GURU GOBIND SINGH INDRAPRASTHA UNIVERSITY, DELHI

BACHELOR OF COMMERCE (Hons.)

BCOM 306-International Business

L-5 T/P-0 Credits-5

.

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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.

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 of the continuum, though, as they often combine aspects of multi-domestic operations with aspects of global. 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.

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 Practice . 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.

THEORIES OF INTERNATIONAL TRADE AND INVESTMENT

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.

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 some wherein 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 Hofstadter 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 franch is able 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 shareware 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 service set 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 minimize 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.

Unit II

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 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.

UNIT – II

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 delectable 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. Nontariff 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, labeling, 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

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, 1945when 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 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 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 in come 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 in1944. 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 liked 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 132projects 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 by184 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 in2010 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 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. From2000 to 2010, it financed projects which recruited and trained3 million teachers, immunized 310 million children, funded $792 million in loans to 120,000small 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 US Din 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,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.

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=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 high estimate 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.

Foreign direct investment and the developing world

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.

Difficulties limiting FDI

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 transferor 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 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.

GLOBALIZATION

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.

Definition of "Globalization"

"Globalization," both as a term and a reality, is not easy to define for its scope is widen compassing and it could be interpreted in different perspectives. a description of globalization in a general standpoint, which states, "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 phenomenon's 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.

Economic

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

Unit IV

Economic integration of global markets has prompted businesses to be more agile and competitive so as to penetrate foreign markets and establish a market niche. The 'buzz-word' in the world of business is 'cost-efficiency' and the most compelling reason for outsourcing is to reduce or control operating costs. Global corporate giants are Increasingly moving to India, a nation considered to be a safe destination and provider of high quality services in outsourced operations. Business Process Outsourcing (B.P.O.) has today become a strategic choice and a viable option for achieving cost effectiveness.

Global Business Policy Council, FDI confidence index (October 2004) has ranked India as the third most attractive FDI location (up from sixth place in 2003). This is the country's highest ranking, just behind the U.S. India has also emerged as a major R&D hub. According to the report, manufacturing and communication services are the most bullish enterprises in India, ranking it the second most attractive market globally.

With an average annual GDP growth rate of around 7 percent, India is one of the world's most promising and fastest growing economies. The nation has emerged as one of the leading BPO destination of the world.

2. **THE ECONOMICS OF OUTSOURCING**

The seed for outsourcing was planted by Adam Smith (1776) when he spoke of the virtues of the division of labor. In his "Wealth of Nations" he illustrates the example of an individual performing a specific task, which eventually raises the productivity and total production. Hence, the application of Smith's idea of outsourcing or contracting out could be viewed as a measure of total factor productivity across firms and across countries.

There are broadly three economic principles (theories) that are primarily related to the issue of outsourcing. The first is the contractual framework proposed by Ronald Coase (1937), which took its roots from his paper "The Nature of the Firm". The core of the contractual principle is that market prices are not the sole factor for determining whether a firm should produce goods and services on its own or outsource the job.

Coase points to significant "transaction costs" that guide decisions about whether or not a firm will seek an outside supplier or service provider.

The second economic principle that has a strong influence on the decision to outsource or not is the comparative (opportunity) cost advantage principle and gains of specialization (labor and capital). Every business owner or manager is driven by the goal of profit maximization, which would involve minimizing costs. Hence, by restructuring the supply and production chain and focusing on the core business allows the manager to accomplish this goal. Thirdly, gains from scale or scope economies and the market structure where the firm operates does influence the decision on outsourcing. Also, it is possible that by integrating (vertical and horizontal) the gains to the business firms outweighs the cost savings derived from outsourcing that particular activity.

3. THE BPO MARKET: AN HISTORICAL PREVIEW

Being an essential part of today's global economy, outsourcing has been occurring for decades. Back in the early years of U.S. history, the making of America's covered wagon covers and clipper ships' sails was a job outsourced to workers in Scotland, with raw material imported from India. England's textile industry became so efficient in the 1830's that eventually Indian manufacturers could not compete, and the work was outsourced to England.

More recently, in the U.S. in the 1970's, it was common for computer companies to outsource their payrolls to outside service providers for processing. This had continued into the 1980's where accounting services, payroll, billing and word processing became outsourced job.

The outsourcing history of India is one of phenomenal growth in a very short span of time. Since the onset of globalization in India during the early 1990's, successive Indian governments have pursued programs of economic reform committed to liberalization and privatization. Economic liberalization of 1991 did open a new era for the Indian economy, although the seed for the emerging market economy was planted in the 1980's. Up until 1991, India's policy-makers followed economic policies that were detrimental for open trade but rather favorable towards state controlled inefficient industries and public utilities. It was later, due to a balance of payment crisis, that policy-makers began the process of liberalizing the economy. As of 1999, the Indian telecom sector was under direct governmental control and the state owned units enjoyed a monopoly in the market. In 1994, the government announced a policy under which the telecom sector was liberalized and private participation was encouraged. The New Telecom Policy of 1999 brought further changes with the introduction of IP telephony and thus ended the state monopoly on international calling facilities.

Although the IT industry in India has existed since the early 1980's, it was the early and mid 1990s that saw the emergence of outsourcing and one of the first outsourced services was medical transcription. Outsourcing of business processes like data processing, billing, and customer support began towards the end of the 1990's when MNCs established wholly owned subsidiaries, which catered to the process off-shoring requirements of their parent companies. Some of the earliest entrants into the Indian market were American Express, GE Capital and British Airways. The BPO industry is a relatively young and vibrant sector in India and has been in existence for over 6 years.

India, which was once a closed and over-regulated economy, is today at the threshold of sustaining and deepening an ongoing process of economic growth.

Strategic Alliance

"Strategic" may be one of the most over-used words in business today. *This observation is especially valid in the world of alliances, where managers must distinguish between those alliances that are*

merely conventional and those that are truly strategic. This author outlines the five factors that make an alliance "strategic."

As companies gain experience in building alliances, they often find their portfolios ballooning with partnerships. While these partnerships may contribute value to the firm, not all alliances are in fact strategic to an organization. This is a critical point, since, as this article will explain, those alliances that are truly strategic must be identified clearly and managed differently than more conventional business relationships.

Due to the levels of organizational commitment and investment required, not all partner relationships can be given the same degree of attention as truly strategic alliances. The impact of mismanaging a strategic alliance or permitting it to fall apart can materially impact the firm's ability to achieve its core business objectives.

The five criteria of a "strategic" alliance

What is it that makes an alliance truly strategic to a particular company? Is it possible for an alliance to be strategic to only one of the parties in a relationship? Many alliances default to some form of revenue generation—which is certainly important— but revenue alone may not be truly strategic to the objectives of the business. There are five general criteria that differentiate strategic alliances from conventional alliances. An alliance meeting any one of these criteria is strategic and should be managed accordingly.

1. Critical to the success of a core business goal or objective.

2. Critical to the development or maintenance of a core competency or other source of competitive advantage.

3. Blocks a competitive threat.

4. Creates or maintains strategic choices for the firm.

5. Mitigates a significant risk to the business.

The essential issue when developing a strategic alliance is to understand which of these criteria the other party views as strategic. If either partner misunderstands the other's expectation of the alliance, it is likely to fall apart. For example, if one partner believes the other is looking for revenue generation to achieve a core business goal, when in reality the objective is to keep a strategic option open, the alliance is not likely to survive.

Examining each of the five strategic criteria in depth provides insight into how the strategic value of alliances can be leveraged.

1. Critical to a business objective

While the most common type of alliance generates revenue through a joint go-to-market approach, not every alliance that produces revenue is strategic. For example, consider the impact on revenue objectives if the relationship were terminated? Clearly, a truly strategic relationship would have a great bearing on the prospects for achieving revenue growth targets.

In addition to a single strategic alliance, related groupings of alliances—networks or constellations—may also be critical to a business objective. Sun Microsystems has established a group of integrator alliances that function as an effective marketing channel and drive significant revenues for the company each quarter. (See article, *Constellation Strategy*, elsewhere in this issue of IBJ Online).

This category also includes alliances with high potential, such as alliances that have large but unrealized revenue opportunity. Consider the impact of new industry standards that make it possible for products from different manufacturers to work together. This can unlock customer value and boost the revenue potential of new, technology-based products. From writable DVD formats to next-generation wireless technologies, technical standards are democratically determined in consortiums of interested industry participants. With product development racing in parallel, the first mover's advantage can be substantial, and hence alliance development and lobbying within an industry become paramount to financial success.

Cost reduction may also be a core business objective of the alliance, particularly among supply-side partners. By investing together in new processes, technologies and standards, alliance partners can obtain substantial cost savings in their internal operations. Again, however, a cost-saving alliance is not truly strategic unless it has an underlying business objective, such as "to achieve an industry-leading cost structure."

2. Competitive advantage and core competency

Another way in which an alliance can prove to be strategic is to play a key role in developing or protecting a firm's competitive advantage or core competency. Learning alliances are the most common form of competitive/competency strategic alliances. An organization's need to build incremental skills in an area of importance is often accelerated with the help of an experienced partner. In some cases, the learning objective of the relationship is openly agreed between the partners; however, this is not always the case. Learning alliances work best when:

1. The objectives are openly shared

2. There is little chance of future competition (such as when the partners are in adjacent industries)

3. The cultures of the organizations are similar enough to enable process and methods to be leveraged, and

4. The governance structure of the alliances is established to promote learning at the executive, managerial and operational levels.

3. Blocking a competitive threat

An alliance can be strategic even when it falls short of establishing a competitive advantage. Consider the case of an alliance that blocks a competitive threat. It is strategic to bring competitive parity to a secondary segment of a market in which the firm competes, when the *absence* of parity creates a competitive disadvantage in the related primary segments of that market. For example, competing in the high and medium price range of a market with a premium product may leave the firm vulnerable to a low-priced entry. If the firm's manufacturing processes do not permit the creation of a low-priced product entry, a strategic alliance with a volume partner in an adjacent market can successfully block the competitive threat.

Another example of strategic alliances that block competitive threats are the airline alliances that permit route-sharing among carriers. The two primary determinants of customer flight selection are routing and cost. Therefore, the adoption of route-sharing alliances by the airlines blocks the competitive threat of preferential routing in the specific markets in which the airline chooses to compete. In essence, strategic alliances within the airline industry ensure competitive parity with respect to routing and force other factors such as on-time departures and customer service to become the bases for competitive differentiation.

4. Future strategic options

From a longer-term perspective, an alliance that is not fundamental to achieving a business objective today could become critical in the future. For example, in 1984, a U.S. consumer products company needed to expand distribution beyond the Midwestern states. Faced with the prospect of European competition at some point in the future, the firm made a strategic decision to invest in an alliance with a distribution and support services company that had incremental distribution capacity in the U.S. and a similar presence in Europe, rather than invest in expanding its own local distribution capabilities. With the option to expand into European distribution at any point, the firm could work to sew up the U.S. market before expanding too quickly internationally.

5. Risk mitigation

When an alliance is driven by intent to mitigate significant risk to an underlying business objective, the nature of the risk and its potential impact on the underlying business objective are the key determinants of whether or not it is truly strategic. Dual sourcing strategies for critical production components or processes are excellent examples of how risk mitigation can become the context for supply-side strategic alliances.

As process manufacturing companies advance the yield of their operations, suppliers often collaborate with the manufacturer to ensure their new products fit within its new operations. The benefits of such an alliance are cost savings to the manufacturer and accelerated product development for the supplier.

In situations where the supplier's product is critical to the manufacturer's operation, it may be necessary for the manufacturer to have strategic alliances with two competing suppliers in order to mitigate such risks as unilateral cost increases or degradation in quality of service.

Mergers and acquisitions

Mergers and Acquisitions have become an integral part of businesses around the globe; businesses are always ready to grasp the opportunity for the sake of competitive advantage, increased profitability, economies of scale.

Mergers can be of different natures, it can be a horizontal, vertical orconglomerate merger. Mighty businesses usually tend to increase size by purchasing small or troubled businesses; these acquisitions can be hostile or gentle sometimes. Corporations have developed a new strategy to capture external opportunities by adopting the external restructuring in the form of mergers, acquisitions, consolidations and divestitures.

It all started in 1895, when American businesses started their obsession with Mergers, this concept of business mergers received acceptance and from the year 1895 to 1905, this period of ten years was named as the decade of the "Great Merger Movement". The phenomenon of mergers and acquisitions has become very popular especially in the last two decades in U.S and other parts of the world. In the late 1990's, the most number of merger and acquisitions in the US took place as the healthy condition of the U.S stock markets proved to be a viable time for the mergers and takeovers.

These deals can include millions or billions of dollars, they are very crucial for everyone who is some way or the other related to the businesses to be merged or acquired, there are many who are counting on the prosperity of the new shape of a business entity; they are the employees, a company's top management, suppliers and most importantly the shareholders. All these stakeholders directly get affected with the decisions of a company's board regarding mergers and acquisitions.

They provide advantages to businesses like the opportunity to diversify, for expanding business operations, for increasing the market share and acquiring some specific expertise of other company which otherwise the acquiring company would have taken a lot of time to reach the level, like the recent $2.35

Billion acquisition of 3par by HP would enhance HP's storage portfolio as 3 par being the leader in the enterprise storage products will give HP an edge in the cloud computing markets over its rivals. HP acquired a company that would add value to its end product. In this way, companies can take advantage of other company's experience and expertise by purchasing its stock.

Similarly HP and Compaq got merged in 2002 with HP paying $25 billion to Compaq in an attempt to capture a major chunk of PC market.

The acquisition of YouTube by Google is a success story which is very rare in merger and acquisitions. The merger of Nissan with French auto manufacturer Renault has been successful significantly because of the fact that both parties were very conscious and careful before the merger, Nissan was on the receiving end because Renault proved to be its savior, the inception of a successful merger here was achieved through strong and effective leadership commitment which allowed the merger to smoothly implement strategies afterwards. Considering the Renault Nissan alliance, the significant role of leadership can be easily understood here as Nissan being a troubled company

was also taken out of unrest position just because the top management of both companies played sensibly.

1. The role of cultural differences:

In general, the perception is that the management does not bother about the problems created by cultural differences, and these differences sometimes can turn into organizational challenges. The change which is to come after mergers and acquisitions is resisted by internal members because top mangers usually don't address such changes properly which create confusion and lack of trust between the employees of acquiring company and acquired company. In this way, the cultural differences among the merging firms can disturb the purpose of transition and integration process, thus these cultural differences become a hurdle to achieve the real goal for which the external restructuring was adopted.

Sprint acquired a large amount of Nextel Communication shares in August 2005, to form a merger; the deal seemed to be very juicy and attractive.

However, the result of merger started to deviate from the expectations and the main reason behind this scene was that the internal norms of both the companies were quite different and such cultural differences were not preempted by the heads of both sides properly, thereby the contrasting work environment of both companies created troubles for the employees.

The other problems were related to empowerment and lack of trust between the employees of Sprint and Nextel, because employees of Nextel have to get permission from Sprint's executives in order to execute any decision. As a result of which some executives and mid-level managers of Sprint-Nextel Communication resigned from the posts. All this chaos and conflict gave birth to the un-conducive work environment resulting in one of the largest merger failures.

2. Position of businesses after mergers and acquisition:

One study in the US Pharmaceutical industry indicates that there is an obvious increase in the shareholders wealth in case of post-acquisitions but not for mergers. However, the trend is not similar in case of mergers i.e. mergers in the US Pharmaceutical industry are not that worthy. The similar trend has been observed in the Indian study of Indian mergers where it was concluded that profitability, asset turnover ratio remain the same before and after the merger i.e. mergers in India do not bring exceptional financial prosperity to the firms.

Normally, mergers and acquisitions are viewed with the same perspective but according to the above mentioned research mergers are not that fruitful as acquisitions.

Contrary to it, one study in U.K stated that both mergers and acquisitions increase the share price of a target firm even when the negotiations are going on for the final deal. This was clearly observed in the case of Apple and Sony Corporation deal, when Apple was considering the purchase of Sony's gaming division, the share price of Sony went high in the Japanese capital market, although the deal did not strike.

3. Inability to handle takeovers:

In the U.K, research proposed of the top management fears about their organizations inability to handle, manage the change that is to come as a consequence of new alliances, takeovers. Executives are usually confident of their strategic plans for the overall improvement but they are not trained,experienced and equipped for the international business buyouts, these fears degrade the organizational effectiveness ultimately heading towards the deterioration of financial health. Compared to a domestic buyout, the international buyouts are in fact more difficult to handle and execute. The skills required against the potential risks are usually lacking in the acquiring entities.

An American study says that insurance companies opting for international acquisition fail to raise their market returns i.e. neither the corporate restructuring proves to extremely fruitful nor extremely disastrous. The returns of these insurance firms tend to vary with the wealth of the host country.

Whenever negotiations are taking place between the two companies, the top management is usually very energetic in getting the deal but they fail to do necessary homework i.e. the top brass does not discuss, foresee strategic goals, does not consider boosting the motivation of employees at work place.

4. HR related issues:

Some of the mergers and acquisitions failures occur due to the ineffective performance of HR functions. In modern business scenario, HR role for business success has become hugely important, so in case of mergers and acquisitions if a business is ignorant of compensation and benefits significance then it would lead to failure of mergers and acquisitions. Whenever any new business setup is created the HR function has to be extra vigilant as it is directly associated with the blood of the company i.e. “employees”. So, after mergers, acquisitions, management has to comply with HR practices of fair treatment and has to communicate responsibilities of all the personnel after external restructuring of a firm. Normally mergers, takeovers neglect employee interests due to which there is always a possibility of low job satisfaction and low retention ratio of employees.

In this way, a company may lose its intellectual capital in the form of experienced employees who would have incurred training and other related costs. So, the top management has to keep in mind that one of the major hindrances in merger and acquisitions erupts by not properly taking care of people and the functions of HR.

Role of It In International Business

Information Technology

•Information technology (IT) is a field concerned with the use of technology in managing and processing information •Information technology can allow departments to more efficiently and successfully perform their business operations. Information technology is an important enabler of business success and innovation. International business

International business is a term used to collectively describe all commercial transactions that take place between two or more nations. 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. Information technology’s role in international Business.

•Information technology is everywhere in business

•anyone involved in business must understand technology

Business functions receiving the huge benefits from the information technology ⎱⎱Customer service: click-to-talk, call scripting, auto answering, call centers Finance: accounting packages, Sarbanes Oxley

Globalization, at one end, is an opportunity, but at Advancements in information technology (IT) and companies. Global corporations have two primary the rapid globalization of businesses, both are realities challenges; talent management - as they have to share and opportunities of the 21st Century [1]. The term resources and knowledge across a number of business information technology refers to techniques and facilities units inside and outside the country [7] and supply chain designed to enable the transfer, storing and processing of management [8]. Moreover, before going global it is very data this includes not only computers but also important to have global mindset or global vision. This facilities for mailing services, telephone and fax networks, paper presents the impact of IT on global management. Information centers and libraries. Internet is definitely one the areas covered in this paper are vision, corporate of its manifestations. Consumer markets are growing more strategy, cultural diversity and global supply chain

Global every day. Brands like Coca-Cola, McDonald's and management. Construction of the paper is as follows: All Microsoft are popular not only in USA but also well areas are discussed one by one. Under each heading, known across the world. Manufacturing companies have importance of that particular area is discussed with thegot the opportunity of globalization and today, much of references of previous literature and case studies and the world's manufacturers and suppliers are located in discusses how IT can play a role in supporting or the lower-cost countries (e.g. Nike has its manufactures redefining that particular area. After discussion,

in Thailand and Sony has in China). The Internet has propositions are made for future empirical study. This further linked the overseas suppliers of services and study also presents a theoretical framework. Secondary goods and their buyers. Internet traffic is increasing day data i.e. previous literature like research papers, research by day and e-business is in hyper growth. At the same articles and case studies etc., is used to support the time, borders are becoming increasingly extraneous, arguments. In the end, concluding remarks are given while people and organizations are intermingling in very along with limitations and future directions.

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 effectives election 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.

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 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 aspiration 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 corporate 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 corporate were happy working together come back to the advantage of everybody.

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.

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