augment resources devoted to agricultural research to the farming and livelihood systems of poor rural communities. Some institutions, like IFAD, have long advocated the critical need of extending research to the low- potential areas and the traditional crops grown by the marginal farmers, women and indigenous populations, building on their local knowledge and cultural practices.

Small farming in resource-poor areas must be sustainable, economical, and intensive in order to provide dependable, long-term support for rural households:

(i) sustainable: the small size of farms, the lack of operating capital, and the need to meet household food and monetary requirements, all increase the risk of over-exploitation of the land's production capacity, especially as these micro-farms are usually located in marginal or fragile ecological zones, and are often complex, combining a number of crops, arable and livestock farming, and agro forestry. Conservation of soil fertility using techniques involving agroforestry and plants and animal organic matter as fertilizer should be the primary consideration of small farmers and those who wish to help them;

(ii) economical: poverty dictates several constraints on the choice of techniques. Investment favours labour rather than capital, and biological methods are preferred to mechanical techniques; and

(iii) intensive: micro-farms must often feed large families. They should therefore be productive and diversified.

To achieve these three capabilities, small farmers must have access to sustainable technology in agronomy, livestock, forestry, and fisheries. These techniques should also be diversified, adapted (or adaptable) to the specific characteristics and constraints of farming households, as well as appropriate to their different socio-economic and agro-ecological environments. They must also protect the environment, and provide for renewal of natural resources.

DIFFUSION

Diffusion of Innovations is a theory that seeks to explain how, why, and at what rate new ideas and technology spread through cultures. Everett Rogers, a professor of rural sociology, popularized the theory in his 1962 book *Diffusion of Innovations*. He said diffusion is the process by which an innovation is communicated through certain channels over time among the members of a social system. The origins of the diffusion of innovations theory are varied and span multiple disciplines. The theory that there are four main elements that influence the spread of a new idea: the innovation, communication channels, time, and a social system. This process relies heavily on human capital. The innovation must be widely adopted in order to self-sustain. Within the rate of adoption, there is a point at which an innovation reaches critical mass. The categories of adopters are: innovators, early adopters, early majority, late majority, and laggards. Diffusion of Innovations manifests itself in different ways in various cultures and fields and is highly subject to the type of adopters and innovation-decision process. Studying how innovation occurs, E.M. Rogers (1995) argued that it consists of four stages: invention, diffusion (or communication) through the social system, time and consequences. The information flows through networks. The nature of networks and the roles opinion leaders play in them determine

the likelihood that the innovation will be adopted. Innovation diffusion research has attempted to explain the variables that influence how and why users adopt a new information medium, such as the Internet. Opinion leaders exert influence on audience behavior via their personal contact, but additional intermediaries called change agents and gatekeepers are also included in the process of diffusion.

DISSEMINATION AND SPILL OVER

Firms raise cost-reducing alliances before competing with each other, but cannot fully appropriate the shared knowledge. When spillovers disseminate through the network of alliances, a link generates positive externalities for third parties, as well as can be a conduit for spillovers emanating from other links. This results in the following tradeoff: firms want to shorten their distance to firms forming links in order to capture more spillovers, but by doing so they become intermediary in the spreading of spillovers to other firms. This leads to the emergence of networks characterized by a moderate level of asymmetry in the number of partners. analysis suggests that the presence of spillovers may qualify the incentives to enter R&D partnerships in a context that is intrinsically favorable to link formation, which would result in the existence of underconnected networks with regard to efficiency issue. Hence, from a policy point of view, the analysis suggest that a policy maker should sponsor specific links. What is decisive for deteriorating the individual incentives of alliance formation is not the spillovers' intensity or the number of firms benefiting from spillovers induced by a given alliance, but rather to what extent the new partnership is a bridge for dissemination of spillovers emanated from other alliances. In that respect, when the potential partners occupy asymmetric structural positions in the alliance network, this can induce asymmetric flows of spillovers transiting through them, deterring one of the two firms from allying. A last lesson is that the very mode of dissemination of spillovers through the alliance network affects drastically the nature of stable networks.

RATIONALE OF "GLOBALIZATION"

"Globalization," both as a term and a reality, is not easy to define for its scope is wide-encompassing and it could be interpreted in different perspectives. However, Wikipedia (2005) offers a description of globalization in a general standpoint, which states, "Globalization (or globalization) is a term used to describe the changes in societies and the world economy that are the result of dramatically increased international trade and cultural exchange. In specifically economic contexts, it is often understood to refer almost exclusively to the effects of trade, particularly trade liberalization or "free trade."" Such definition point out that globalization is phenomenons catalyzed by and have implications evident on particularly economic and social dimensions. Furthermore, though the aforementioned is in general sense, it could be noticed that the description is anchored on the fundamentals of capitalism, in particular, the market-oriented economy. It is for this reason that globalization is often interchanged with capitalism, *per se*, and its concepts, more importantly, "free trade."

The Elements of Globalization Specifically Economic Globalization

Economic Globalization is characterized by a four-fold borderless exchange encompassing that of economic output, that of human movement, that of capital, and that of technological transfer, as stated in (2005), "there are four aspects to economic globalization, referring to four different flows across boundaries, namely flows of goods/services, i.e. 'free trade' (or at least freer trade), flows of people (migration), of capital and of technology."

These exchanges constitute the rationale of globalization, which yields to the positive and the negative effects of the phenomenon.

<u>Economic</u>

The merits of globalization in the economic dimension are evident particularly in terms of capital flow, influx of technology, job creation, trade and fiscal benefits, the significant role of the

private sector, competition, poverty alleviation, and sustainable growth while the demerits, corresponding to the aforementioned merits, are apparently the dependence of developing and underdeveloped countries on foreign capital, environmental degradation brought about by technology, temporary and short-term jobs, the debt burden being experienced by developing and underdeveloped countries as a result of fiscal balancing, the static compliance on quality standards demanded on the same countries, the frequent occurrence of massive capital flight especially in fledging economies, too much privatization, unfair competition, continuing impoverished state for the destitute, and unstable economic growth.

LIBERALIZATION AND UNIFICATION OF WORLD ECONOMICS

Economic liberalization is a very broad term that usually refers to fewer government regulations and restrictions in the economy in exchange for greater participation of private entities; the doctrine is associated with classical liberalism. The arguments for economic liberalization include greater efficiency and effectiveness that would translate to a "bigger pie" for everybody. Thus, liberalisation in short refers to "the removal of controls", to encourage economic development. Most first world countries, in order to remain globally competitive, have pursued the path of economic liberalization: partial or full privatisation of government institutions and assets, greaterlabour market flexibility, lower tax rates for businesses, less restriction on both domestic and foreign capital, open markets, etc. British Prime Minister Tony Blair wrote that: "Success will go to those companies and countries which are swift to adapt, slow to complain, open and willing to change. The task of modern governments is to ensure that our countries can rise to this challenge." In developing countries, economic liberalization refers more to liberalization or further "opening up" of their respective economies to foreign capital and investments. Three of the fastest growing developing economies today; Brazil, China, and India, have achieved rapid economic growth in the past several years or decades after they have "liberalized" their economies to foreign capital. Many countries nowadays, particularly those in the third world, arguably have no choice but to also "liberalize" their economies in order to remain competitive in attracting and retaining both their domestic and foreign investments. This

is referred to as the TINOA factor, standing for "there is no alternative". For example, in 1991, India had no choice but to implement economic reforms. Similarly, in thePhilippines, the contentious proposals for Charter Change include amending the economically restrictive provisions of their 1987 constitution.

The total opposite of a liberalized economy would be North Korea's economy with their closed and "self-sufficient" economic system.North Korea receives hundreds of millions of dollars worth of aid from other countries in exchange for peace and restrictions in their nuclear programme. Another example would be oil-rich countries such as Saudi Arabia and United Arab Emirates, which see no need to further open up their economies to foreign capital and investments since their oil reserves already provide them with huge export earnings. Thus, it is clear that adoption of economic reforms in the first place and then its reversal or sustenance is a function of certain factors, presence or absence of which will determine the outcome. Sharma (2011) explains all such factors. The author's theory is fairly generalizable and is applicable to the developing countries which have implemented economic reforms in the 1990s.

INTERNATIONAL BUSINESS THEORIES

Some of the most important theories of international business are given below-

The absolute advantage theory

The absolute advantage theory was given by Adam Smith in 1776; according to the absolute advantage theory each country always finds some absolute advantage over another country in the production of a particular good or service. Simply because some countries have natural advantage of cheap labour, skilled labour, mineral resources, fertile land etc. these countries are able to produce some specific type of commodities at cheaper prices as compared to others. So, each country specializes in the production of a particular commodity. For example, India finds absolute advantage in the production of the silk saris due to the availability of skilled workers in the field, so India can easily export silk saris to the other nations and import those goods in which other countries find absolute advantages.

But this theory is not able to justify all aspects of international business. This theory leaves no scope of international business for those countries that are having absolute advantage in all fields or for those countries that are having no absolute advantage in any field.

The comparative cost theory

After 40 years of absolute advantage theory, in order to provide the full justification of international business David Richardo presented the Richardian model—comparative cost theory. According to the comparative cost theory, two countries should do business with each other if one country is having an advantage in the ability of producing one good relative to another good as compared to some other country's relative ability of producing same goods. It can be well understood by taking an illustration:-

If USA could produce 25 bottles of wine and 50 pounds of beef by using all of its production resources and France could yield 150 bottles of wine and 60 pounds of beef by using the same resources, then according to absolute advantage theory France finds clear advantage over USA in the production of both beef and wine. So, there should not be any business activity between the two countries. But this is not the case according to the comparative cost theory. Comparative cost theory suggests relative comparing of the beef and wine production. In relative comparing we can find that France sacrifices 2.5 bottles of wine for producing each pound of beef (150/60) and USA sacrifices 0.5 bottles of wine for producing each pound of beef (25/50). So, we can see that production of beef is more expensive in France as compared to USA. Comparative cost theory suggests USA to import wine from France instead of producing it and in similar manner theory suggests France to import beef from USA instead of producing it.

Opportunity cost theory

The opportunity cost theory was proposed by Gottfried Haberler in 1959. The opportunity cost is the value of alternatives which have to be forgone in order to obtain a particular thing. For example, Rs. 1,000 is invested in the equity of Rama News Limited and earned a dividend of six

per cent in 1999, the opportunity cost of this investment is 10 per cent interest had this amount been deposited in a commercial bank for one year term.

Another example is that, India produces textile garments by utilizing its human resources worth of Rs. 1 billion and exports to the US in 1999. The opportunity cost of this project is, had India developed software packages by utilizing the same human resources and exported the same to USA in 1999, the worth of the exports would have been Rs. 10 billion. Opportunity cost approach specifies the cost in terms of the value of the alternatives which have to be foregone in order to fulfill a specific art.

Thus, this theory provides the basis for international business in terms of exporting a particular product rather than other products. The previous example suggests that it would be profitable for India to develop and export software packages rather than textile garments to the USA.

Trade Barriers- Tariff and Non Tariff Barriers

Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports but are not in the usual form of a tariff. Some common examples of NTB's are anti-dumping measures and countervailing duties, which, although called non-tariff barriers, have the effect of tariffs once they are enacted. Their use has risen sharply after the WTO rules led to a very significant reduction in tariff use. Some non-tariff trade barriers are expressly permitted in very limited circumstances, when they are deemed necessary to protect health, safety, sanitation, or depletable natural resources. In other forms, they are criticized as a means to evade free trade rules such as those of the World Trade Organization (WTO), the European Union (EU), or North American Free Trade Agreement (NAFTA) that restrict the use of tariffs. Some of non-tariff barriers are not directly related to foreign economic regulations but nevertheless have a significant impact on foreign-economic activity and foreign trade between countries.

Trade between countries is referred to trade in goods, services and factors of production. Non-tariff barriers to trade include import quotas, special licenses, unreasonable standards for the

quality of goods, bureaucratic delays at customs, export restrictions, limiting the activities of state trading, export subsidies, countervailing duties, technical barriers to trade, sanitary and phyto-sanitary measures, rules of origin, etc. Sometimes in this list they include macroeconomic measures affecting trade.

Non-Tariff Barriers to Trade

Non-Tariff Barriers (NTBs) refer to restrictions that result from prohibitions, conditions, or specific market requirements that make importation or exportation of products difficult and/or costly. NTBs also include unjustified and/or improper application of Non-Tariff Measures (NTMs) such as sanitary and phytosanitary (SPS) measures and other technical barriers to Trade (TBT). NTBs arise from different measures taken by governments and authorities in the form of government laws, regulations, policies, conditions, restrictions or specific requirements, and private sector business practices, or prohibitions that protect the domestic industries from foreign competition.

Examples of Non-Tariff Barriers

Non-Tariff Barriers to trade can arise from:

- Import bans
- General or product-specific quotas
- Complex/discriminatory Rules of Origin
- Quality conditions imposed by the importing country on the exporting countries
- Unjustified Sanitary and Phyto-sanitary conditions
- Unreasonable/unjustified packaging, labelling, product standards
- Complex regulatory environment

- Determination of eligibility of an exporting country by the importing country
- Determination of eligibility of an exporting establishment (firm, company) by the importing country.
- Additional trade documents like Certificate of Origin, Certificate of Authenticity etc
- Occupational safety and health regulation
- Employment law
- Import licenses
- State subsidies, procurement, trading, state ownership
- Export subsidies
- Fixation of a minimum import price
- Product classification
- Quota shares
- Multiplicity and Controls of Foreign exchange market
- Inadequate infrastructure
- "Buy national" policy
- Over-valued currency
- Restrictive licenses
- Seasonal import regimes

Corrupt and/or lengthy customs procedures

UNIT - III

STRATEGY MAKING & INTERNATIONAL BUSINESS

STRUCTURE OF GLOBAL ORGANIZATIONS

An **organizational structure** consists of activities such as task allocation, coordination and supervision, which are directed towards the achievement of organizational aims. It can also be considered as the viewing glass or perspective through which individuals see their organization and its environment. Organizations are a variant of clustered entities. An organization can be structured in many different ways, depending on their objectives. The structure of an organization will determine the modes in which it operates and performs.

Organizational structure allows the expressed allocation of responsibilities for different functions and processes to different entities such as the branch, department, workgroup and individual.

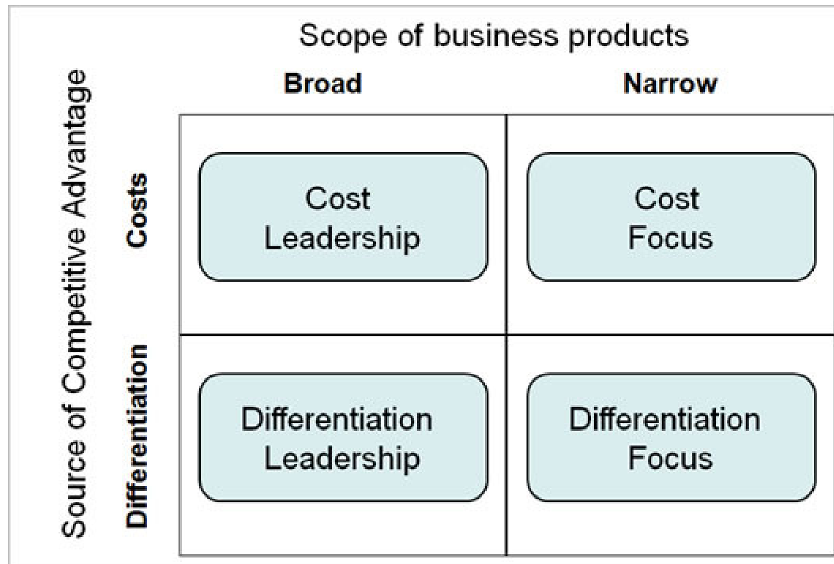
Organizational structure affects organizational action in two big ways. First, it provides the foundation on which standard operating procedures and routines rest. Second, it determines which individuals get to participate in which decision-making processes, and thus to what extent their views shape the organization's actions

STRATEGIC PLANNING FOR ACHIEVING GLOBAL COMPETITIVE ADVANTAGE

The challenge for a marketing strategy is to find a way of achieving a **sustainable competitive advantage** over the other competing products and firms in a market.

A **competitive advantage** is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Porter suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The strategies relate to the extent to which the **scope** of a business' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The four strategies are summarised in the figure below:



The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments.

By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

Cost leadership

With this strategy, the objective is to become the **lowest-cost producer in the industry**. The traditional method to achieve this objective is to produce on a large scale which enables the business to exploit economies of scale.

Why is cost leadership potentially so important? Many (perhaps all) market segments in the industry are supplied with the emphasis placed on minimising costs. If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits. This strategy is usually associated with large-scale businesses offering "standard" products with relatively **little differentiation** that are readily acceptable to

the majority of customers. Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

A strategy of cost leadership requires close cooperation between all the functional areas of a business. To be the lowest-cost producer, a firm is likely to achieve or use several of the following:

- High levels of productivity
- High capacity utilisation
- Use of bargaining power to negotiate the lowest prices for production inputs
- Lean production methods (e.g. JIT)
- Effective use of technology in the production process
- Access to the most effective distribution channels

Cost focus

Here a business seeks a lower-cost advantage in just one or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's".

Differentiation focus

In the differentiation focus strategy, a business aims to differentiate within **just one or a small number of target market segments.** The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.

Differentiation focus is the classic niche marketing strategy. Many small businesses are able to establish themselves in a niche market segment using this strategy, achieving higher prices than un-differentiated products through specialist expertise or other ways to add value for customers. There are many successful examples of differentiation focus. A good one is Tyrrells Crisps which focused on the smaller hand-fried, premium segment of the crisps industry.

Differentiation leadership

With differentiation leadership, the business targets much larger markets and aims to achieve competitive advantage across the whole of an industry. This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a**premium price** for the product - often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

There are several ways in which this can be achieved, though it is not easy and it requires substantial and sustained marketing investment. The methods include:

- Superior product quality (features, benefits, durability, reliability)
- Branding (strong customer recognition & desire; brand loyalty)
- Industry-wide distribution across all major channels (i.e. the product or brand is an essential item to be stocked by retailers)
- Consistent promotional support – often dominated by advertising, sponsorship etc

Great examples of a differentiation leadership include global brands like Nike and Mercedes. These brands achieve significant economies of scale, but they do not rely on a cost leadership strategy to compete. Their business and brands are built on persuading customers to become brand loyal and paying a premium for their products.

MEANING, CONCEPT AND SCOPE OF DISTINCTIVE COMPETITIVE ADVANTAGE

Competitive advantage seeks to address some of the criticisms of comparative advantage. Michael Porter proposed the theory in 1985. Porter emphasizes productivity growth as the focus of national strategies. Competitive advantage rests on the notion that cheap labor is ubiquitous and natural resources are not necessary for a good economy. The other theory, comparative advantage, can lead countries to specialize in exporting primary goods and raw materials that trap countries in low-wage economies due to terms of trade. Competitive advantage attempts to correct for this issue by stressing maximizing scale economies in goods and services that garner premium prices.

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology can provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process (for example, better identification and understanding of customers).

The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market. The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. "A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player" Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players. To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage. Superior performance outcomes and superiority in

production resources reflects competitive advantage. Above writings signify competitive advantage as the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership. Also it provides the understanding that resources held by a firm and the business strategy will have a profound impact on generating competitive advantage. views business strategy as the tool that manipulates the resources and create competitive advantage, hence, viable business strategy may not be adequate unless it possess control over unique resources that has the ability to create such a unique advantage. Summarizing the view points, competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market. Superior performance being the ultimate desired goal of a firm, competitive advantage becomes the foundation highlighting the significant importance to develop same.

Cost Leadership Strategy

The goal of Cost Leadership Strategy is to offer products or services at the lowest cost in the industry. The challenge of this strategy is to earn a suitable profit for the company, rather than operating at a loss and draining profitability from all market players. Companies such as Walmart succeed with this strategy by featuring low prices on key items on which customers are price-aware, while selling other merchandise at less aggressive discounts. Products are to be created at the lowest cost in the industry. An example is to use space in stores for sales and not for storing excess product.

Differentiation Strategy

The goal of Differentiation Strategy is to provide a variety of products, services, or features to consumers that competitors are not yet offering or are unable to offer. This gives a direct advantage to the company which is able to provide a unique product or service that none of its competitors is able to offer. An example is Dell which launched mass-customizations on computers to fit consumers' needs. This allows the company to make its first product to be the star of it's sales.

Innovation Strategy

The goal of Innovation Strategy is to leapfrog other market players via the introduction of completely new or notably better products or services. This strategy is typical of technology start-up companies which often intend to "disrupt" the existing marketplace, obsoleting the current market entries with a breakthrough product offering. It is harder for more established companies to pursue this strategy because their product offering has achieved market acceptance. Apple has been a notable example of using this strategy with its introduction of iPod personal music players, and iPad tablets. Many companies invest heavily in their research and development department to achieve such statuses with their innovations.

Operational Effectiveness Strategy

The goal of Operational Effectiveness as a strategy is to perform internal business activities better than competitors, making the company easier or more pleasurable to do business with than other market choices. It improves the characteristics of the company while lowering the time it takes to get the products on the market with a great start. State Farm Insurance pursues this strategy by promoting their agents as "good neighbors" who actively help customers.

FINANCIAL INTEGRATION

Financial integration is a phenomenon in which financial markets in neighboring, regional and/or global economies are closely linked together. Various forms of actual financial integration include: Information sharing among financial institutions; sharing of best practices among financial institutions; sharing of cutting edge technologies (through licensing) among financial institutions; firms borrow and raise funds directly in the international capital markets; investors directly invest in the international capital markets; newly engineered financial products are domestically innovated and originated then sold and bought in the international capital markets; rapid adaption/copycat of newly engineered financial products among financial institutions in different economies; cross-border capital flows; and foreign participation in the domestic financial markets.

Because of financial market imperfections, financial integration in neighboring, regional and/or global economies is therefore imperfect. For example, the imperfect financial integration can stem from the inequality of the marginal rate of substitutions of different agents. In addition to financial market imperfections, legal restrictions can also hinder financial integration. Therefore, financial integration can also be achieved from the elimination of restrictions pertaining to cross-border financial operations to allow (a) financial institutions to operate freely, (b) permit businesses to directly raise funds or borrow and (c) equity and bond investors to invest across the state line with fewer [or without imposing any] restrictions. However, it is important to note that many of the legal restrictions exist because of the market imperfections that hinder financial integration. Legal restrictions are sometimes second-best devices for dealing with the market imperfections that limit financial integration. Consequently, removing the legal restrictions can make the world economy become worse off. In addition, financial integration of neighboring, regional and/or global economies can take place through a formal international treaty which the governing bodies of these economies agree to cooperate to address regional and/or global financial disturbances through regulatory and policy responses. The extent to which financial integration is measured includes gross capital flows, stocks of foreign assets and liabilities, degree of co-movement of stock returns, degree of dispersion of world-wide real interest rates, and financial openness.

CROSS BORDER MERGER AND ACQUISITIONS

Mergers and acquisitions (abbreviated **M&A**) is an aspect of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture. The distinction between a "merger" and an "acquisition" has become increasingly blurred in various respects (particularly in terms of the ultimate economic outcome), although it has not completely disappeared in all situations. An **acquisition** or **takeover** is the purchase of one business or company by another company or other business entity. Such purchase may be of

100%, or nearly 100%, of the assets or ownership equity of the acquired entity. **Consolidation** occurs when two companies combine together to form a new enterprise altogether, and neither of the previous companies remains independently. Acquisitions are divided into "private" and "public" acquisitions, depending on whether the acquiree or merging company (also termed a *target*) is or is not listed on a public stock market. An additional dimension or categorization consists of whether an acquisition is *friendly* or *hostile*.

Achieving acquisition success has proven to be very difficult, while various studies have shown that 50% of acquisitions were unsuccessful. The acquisition process is very complex, with many dimensions influencing its outcome.] "Serial acquirers" appear to be more successful with M&A than companies who only make an acquisition occasionally. Whether a purchase is perceived as being a "friendly" one or a "hostile" depends significantly on how the proposed acquisition is communicated to and perceived by the target company's board of directors, employees and shareholders. It is normal for M&A deal communications to take place in a so-called "confidentiality bubble" wherein the flow of information is restricted pursuant to confidentiality agreements.[3] In the case of a friendly transaction, the companies cooperate in negotiations; in the case of a hostile deal, the board and/or management of the target is unwilling to be bought or the target's board has no prior knowledge of the offer. Hostile acquisitions can, and often do, ultimately become "friendly", as the acquiror secures endorsement of the transaction from the board of the acquiree company. This usually requires an improvement in the terms of the offer and/or through negotiation.

"Acquisition" usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger and/or longer-established company and retain the name of the latter for the post-acquisition combined entity. This is known as a **reverse takeover**. Another type of acquisition is the **reverse merger**, a form of transaction that enables aprivate company to be publicly listed in a relatively short time frame. A reverse merger occurs when a privately held company (often one that has strong prospects and is eager to raise financing) buys a publicly listed shell company, usually one with no business and limited assets.

SOCIO CULTURAL ENVIRONMENT

MANAGING CULTURAL DIVERSITY IN THE WORKPLACE

Developing cultural competence results in an ability to understand, communicate with, and effectively interact with people across cultures, and work with varying cultural calendars. While there are myriad cultural variations, here are some essential to the workplace:

1. **Communication:** Providing information accurately and promptly is critical to effective work and team performance. This is particularly important when a project is troubled and needs immediate corrective actions. However, people from different cultures vary in how, for example, they relate to bad news. People from some Asian cultures are reluctant to give supervisors bad news - while those from other cultures may exaggerate it.
2. **Team-building:** Some cultures - like the United States - are individualistic, and people want to go it alone. Other cultures value cooperation within or among other teams. Team-building issues can become more problematic as teams are comprised of people from a mix of these cultural types. Effective cross-cultural team-building is essential to benefiting from the potential advantages of cultural diversity in the workplace
3. **Time:** Cultures differ in how they view time. For example, they differ in the balance between work and family life, and the workplace mix between work and social behavior. Other differences include the perception of overtime, or even the exact meaning of a deadline. Different perceptions of time can cause a great misunderstanding and mishap in the workplace, especially with scheduling and deadlines. Perceptions of time underscore the importance of cultural diversity in the workplace, and how it can impact everyday work.
4. **Calendars:** The business world generally runs on the western secular year, beginning with January 1 and ending with December 31. However, many cultures use others calendars to determine holidays such as New Years or specific holy days. For example, Eastern Orthodox Christians celebrate Christmas on a different day from western

Christians. For Muslims, Friday is a day for prayer. Jews observe holidays ranging from Rosh Hashanah to Yom Kippur. These variations affect the workplace as people require time off to observe their holidays. Cultural diversity calendars are helpful tools to ensure meetings are successful, and deadlines are met.

COUNTRY RISK ANALYSIS

Country risk refers to the risk of investing in a country, dependent on changes in the business environment that may adversely affect operating profits or the value of assets in a specific country. For example, financial factors such as currency controls, devaluation or regulatory changes, or stability factors such as mass riots, civil war and other potential events contribute to companies' operational risks. This term is also sometimes referred to as political risk; however, country risk is a more general term that generally refers only to risks affecting all companies operating within a particular country.

Political risk analysis providers and credit rating agencies use different methodologies to assess and rate countries' comparative risk exposure. Credit rating agencies tend to use quantitative econometric models and focus on financial analysis, whereas political risk providers tend to use qualitative methods, focusing on political analysis. However, there is no consensus on methodology in assessing credit and political risks.

MACRO ENVIRONMENTAL RISK ASSESSMENT

There are a range of environmental risks that arise from industrial activities and society in general. These risks must be viewed in the context of the natural ecological changes that occur in the environments and the natural variability of ecosystems. Businesses need to constantly manage risk from a variety of sources, including financial, technical and safety. The treatment of environmental risk is a more recent activity attracting increasingly greater attention from regulatory agencies, industry and the general public. In conducting environmental risk assessment it is essential to correctly formulate the risk assessment problem; to identify the

sources and characteristics of risk, the potentially vulnerable aspects of the surrounding environment, and the criteria that will be used to rank significance of effects on the environment.

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

A low level of political risk in a given country does not necessarily correspond to a high degree of political freedom. Indeed, some of the more stable states are also the most authoritarian. Long-term assessments of political risk must account for the danger that a politically oppressive environment is only stable as long as top-down control is maintained and citizens prevented from a free exchange of ideas and goods with the outside world.

Understanding risk partly as probability and partly as impact provides insight into political risk. For a business, the implication for political risk is that there is a measure of likelihood that political events may complicate its pursuit of earnings through direct impacts (such as taxes or fees) or indirect impacts (such as opportunity cost forgone). As a result, political risk is similar to an expected value such that the likelihood of a political event occurring may reduce the desirability of that investment by reducing its anticipated returns.

NEED FOR RISK EVALUATION

There are two basic methods of evaluating risk, the subjective or qualitative method and the objective method. Both are valid. The former allows an individual or group to provide opinions on the riskiness of a particular situation without resorting to past data. Individuals who are conversant with the system are asked to express their views on the extent of the risk involved in a particular situation. Quantitative methods rely on the examination of past data and assume that this can be projected into the future to establish a means of measurement of the risk concerned. The problem with this is the availability of the data and its validity. In most organisations detailed information is not kept of all losses that have occurred and, in any event, some risks are so rare that they have not occurred therefore cannot be measured. To remedy this latter point information can be obtained from industry at large to try to obtain the necessary data, but again questions can be raised as to its validity. Despite this if record keeping is maintained accurately some effort can be made to objectively measure risk. Although there are difficulties with measuring risk we need to carry out this task for the purpose of prioritisation. It is necessary to ascertain which risks are greater than others to aid the decision concerning which risks to handle. Large risks require urgent treatment whilst those that are minor may require no handling at all. Also there may be budgetary restrictions that may impact on the risks that can be handled. In view of this risks need to be measured in some form or another.

Risk involves two elements, frequency and severity. The first concerns the number of times a loss could occur. For example a flood can happen within a particular area once every ten years or a person could cut herself on a particular type of machine once every week. The event, once it occurs, could involve different amounts of damage. Thus a flood in one year could affect the majority of households in the area whilst in another year it is comparatively minor and affects very few people. In calculating the size of the risk this should be taken into account. A further point that is often omitted from risk evaluation is the cost of doing something about the risk. This is often necessary in order to assist management in deciding what steps can be taken to deal with the risk.

CORPORATE GOVERNANCE

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals, as well as, economic and social goals. Corporate Governance is the interaction between various participants (shareholders, board of directors, and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be overlooked.

Corporate Governance deals with the manner the providers of finance guarantee themselves of getting a fair return on their investment. Corporate Governance clearly distinguishes between the owners and the managers. The managers are the deciding authority. In modern corporations, the functions/ tasks of owners and managers should be clearly defined, rather, harmonizing. Corporate Governance deals with determining ways to take effective strategic decisions. It gives ultimate authority and complete responsibility to the Board of Directors. In today's market-oriented economy, the need for corporate governance arises. Also, efficiency as well as globalization is significant factors urging corporate governance. Corporate Governance is essential to develop added value to the stakeholders.

Corporate Governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are safeguarded. It ensures that all shareholders fully exercise their rights and that the organization fully recognizes their rights. Corporate Governance has a broad scope. It includes both social and institutional aspects. Corporate Governance encourages a trustworthy, moral, as well as ethical environment.

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.

GLOBALIZATION WITH SOCIAL RESPONSIBILITY

Globalization and Social Responsibility invites both empirical examination and critical reflection on timely worldwide social problems that we will encounter as we circumnavigate the globe. The United Nations Millennium Development Goals will provide the broader context within which students will identify specific problems to investigate. The purpose of this course is to make the global dimensions of these important issues more comprehensible and our responses to them better informed. Special emphasis is placed on reflective thinking, team building, partnership development, and capacity generating for social transformation. The interdisciplinary approach of this course invites students coming from different disciplines and majors to discover ways to learn about and address global and local community issues. hink globally, act locally" is a popular, ethically and politically charged slogan that invites both empirical examination and critical reflection on a host of timely social problems. Issues such as poverty, sustainable urban planning, labor outsourcing, the need for alternative sources of energy, the spread of infectious disease, organized crime, worries about the loss of bio-diversity and climate change, the risks of industrial agriculture and biotechnology, controversies surrounding immigration, and so much more impact our local communities and everyday lives in countless, but often ambiguous ways.

The purpose of this course is to make the global dimensions of such issues more comprehensible and our responses to them better informed and equipped.

SOCIAL RESPONSIBILITY OF TNC

Privatization, deregulation and liberalization create more space for firms to pursue their corporate objectives. International agreements give more rights to firms to operate internationally. Should this expansion of action, space and rights be accompanied by an increase in corporate responsibilities? In the international context, this question attracts particular attention because transnational corporations (TNCs) are one of the principal drivers of globalization. They are also seen to be the most important beneficiaries of the liberalization of investment and trade regimes, with rising influence on the development of the world economy and its constituent parts. The concept of "social responsibility" captures the search for an answer to this question. It implies that firms have obligations that go beyond what countries require individually, and agreements prescribe internationally. The assumption of greater social responsibility by TNCs would be particularly important in light of the economic and social disruptions that accompany the globalization process, which — if not tackled — could threaten the very framework within which firms build their international production systems. Corporate social responsibility concerns how business enterprises relate to, and impact upon, a society's needs and goals. All societal groups are expected to perform certain roles and functions that can change over time with a society's own evolution. Expectations related to business enterprises, and particularly TNCs, are undergoing unusually rapid change due to the expanded role these enterprises play in a globalizing society. Discussions relating to TNC social responsibility standards and performance therefore comprise an important component of efforts to develop a stable, prosperous and just global society. TNCs, by definition, operate in multiple societies around the world, responding to each country's legal requirements while adjusting to diverse social and economic conditions. Occasionally, TNCs are caught between conflicting requirements or expectations in different countries. Multiple public and private sector groups comprise overlapping societies in the local, national and regional settings in which TNCs

operate. At the same time, TNCs seek to maintain their corporate identity and the operating procedures of an integrated global enterprise. The context for the social responsibility of TNCs therefore encompasses a multilayered environment of societal requirements and expectations. Overlaying this collage is the fabric of an emerging global society in which emerging common standards and expectations must also be met, including concerns for the special development needs of the world's poorest countries. Economic models that rely on competitive market disciplines and the regulatory functioning of public authorities do not fully capture the dynamics of the current globalizing economy, particularly for developing countries in which marketplace competition is often insufficiently developed and governmental resources are often inadequate for the task of effective regulation. Under these circumstances, a governance vacuum may develop, underlining the responsibilities of TNCs. Indeed, greater corporate social responsibility may prove important for broad support for a globalizing world economy.

RECENT DEVELOPMENT IN CORPORATE SOCIAL RESPONSIBILITY AND POLICY IMPLICATIONS.

Corporate social responsibility (CSR) promotes a vision of business accountability to a wide range of stakeholders, besides shareholders and investors. Key areas of concern are environmental protection and the wellbeing of employees, the community and civil society in general, both now and in the future. The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society. Traditional views about competitiveness, survival and profitability are being swept away.

Some of the drivers pushing business towards CSR include:

1. The shrinking role of government

In the past, governments have relied on legislation and regulation to deliver social and environmental objectives in the business sector. Shrinking government resources, coupled with a

distrust of regulations, has led to the exploration of voluntary and non-regulatory initiatives instead.

2. Demands for greater disclosure

There is a growing demand for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organizations.

3. Increased customer interest

There is evidence that the ethical conduct of companies exerts a growing influence on the purchasing decisions of customers. In a recent survey by **Environics International**, more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance.

4. Growing investor pressure

Investors are changing the way they assess companies' performance, and are making decisions based on criteria that include ethical concerns. The Social Investment Forum reports that in the US in 1999, there was more than $2 trillion worth of assets invested in portfolios that used screens linked to the environment and social responsibility. A separate survey by **Environics International** revealed that more than a quarter of share-owning Americans took into account ethical considerations when buying and selling stocks. (More on socially responsible investment can be found in the 'Banking and investment' section of the site.)

5. Competitive labour markets

Employees are increasingly looking beyond paychecks and benefits, and seeking out employers whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.

6. Supplier relations

As stakeholders are becoming increasingly interested in business affairs, many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their suppliers, to ensure that other companies' policies or practices do not tarnish their reputation.

Some of the positive outcomes that can arise when businesses adopt a policy of social responsibility include:

1. Company benefits:

- Improved financial performance;
- Lower operating costs;
- Enhanced brand image and reputation;
- Increased sales and customer loyalty;
- Greater productivity and quality;
- More ability to attract and retain employees;
- Reduced regulatory oversight;
- Access to capital;
- Workforce diversity;
- Product safety and decreased liability.

2. Benefits to the community and the general public:

- Charitable contributions;
- Employee volunteer programmes;
- Corporate involvement in community education, employment and homelessness programmes;
- Product safety and quality.

3. Environmental benefits:

- Greater material recyclability;
- Better product durability and functionality;
- Greater use of renewable resources;
- Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling.

Nevertheless, many companies continue to overlook CSR in the supply chain - for example by importing and retailing timber that has been illegally harvested. While governments can impose embargos and penalties on offending companies, the organizations themselves can make a commitment to sustainability by being more discerning in their choice of suppliers. The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome. A key challenge facing business is the need for more reliable indicators of progress in the field of CSR, along with the dissemination of CSR strategies. Transparency and dialogue can help to make a business appear more trustworthy, and push up the standards of other organizations at the same time. The **Global Reporting Initiative** is an international, multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental, and social impact of organization-level activity. Its mission is to improve the comparability and credibility of sustainability reporting worldwide. There is increasing recognition of the importance of public-private partnerships in CSR. Private enterprise is beginning to reach out to other members of

civil society such as non-governmental organizations, the United Nations, and national and regional governments.

UNIT- IV

Global Human Resource Management- Selection

Often one of a company's most expensive assets is its human capital, the human resources of the organization. The management of your human resources focuses on:

- Recruitment and selection of employees who can succeed at their jobs and who will stay with your organization, and
- Making sure that employee' abilities are optimally nurtured and developed so that the company can receive an optimal return on the investment made in these employees.

RECRUITMENT AND SELECTION

This is particularly challenging in a global organization where one of your biggest challenges will be finding, retaining and developing a superior global workforce. ITAP knows how to identify the "success factors" of a position…which is a key to identification of superior candidates. Successful companies know what the jobs entail and seek to hire those candidates who can be more successful/effective with the lowest amount of support. Well written job descriptions, and competency models that clearly delineate success behaviors make for effective selection and hiring. Understanding cultural differences in the recruitment process, the selection of candidates and what motivates employees in various cultures is crucial to the success of global organizations.

Targeted Interview Techniques

In addition ITAP can support your selection process using and teaching you to use Behavior Event Interviewing (BEI) or Targeted Interview (TI) techniques. While not difficult to learn,

they are far more effective at identifying exactly what capabilities particular candidates could bring to your organization. This is particularly important when recruiting and selecting across cultures.

Assimilating New Employees

In this competitive environment for attracting good global talent, companies need to pay particular attention to the perception of the company on the part of candidates and new hires. A well thought out and extensive assimilation process often makes new employees more likely to stay. This process should start before the offer is made, and many companies have assimilation plans for at least the initial six months on the job. This is especially important in group and relationship cultures as it helps the new employees feel welcomed into the group and gives them time and structure to establish relationships that will be important to the employee as well as anchor their loyalty to the company. ITAP can support your development of an effective on boarding or assimilation process.

DEVELOPMENT OF HUMAN RESOURCE

Human Resources Development (HRD) as a theory is a framework for the expansion of human capital within an organization through the development of both the organization and the individual to achieve performance improvement. Adam Smith states, "The capacities of individuals depended on their access to education". The same statement applies to organizations themselves, but it requires a much broader field to cover both areas.

Human Resource Development is the integrated use of training, organization, and career development efforts to improve individual, group and organizational effectiveness. HRD develops the key competencies that enable individuals in organizations to perform current and future jobs through planned learning activities. Groups within organizations use HRD to initiate and manage change. Also, HRD ensures a match between individual and organizational needs. Notably, HRD is not only a field of study but also a profession. HRD practitioners and academia

focus on HRD as a process. HRD as a process occurs within organizations and encapsulates: 1) Training and Development (TD), that is, the development of human expertise for the purpose of improving performance, and 2) Organization Development (OD), that is, empowering the organization to take advantage of its human resource capital. TD alone can leave an organization unable to tap into the increase in human, knowledge or talent capital. OD alone can result in an oppressrce. HRD practicitioners find the interstices of win/win solutions that develop the employee and the organization in a mutually beneficial manner. HRD does not occur without the organization, so the practice of HRD within an organization is inhibited or promoted upon the platform of the organization's mission, vision and values.

Other typical HRD practices include: Executive and supervisory/management development, new employee orientation, professional skills training, technical/job training, customer service training, sales and marketing training, and health and safety training.

HRD positions in businesses, health care, non-profit, and other field include: HRD manager, vice president of organizational effectiveness, training manager or director, management development specialist, blended learning designer, training needs analyst, chief learning officer, and individual career development advisor.

PERFORMANCE APPRAISAL AND COMPENSATION

Performance appraisals are formal reviews of employee performance over a set period, generally one year. Results of a performance appraisal can be tied into employee compensation policies to boost operational efficiency, ensuring that the highest salary costs are paid to the most productive employees. Developing comprehensive performance appraisal and compensation policies can pose distinct challenges in small retail companies.

Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in systematic ways which are as follows:

1. The supervisors measure the pay of employees and compare it with targets and plans.
2. The supervisor analyses the factors behind work performances of employees.
3. The employers are in position to guide the employees for a better performance.

OBJECTIVES OF PERFORMANCE APPRAISAL

Performance Appraisal can be done with following objectives in mind:

1. To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
2. To identify the strengths and weaknesses of employees to place right men on right job.
3. To maintain and assess the potential present in a person for further growth and development.
4. To provide a feedback to employees regarding their performance and related status.
5. To provide a feedback to employees regarding their performance and related status.
6. It serves as a basis for influencing working habits of the employees.
7. To review and retain the promotional and other training programmes.

ADVANTAGES OF PERFORMANCE APPRAISAL

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

1. **Promotion:** Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.
2. **Compensation:** Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which include

bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.

3. **Employees Development:** The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyze strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.
4. **Selection Validation:** Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.
5. **Communication:** For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:
   a. Through performance appraisal, the employers can understand and accept skills of subordinates.
   b. The subordinates can also understand and create a trust and confidence in superiors.
   c. It also helps in maintaining cordial and congenial labour management relationship.
   d. It develops the spirit of work and boosts the morale of employees.

   All the above factors ensure effective communication.

6. **Motivation:** Performance appraisal serves as a motivation tool. Through evaluating performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his performance in the future.

Compensation

From the perspective of the employers, the money that they pay to the employees in return for the work that they do is something that they need to plan for in an elaborate and systematic manner. Unless the employer and the employee are in broad agreement (We use the term broad agreement as in many cases, significant differences in perception about the employee's worth exist between the two sides), the net result is dissatisfaction from the employee's perspective and friction in the relationship. It can be said that **compensation is the "glue" that binds the employee and the employer together** and in the organized sector, this is further codified in the form of a contract or a mutually binding legal document that spells out exactly how much should be paid to the employee and the components of the compensation package. Since, this article is intended to be an introduction to compensation management, the art and science of arriving at the right compensation makes all the difference between a satisfied employee and a disgruntled employee. Though Maslow's Need Hierarchy Theory talks about compensation being at the middle to lower rung of the pyramid and the other factors like job satisfaction and fulfillment being at the top, for a majority of employees, getting the right compensation is by itself a motivating factor. Hence, employers need to quantify the employee's contribution in a proper manner if they are to get the best out of the employee. The provision of monetary value in exchange for work performed forms the basis of compensation and how this is managed using processes, procedures and systems form the basis of compensation management.

As the module progresses, readers would be introduced to other aspects of compensation management like the components of compensation management, types of compensation, inclusion of variable pay, the use of Employee Stock Options etc. The aspect of how skewed compensation management leads to higher attrition is discussed as well. This aspect is important as studies have shown that a majority of the employees who quit companies give inadequate or skewed compensation as the reason for their exit. Hence, **compensation management is something that companies must take seriously if they are to achieve a competitive advantage in the market for talent**.

Further, **globalization has created a "global village" where people in different parts of the world are able to not only participate in global supply chains but also partake of the wonders of cultural exchange and assimilation**. This has created aspirational values among large sections of people in the developing countries who now demand better compensation at par with their counterparts in the advanced economies of the West. Hence, corporates need to be aware of the complexities of the issue of how much compensation and in what form that is to be paid to the employees taking into account all the factors.

Given the fact that most companies in the West outsource to countries like China and India because of the cost advantage where lower wages in these countries provide cost savings, the reckoning of higher wage demands and wage parity that occurs because of economic factors might obviate the advantage enjoyed by these countries as far as the outsourcing phenomenon is concerned. In this context, it is worth noting that corporates world over are feeling the pinch of the ongoing global economic crisis and this has led to depressed wages as well as lower hikes for the employees in the last two years. Hence, the added challenge of keeping the workforce happy in these gloomy times is something that HR managers must take into account as well.

The globalized workforce that participates in the global supply chain creates its own set of challenges with many expatriates being paid "hardship allowances" to entice them to work abroad in developing countries. Further, the native workforce in these transnational corporations earn higher wages than those of the average workers in their countries leading to ethnic tensions and demand for inclusion of the less qualified workers. All these factors need to be addressed by the managers of corporations when they decide on the compensation. Finally, the very real phenomenon of attrition because of poor compensation continues to haunt the corporates and the challenge of retaining quality workers while retrenching poor performers remains a key imperative for companies. Hence, compensation management has aspects other than those that were discussed so far in this module and this article is meant to highlight some of them. It is hoped that the world economy recovers quickly and the boom years where workers and corporates were happy working together come back to the advantage of everybody.

MOTIVATING EMPLOYEES IN THE GLOBAL CONTEXT

Motivating people is a crucial part of managing people. This chapter presents strategies to engage and motivate employees. Motivating people requires an understanding of why people work; in other words, what makes people want (or not want) to participate in the workforce. Such an understanding can be derived by evaluating what drives people to work in terms of the protestant work ethic dimensions and divergent working orientations. The theories of motivation discussed in the chapter can be broadly categorised as content theories, which explain human behaviour, and process theories, which explain human thought patterns. Although motivation theories provide invaluable insight into human nature, there are limitations to every theory that should be acknowledged before application, such as underlying assumptions and relevance across cultures.

The psychological contract is another concept which influences employee motivation at work. Psychological contracts (which can be transactional, relational and ideology infused) can be influenced by the HRM ethics of a company and employees' perceived organisational justice. Moreover, the style of HRM (i.e. soft or hard HRM) practised by an organisation and the cultural implications of adopting an individualistic or collectivist managerial orientation, can have resultant consequences on employee motivation levels. The process of employee motivation also requires the maintenance of motivation levels, especially during times of organisational change. Therefore, it is necessary to understand divergent forms of organisational change, the employee resistance that may arise in the process and the significance of emotional intelligence during times of change. The job of a manager in the workplace is to get things done through others. A committed and motivated workforce is critical to maximising an organisation's full potential. Highly motivated employees frequently seek to work beyond the bounds of their specific work roles and functions in order to not only improve themselves, but also to achieve the objectives of the organisation. Motivated employees can be considered vital to organisational survival in our rapidly changing workplaces and work world - they help organisations survive because they are more productive.

Individuals responsible for managing staff have a variety of key responsibilities. Included in these is the ability to inspire and motivate their staff, encourage these people to strive for excellence, to promote productivity, and to ensure the continuation of work outputs even during difficult times. Motivating others can be a very challenging task. To be effective in this task, managers need to understand what motivates employees within the context of the roles they perform. Of all the functions a manager is responsible for, motivating employees can be the most complex. "Motivation is a topic that generates a lot of debate. Irrespective of the business sector, motivation will always be an issue to be addressed by management". He further states "It is essential for managers to understand the concept of motivation. An understanding of motivation may contribute to a more cooperative working environment and an increase in employee productivity". Frederick writes that motivation is a personal phenomenon, not a homogenous commodity held by all individuals, and that everyone has different motivators driving their action.

MANAGING GROUPS ACROSS CULTURES

Involves the ability to recognize and embrace similarities and differences among nations and cultures and then approach key organizational and strategic issues with an open and curious mind. Values Culture - The dominant pattern of living, thinking, and believing that is developed and transmitted by people, consciously or unconsciously, to subsequent generations. Cultural values - Those consciously and subconsciously deeply held beliefs that specify general preferences, behaviors, and define what is right and wrong.

CHARACTERISTICS OF CULTURE

- Innovations & risk taking
- Attention to detail
- Outcome orientation
- People Orientation
- Team orientation

- Aggressiveness
- Stability

MANAGING ACROSS CULTURES

- Understand,
- Appreciate and use cultural factors
- Motivate the employee
- Global mindset
- Strong culture > Employee behavior > reduced turnover

MNC strategies must address the cultural similarities and differences in their varied markets Globalization National responsiveness Need to understand the difference consumer taste Regional market > response > national standards & regulations by government.

MULTICULTURAL MANAGEMENT

A multicultural workforce is one in which a wide range of cultural differences exist among the employees in the organization. While a number of major and minor traits are used to describe cultural differences, the most common traits used to identify the level of multiculturalism evident in a given workforce often boils down to "age, sex, ethnicity, physical ability, race and sexual orientation, according to the "Encyclopedia of Business."

Multicultural Basics

In general, a multicultural workforce is one in which employees are heterogeneous, many dissimilar in certain traits. Practically speaking, any workforce with two or more employees has some level of multiculturalism based on the basic assumption that no two people are exactly the same. Companies vary in level of multiculturalism. Those that have easily detectible and wide-

ranging cultural differences within their workforces are more often described as multicultural companies or workforces.

Multicultural vs. Diversity

Over time, a subtle but important transition has taken place in the way workforces are described related to employee differences. More often, early 21st-century organizations are described as diverse when employees are heterogeneous. Diversity is become increasingly used to depict the importance of managing diverse workers versus simply recognizing their existing. Diversity management is a well-recognized process of proactively and strategically managing the unique needs of a diverse workplace with multicultural traits.

Diversity Management

In essence, diversity is viewed more as the way a company responds to its workforce than multicultural, which is more of a workforce trait. Diversity management includes cultural awareness education and sensitivity training as core elements. Company leaders typically recognize that to get the benefits of a diverse workforce and to avoid common challenges, they must teach employees to accept and tolerate their differences.

Multicultural Benefits

People with differences have natural barriers in communication and relationships. "Opposites attract" is a popular relationship adage, but people with differences also tend to find more conflict in communication than people with shared backgrounds and life paradigms. However, diversity management can draw out strong benefits of a multicultural workforce, including a broader and deeper pool of ideas and creative development, stronger connections to a global marketplace and better ability to adapt to marketplace changes.